

[Comments on Professor Friedman's letter, subsequently received from the Board of Governors of the Federal Reserve System appear at the end of these hearings. See p. 79.]

Chairman PROXMIER. So, with that happy note of difference, I would appreciate it, if you will begin, and Mr. Ritter will join us, I hope shortly.

**STATEMENT OF ROSS M. ROBERTSON, PROFESSOR OF BUSINESS
ECONOMICS AND PUBLIC POLICY, INDIANA UNIVERSITY**

Mr. ROBERTSON. Mr. Chairman, I have been a member of the faculty of Indiana University since 1957; I am presently chairman and professor of business economics and public policy and director of business history studies. Before coming to Indiana University I was financial economist at the Federal Reserve Bank of St. Louis and from 1965 until early this year I was a visiting scholar in the Office of the Comptroller of the Currency. During my tenure in that office, I wrote a book, commissioned by Comptroller James J. Saxon, *The Comptroller and Bank Supervision*, which, coincidentally, is being officially published today.

I appreciate the opportunity to appear before the committee to testify on Federal Reserve proposals for changes in the discount mechanism. My prepared statement is necessarily brief. If the substance of my comments is of interest to the committee, I will be happy to expand orally and in writing upon this written testimony.

I should like to preface my remarks with a word of congratulation to the System Committee that prepared the report entitled "Reappraisal of the Federal Reserve Discount Mechanism." It is a succinct and straightforward document, couched in unambiguous language and deserving the careful attention of students of money and banking throughout the world. Its supporting research papers, though occasionally inaccurate and repetitious of monetary mythology, do give us a convenient and useful summary of the historic role of the discount mechanism and a statement of conventional economic thought concerning the economic effects of this monetary tool.

In general, I approve the proposals of the report with the reservation, however, that they do not go far enough toward making the discount rate a true money-market rate.

The thrust of the report of the System Committee is in the direction of making the discount window much more readily available to member banks and, under certain conditions—in Federal Reserve jargon—"justifiable circumstances"—to nonmember banks and other financial institutions. In view of the Chairman's comments earlier in this hearing, I will want to expand on the proposals that would make discounting available to nonmember banks and other financial institutions.

The System Committee has proposed that member banks be given a "basic borrowing privilege" restricted as to both amount and frequency but with far less constraints than those imposed by the present regulation A. The proposals further contemplate that the window be open beyond the basic privilege limits but subject to administrative procedures roughly similar to those in operation in Reserve bank credit departments during the past decade. There is a further provision that special seasonal borrowing privileges should be authorized