FEDERAL RESERVE DISCOUNT MECHANISM

TUESDAY, SEPTEMBER 17, 1968

Congress of the United States,
Joint Economic Committee,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room S-407, the Capitol, Hon. William Proxmire (chairman of the joint committee) presiding.

Present: Senator Proxmire.

Also present: John R. Stark, executive director; William H. Moore, senior economist; and Douglas C. Frechtling, minority economist.

Chairman Proxmire. The committee will come to order.

This is the second day of our consideration of the Report of the Federal Reserve's Committee on the Reappraisal of the Federal Reserve Discount Mechanism. Last week we heard from Gov. George Mitchell, who explained the purpose and System-thinking about the discount window and especially the significance of the discount rate as a monetary tool.

Today we will hear from three gentlemen from the academic field, each of whom has given a great deal of thought to the role of the discount mechanism viewed historically and its place in today's financial organization.

What is the real function of the discounting mechanism in supporting the economy? In a credit crisis, is the assistance of the Federal Reserve to be available only to member banks, with the financial intermediaries—especially the savings and loans and their principal interest; namely, the housing industry—left to the mercies of the market?

Savings and loan institutions, which are dependent upon real savings and in general make long-term commitments, are important to the financial system of the country. I think these hearings have demonstrated (1) that we need to question whether the rediscounting operation is a useful tool of monetary management, and (2) whether the constitutional power to regulate money has properly been placed in an institution with limited contacts with the country's financial requirements.

Our three witnesses, who I hope will help us discuss these matters are Ross M. Robertson, professor of business economics and public policy, Indiana University; Lawrence S. Ritter, professor of finance and chairman of the department of finance, New York University Graduate School of Business Administration, who, I understand, has been delayed by a plane flight, but should be in shortly; and Thomas G. Gies, professor of finance, University of Michigan Graduate School of Business Administration.