cial banks. The market rates were furnishing them with their main competition.

Now, the commercial banks have a more flexible position by the nature of their operation. Their asset portfolio is not as long term, and in a relatively short period of time they can make an adjustment in their asset position to a new level of interest rates, but S. & L.'s simply can't do that, and it is the nature of their operation that they can't do it. And I don't think discounting would solve their problem unless the discount credit was for a very extended period of time.

Representative BROCK. Mr. Chairman, would you yield for a question?

Chairman PROXMIRE. Yes, indeed.

Representative BROCK. Mr. Mitchell, isn't it true that whereas banks operate on a 60-percent basis, 60-percent-loan-to-deposit ratio, your S. & L.'s are generally at 98, 99, and 100 percent.

Mr. MITCHELL. Yes, that is right.

Representative BROCK. They even borrow their liquidity.

Mr. MITCHELL. Yes.

Representative BROCK. So there isn't any comparison of the two situations because you can't borrow more than 100 percent hopefully over any period of time anyway, and the point is that the banks, by being far more strictured in terms of requirements reserves and so forth by the Federal Reserve than the savings and loans are, by the Home Loan Bank Board, the banks have more flexibility. They are always going to have more flexibility because they have more reserves. They have a better position.

Mr. MITCHELL. They have more liquidity.

Representative BROCK. More liquidity. And there is no way to equate the situation when the S. & L.'s are loaned up to 100 percent. Isn't that the real difference of what you are talking about?

Mr. MITCHELL. And of course the savings and loans essentially, I think, operate on the basis of their flows, and they project the flow, and with this flow they make their commitments, and banks operate on the basis of flows plus a fairly substantial liquidity cushion.

Chairman PROXMIRE. Governor Mitchell, I would like to call your attention to some of the figures that we have—what actually happened in 1966. We find the total investment, nonresidential investment, that is, business investment primarily, increased from 1965 and 1966 from $71 billion to $81 billion, in 1967 it was $83.6 billion, continued right through, in the last quarter of 1967 was the biggest investment of all during the year, $84.2 billion, in fact it went from $82.6 billion in the third quarter to $84.2 in the fourth quarter. There isn't any question that the business investment continued to go up, and of course this wasn't entirely because of the bank loans, but this was one of the sources of it, at least it didn't result in a contraction or reduction.

Now, contrast that with what happened in housing. Housing went down, in 1965 it was 26.7, in 1966 it was 24.3, 1967 it was 24.0, and so forth. It went down so that by the first quarter of 1967 it was down to 20.5.

Furthermore, paralleling this you have a very unhealthy situation in business inventories, which are traditionally and largely financed by bank borrowing. Business inventories went from $6.1 billion in 1966 to $12.8 billion in 1967. As a matter of fact, in the fourth quarter