

Representative REUSS. One final question, on the announcement effect, you say, on page 20 of the Report, that if these recommendations are adopted the discount rate would be very close to the Treasury bill rate, I think is what you really mean, and you don't say in this report exactly how often you would vary it, but presumably 15 days, once a month, something like that, within the range of possibility.

Mr. MITCHELL. Well, let me just say that the Treasury bill rate is not an infallible index of the complex of money market rates. Sometimes it gets way out of line, either on the up side or the down side. And the reason we haven't tied to it is just that.

Now, in periods when you are getting, you know, changes in the monetary climate and changes in the money market rates, then the discount rate would change quite often, and by relatively small increments, a quarter or an eighth even, instead of a half or something of that sort.

I think this implies that most announcement effects of the rate change are only felt by people who are professionals in the business, and the general announcement effects——

Representative REUSS. Will be felt in the future if this is adopted.

Mr. MITCHELL. Yes. The general announcement effects would not be noticed if the rate were changed frequently.

Representative REUSS. Yes.

Mr. MITCHELL. They would be noticed by professionals in the market, just as they noticed the RP rate change, when a small change was made there recently.

Representative REUSS. I think this is good.

Mr. MITCHELL. Yes.

Representative REUSS. Because in the past I have felt that the Federal Reserve from time to time has done things it ought not to have done or left undone those things which it ought to have done, because it has been afraid of the announcement effect.

Mr. MITCHELL. Yes.

Representative REUSS. There have been instances.

Mr. MITCHELL. That is right.

Representative REUSS. In the published reports of the open market committee where this obviously played a role, and to the extent that we can eliminate this phony language of flowers whereby the Fed is supposed to be communicating things through the discount rate, I think we will get a more orderly market. Isn't that what was in the minds of the committee?

Mr. MITCHELL. Yes; I think that is right. There is another view which did not prevail, and which I don't think is felt as strongly, that there are occasions when you want announcement effects, but they are relatively rare.

Representative REUSS. Hasn't that view been happily rejected by you and your committee?

Mr. MITCHELL. Yes; predominantly rejected, that is right.

Representative REUSS. Yes.

Mr. MITCHELL. But I wouldn't want you to have the impression it is not still alive. But I think even the people that hold the view that announcement effects are sometimes good were perfectly prepared to admit that in many cases they are bad.