

Chairman PROXMIRE. But in the crunch of 1966 you had an enormous increase in business investment in plant and equipment.

Mr. MITCHELL. Well, up until September. Then the expansion stopped.

Chairman PROXMIRE. It slowed down some.

Mr. MITCHELL. It slowed down to zero.

Chairman PROXMIRE. But you didn't have a reversal, where housing starts went down to a level of 800,000 a year for a period of some months.

Mr. MITCHELL. Yes. Well, I am not attempting to dispute the fact that in the 1966 episode housing contracted very severely. All I am saying is that it was not confined to housing.

Chairman PROXMIRE. If we don't open up this discount mechanism, and I agree that there are, some very serious problems involved, what effect is this new measure going to have? Isn't it likely to aggravate the discrimination in favor of commercial banks and business as opposed to housing in the future even more than it has been in the past?

Mr. MITCHELL. Well, I don't think so. I think that the nonbank financial institutions, thinking mainly about the S. & L.'s, have the Home Loan Bank Board that they can go to and borrow not for just temporary periods but for lengthy periods and the loans involved here are in the order of several billion dollars if I recall correctly.

The loans that we are talking about in the banking system are short-term, and are for the purpose of enabling those banks that use the discount facility to adjust their asset and liability position to changing monetary conditions. Now, you should have some kind of a safety valve, anytime you are tightening monetary policies. The banking system has to have a little time to make its adjustment.

Chairman PROXMIRE. You had a situation in 1966 in which banks were able to make their loans as you stipulated up until about September. In September they found that the crunch was beginning to have some effect. Now if you had this kind of a provision in September, would they then begin to hit the discount window in a lot bigger way, especially with your second provision here, the emergency provision? And if not, why not? And if not, does this have any real effect?

Mr. MITCHELL. Well, if you had had a discount window like this one—

Chairman PROXMIRE. Right.

Mr. MITCHELL (continuing). You could, I think, have applied more monetary restraint through open market operations, because you would have had a better safety valve for the banks that got into distress conditions.

Chairman PROXMIRE. The open market operation, the general broad monetary effects were hitting the savings and loans, as I say.

Mr. MITCHELL. Yes.

Chairman PROXMIRE. There were various ways in which the commercial banks were able to insulate themselves. Now you give them another.

Mr. MITCHELL. But you know what hit the savings and loan associations was the escalation in interest rates. They had an asset structure based on a return of something between five and five and a half percent, and all of a sudden they found they couldn't get funds at that rate, and it was the market that they were fighting, rather than the commer-