Mr. MITCHELL. Yes, that is right.

Representative BROCK. Because you are imposing——

Mr. MITCHELL. That is right.

Representative BROCK (continuing). A restriction on money in order to cope with an inflation situation?

Mr. MITCHELL. Yes, that is right.

Representative BROCK. And at the very time that you say you are imposing restraints you make available $2 to $3 billion?

Mr. MITCHELL. No, it is not net. It is not on a net basis. This just has to do with the distribution of reserves over the banking system. If your target for reserves, let's say——

Representative BROCK. But in a tight-money situation every bank is going to be coming to you for this money?

Mr. MITCHELL. No, no. Banks do not all behave the same. Some of them had excess reserves, even in 1966.

Representative BROCK. Yes, a few; but most of them suffered a little bit under the tight money.

Mr. MITCHELL. Well, I know some large banks that got their positions adjusted in the fall of 1965, and I know some that didn't get adjusted until September of 1966.

Representative BROCK. That is right.

Mr. MITCHELL. And later.

Representative BROCK. Some might have in 1966. It looks like it is contradictory to me. I am not sure that you can really treat this thing as a sponge and raise one section and lower another.

Mr. MITCHELL. If you decide as a matter of monetary policy on a particular level at which you want reserves, you see, that level is determined by the amount of Federal Reserve credit outstanding through Government securities, float and discounts. If you have more discounts, you will have less float or less Government securities in the Federal Reserve's portfolio. You don't change this level because of what is happening——

Representative BROCK. You honestly adjust your open market policy?

Mr. MITCHELL. That is right.

Representative BROCK. You say you don't buy bonds on the market?

Mr. MITCHELL. That is right. You buy less bonds. You slow the rate of growth in those holdings, because you are supplying reserves through discounts.

Representative BROCK. So by not buying bonds you force them to sell their bonds on the open market and you are going to have a high price for bonds, aren't you?

Mr. MITCHELL. You know, all of these monetary effects go together.

Representative BROCK. That is right. Well, I am interested in seeing how it goes. I wish you well. Thank you very much.

Chairman PROXMIRE. Congressman Reuss?

Representative REUSS. Thank you, Mr. Chairman.

I want to congratulate you, Governor Mitchell, and your committee members for what I think is a very constructive report as I see it. It does about three things.

First, it shifts some emphasis from open market policy to the discount window, and says that all occupants of the Federal Reserve