

It is my conviction that the problem of the last third of the 20th century will be too little finance rather than too much, and I am equally persuaded that as a matter of public policy we should increase our reliance on prices and markets for the most effective allocation of all our resources. It is the substance of my testimony that we should give over to private financial institutions a larger role in the determination of appropriate levels of bank reserves and a stronger voice in their geographic distribution. This recommendation is anything but a proposal for a subsidy of member banks, as Professor Friedman suggests. We must remember that member banks are required to keep nonearning assets in the form of legal reserves, presently totaling more than \$22 billion, and so incur a cost of being members of the System. And if my recommendation were accepted, the discount rate would in tight-money times ordinarily ride not below but above the general level of short-term market rates. The notion that this is a subsidy is simply incorrect.

I respectfully ask that Federal Reserve authorities give further consideration to these suggestions before instituting changes that, as far as they go, promise improvement in the institutional arrangements of the American financial system.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Thank you very much, Mr. Robertson.

Mr. Ritter, you arrived a little late. Are you prepared to proceed with your statement?

Mr. RITTER. Yes, I am. I apologize for my lateness.

Chairman PROXMIRE. You accommodated us by submitting your paper in advance. I had a chance to read it last night.

Mr. RITTER. The shuttle is not a dependable mode of travel nowadays. You either sit on the ground or circle in the air.

Chairman PROXMIRE. You may proceed.

**STATEMENT OF LAWRENCE S. RITTER, PROFESSOR OF FINANCE
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Mr. RITTER. I have not been particularly anguished over the operation of the discount window in the past, so that I look upon the proposals of the Federal Reserve, which are modest, moderate, and very gradual, as being a step in the right direction, although I agree with Professor Robertson that perhaps they do not go far enough.

For example, the proposal does not say anything to speak of about rate adjustments except that they are likely to be more frequent. Most of the proposal deals with the operation of the discount window rather than with the price that will be charged for this facility, and as far as it goes I think it is definitely a step in the right direction.

Discount policy has always been an important part of Federal Reserve policy. At the beginning it was one of the few devices mentioned in the preamble to the Federal Reserve Act; and, indeed, at the beginning it was the only instrument of monetary policy. The Federal Reserve could not change reserve requirements and there was no such thing, no conception, of open-market operations. And so, for a decade or so, discount policy and the discount rate was the main instrument of Federal Reserve policy.