rates or penalty rates as applied in the 1920's that they would be similarly ineffective today. Nor can we infer from an inspection of data on member bank borrowing in the 1920's, as the Federal Reserve papers do, anything about levels of member bank borrowing in the sophisticated financial environment of today.

Let me turn to a second and final consideration. I think it is fair to say that there runs through both the committee report and the supporting materials the notion that we may once again be confronted with serious and even disastrous economic downturn. With each passing summer I am less inclined to pontificate about what modern economics can and cannot do. But of one thing I am certain. Over the past two decades we have gradually worked out procedures for avoiding both serious declines in economic activity and disruptive rates of inflation. We have, in a word, devised the tools for a substantially effective stabilization policy. To be sure, we do not move quickly enough in fiscal policy determination, and I am inclined to think that we rely too much on so-called flexible monetary policy. Nevertheless, the experience of the last 7 years has pretty well shown that the economic system of the United States, with its vast potential for output and growth, need never again suffer the ravages of depression.

In such an environment monetary authorities, like those responsible for the bank supervisory function, can experiment in the direction of removal of regulatory constraints. As I have written a little book that has just been published today, "The Comptroller and Bank Supervision," a copy of which I shall leave for the use of the Joint Economic Committee, in the modern setting of a stabilization policy guaranteed to prevent wide swings in economic activity, venturing in the public interest, like venturing in the private interest, becomes progressively less risky. I respectfully suggest that the Federal Reserve be more venturesome in its redesign of the discount window. Let the central bank experiment with a window that is freely open during business hours—at a posted rate or rates. Let the officers of the credit departments of the several Reserve banks experiment with progressive rates and penalty rates. And let differential rates exist among Federal Reserve districts if the several banks so rule. Let the examination departments of the Reserve banks (and/or national bank examiners) be responsible for scrutiny of the balance sheets of member banks; and if a member bank is increasing its indebtedness beyond limits acceptable to bank supervisory authorities, let these authorities take appropriate action. And let no one be concerned about the power of the Board of Governors to control the total volume of bank reserves, for the Federal Open Market Committee can absorb reserves as it pleases through open market operations. The power to absorb reserves in this way is absolute and unquestionable.

It is my recommendation, in other words, that the discount window be open to member banks on a rate basis purely and simply. I would be astonished to find Professor Friedman in disagreement with such a proposal, which makes the injection of bank reserves dependent upon market decisions and based on a market price rather than upon the arbitrary ruling of the Federal Open Market Committee, which through its directions to the trading desk in the New York Federal Reserve Bank injects reserves sometimes on the basis of whim and almost always on a basis of the "feel" of the market.