

Mr. MITCHELL. Well, again it depends. The home loan banks presumably are in the position to take care of the local situations, and it is only when you get these spreading into large regions or into important regions as far as S. & L.'s are concerned, that I think it might get beyond their capacity. Otherwise I think they have their own central bank in a sense, which is prepared to assist them.

Chairman PROXMIRE. I understand, notwithstanding the warnings of the Federal Reserve authorities, that no single measure of ease or tightness is dependable; the fact is that the press and the financial community do read great significance into weekly levels of net borrowed or free reserves.

If the proposals of the report are made effective, how should the significance in reading of this possible measure of ease or tightness be effective?

Mr. MITCHELL. Well, I presume I would have to say that if someone is following net borrowed free reserves as a guide to monetary action, he would have to get his frame of reference adjusted to a changed level of borrowing as a result of these changes.

Chairman PROXMIRE. That should take a heroic effort on your part, since they haven't paid much attention to your assertions in the past that they shouldn't zero in on one or two indexes. I hope we can get this across.

Mr. MITCHELL. Yes. Well, the effort to have some simple characterization of what the Federal Reserve is doing, whether it is money supply or free reserves or "tone and feel" or something else, is going to continue regardless of how inadequate it may be.

Chairman PROXMIRE. Could this have a kind of a demoralizing effect or at least an unfortunate effect on some banks that operate on a marginal basis with inadequate capital now, and because they are able to get access to the discount window more readily, they will be less likely to secure the kind of capital they should have or to reduce their operations to a level consistent with their capital?

Mr. MITCHELL. Well, in the use of the basic borrowing privilege, which is the only thing, you know, that is automatic, if their capital position or the quality of their management or their asset position are deficient, the Federal Reserve bank, in the district in which they are located, would advise them that they couldn't use this basic borrowing privilege.

Chairman PROXMIRE. Isn't there likely to be an overall adjustment to the fact that you have got this extra source of credit when you need it likely in the judgment of the bank management to maximize their profits to say, "We can get away with a little less capital?"

Mr. MITCHELL. I think some bank managements will have less liquidity because they will say, "I have got this here if I need it," but I think on the whole that is good.

I talked to a banker in a relatively small town in the South, and I asked, "What are you going to do if this goes into effect?" He said, "I'm going to be able to increase my loans by about 10 percent because I have had to keep this kind of liquidity cushion in order to protect myself."

Chairman PROXMIRE. So it could have a wholesome effect as far as reducing liquidity requirements; but it might have possibly, or you don't think it would have a very significant effect on adequacies of capital. You can discipline that by just not providing the funds?