on certificates of deposit, and by borrowing on the Euro dollar market. Savings and loan associations can't do that. In 1966 this was well demonstrated. Commercial banks weren't hit nearly as hard as the noncommercial-bank financial institutions. So that, since the restrictive monetary policies are carried out through nonbank intermediaries, doesn't the Federal Reserve System have at least an equal obligation to make its discount facilities available to these institutions, the noncommercial banks, on the same terms available to commercial banks? Wouldn't this be a good idea?

Mr. MITCHELL. Well, it presents quite a few problems, I think, that would make it difficult for us to provide the same facility to, say, nonmember banks and to nonbank financial institutions. We don't have anything to do with examination or with the inspection of these institutions, and what we know about their operations does not compare with the detailed information that we have on the operations of member banks.

Now, while I think it is quite true that there have been——

Chairman PROXMIRE. Of course, they are under the jurisdiction of competent, careful Federal agencies.

Mr. MITCHELL. That is right.

Chairman PROXMIRE. With which you have worked closely?

Mr. MITCHELL. Yes.

Chairman PROXMIRE. And which could establish criteria?

Mr. MITCHELL. And as I indicated in my statement, on the few occasions when we have extended credit to nonmember banks, we have worked very closely with the FDIC, the agency involved, but we have not as far as I can recall extended credit to anybody else, except indirectly through the banking system. Even though the discount mechanism has a cushioning effect, nevertheless, as long as the credit is not continuous, it does not enable a bank to do anything more than postpone its adjustment, and for a relatively short period of time. The bank must get back into position by reducing its assets—selling off some of its Government securities or letting some of its loans run off—or attracting more deposits, or borrowing someplace else.

Now, all of these methods of adjustment are practiced to one degree or another by every type of financial institution. It happens, I think, to be true that banks are more skillful, and have more opportunities to use alternative methods of adjustment.

Chairman PROXMIRE. You see, this has an overall economic effect that concerns me, and I am sure concerns other Members of Congress, very seriously. If banks are able to adjust in the ways I have suggested here, so that they have funds available to loan to the business community, and this is what happened in 1966——

Mr. MITCHELL. Yes.

Chairman PROXMIRE (continuing). The business community can go ahead and expand full tilt in spite of a restraining monetary policy, whereas housing, which is dependent on the savings and loan, takes the full crunching burden of restriction, and in that year went into a real depression with a very unfortunate social and economic effect.

Mr. MITCHELL. Yes; but in 1966 you know business loans came to a halt, too, and one important function that the commercial banks perform is to provide a market for State and local securities.