

Chairman PROXMIRE. So the impact on the money supply or the impact on the amount of credit would be in the area of, say, \$2 billion perhaps?

Mr. MITCHELL. Well, we don't intend that there be any net impact. There would be a gross impact, but we would absorb any increase here.

Chairman PROXMIRE. I understand that.

Mr. MITCHELL. Yes.

Chairman PROXMIRE. Before we come to the absorption.

Mr. MITCHELL. Yes.

Chairman PROXMIRE. Which you would adjust by your open-market operation.

Mr. MITCHELL. That is right.

Chairman PROXMIRE. Would be in the area of perhaps \$2 billion?

Mr. MITCHELL. Yes, I think \$2 billion to \$3 billion, you might see this amount on our balance sheet.

Chairman PROXMIRE. Now, this would mean that you would buy \$2 billion to \$3 billion less?

Mr. MITCHELL. Yes.

Chairman PROXMIRE. Of the Government securities.

Mr. MITCHELL. Yes.

Chairman PROXMIRE. And to the extent that there is a difference in the interest rate on your discount operation, and on the Government securities, which you forego buying, the Treasury would possibly suffer a loss in revenues. When you buy Government securities, that interest goes back to the Treasury pretty much.

Mr. MITCHELL. Yes, it does; sure.

Chairman PROXMIRE. Now, to the extent that you have discounts, discount interest, discount rate—

Mr. MITCHELL. Yes.

Chairman PROXMIRE (continuing). Which is equal to your average Treasury rate, there is no loss.

Mr. MITCHELL. I think over a period of time that is right; you would have a loss if the discount rate is below the bill rate, but if it is above it you would have a gain. I think over time there wouldn't be very much to be gained or lost either way.

Chairman PROXMIRE. In the last few years you have had a situation where the discount rate has been perhaps a little bit below, I think.

Mr. MITCHELL. Yes. Well, you see, part of the proposal is to make the discount rate more nearly like the family of market rates with which it is identified. In periods of monetary restraint—and these are the periods in which you get the major amount of borrowing—it is fair to say the discount rate has been lower than the complex of market rates, but this proposal is to keep it more nearly in line.

Chairman PROXMIRE. The reaction I had when I read about that is that this might be a good thing for the Nation to have and it has a lot of excellent public-interest implications but there were some problems possibly for some nonmember financial institutions.

I understand it, the restrictive impact of a tight monetary policy, for example, largely falls not on the commercial banking system but on the nonbank financial intermediaries for these reasons.

Commercial banks can circumvent a tight-money policy by selling off Government bonds, attracting funds by raising their rates offered