

the discriminatory rate. They could eliminate the competitive element, and they could do it so much more smoothly and comprehensively as far as the country is concerned, and the effect on housing overall.

Mr. MITCHELL. Well, there isn't any system that is going to enable us all to have our cake and eat it, too, and I think it would be nice if, you know, the reins of monetary policy pulled equally all across the board. But they don't.

I think that trying to make them pull evenly all across the board is perhaps more than can be accomplished, either with a discount mechanism or with the Federal Reserve purchase of this type of security for holding in its portfolio. I believe the Treasury is proposing a scheme now where they have an agency which will put all of the agency issues together. Maybe this is the solution to the problem.

Chairman PROXMIRE. Of course here you have got the reins not pulling at all equally. They are all on the poor old housing horse, yanked tight on him, and everybody else moves ahead. The business horse goes ahead at a terrific rate.

Mr. MITCHELL. Yes. Well, it is not all housing. I think State and local financing took its lumps in 1966, too.

Chairman PROXMIRE. Let me ask you this. I think the questioning by Congressman Reuss on the announcement effects of the discount rate were very helpful, because I think there is no question that this would weaken the announcement effect.

Mr. MITCHELL. Oh, yes; that is right.

Chairman PROXMIRE. I don't know how you can get away from that. However, why not do something like this. I think this is maybe what Congressman Reuss was indicating, and this is hypothetical. You pick your own peg.

Supposing you pegged the discount rate to the bill rate plus, say, 50 basis points. Then when you wanted the announcement effect you just varied from that. Maybe that is what you had in mind when you were answering Congressman Reuss.

Mr. MITCHELL. Not the pegged relationship. As you know, the Canadians had experience with this—

Chairman PROXMIRE. The Canadians did that in 1956.

Mr. MITCHELL (continuing). And they were not satisfied and we were not satisfied from a study of their experience.

Chairman PROXMIRE. In 1956 they had it.

Mr. MITCHELL. Yes; because no matter which rate you choose, there are special reasons for a particular rate to get out of line temporarily with other market rates. So we would not want to peg to any one rate; but I think in line with what Congressman Reuss was saying, there is no great problem involved in occasionally saying we intend announcement effects with a particular action, and in all other cases we don't. I think this would be a rare occasion, but I wouldn't want to preclude it being done.

Chairman PROXMIRE. On page 18 in your report you say, "Justification for Federal Reserve assistance to nonmember institutions must be in terms of the probable impact of failure on the economy's financial structure."

Doesn't this effectively bar direct aid to any but the very largest, most pervasive national institutions, since significant impact on the financial structure of the country at large can scarcely be ascribed to small or parochial institutions, member or nonmember?