

care of with the—one of its principal purposes, at least, with the establishment of insurance, the Federal Deposit Insurance Corporation and the ending of runs on banks? And, then, what specific public interest functions do the—does the discounting achieve? Now, I am not just talking about what it can do to help banks out of situations in which they find that they need more credit, need more reserves, but I am talking about what impact on the economy, whatever favorable impact on the economy do we get from discounting or do we get from ratifying or approving or encouraging this proposal to broaden discounting, or to go even farther, as you would seem to go, Mr. Robertson, and make it even less inhibited than Mr. Mitchell and the Federal Reserve Board would recommend to us.

Mr. Robertson, would you start out?

Mr. ROBERTSON. The discount mechanism has a long history of at least the two centuries of use in Anglo-American banking, but the fact that a device is old does not necessarily mean that in this day and age it is anachronistic. I feel that the discount window can serve a useful function in enabling banks to adjust reserve positions either because of a sudden outflow of deposits or because of unusual stringencies that develop in the money and capital markets.

As Professor Ritter testified in the late summer and early fall of 1966 we were approaching panic conditions in the money market, and there is no question in my mind that the availability of an open discount window, that is to say, one open on a basis of rate, would have been extremely useful to the financial community in general.

Chairman PROXMIRE. It may have been useful to the financial community in general. Would it have been useful for the economy at a time when the Federal Reserve Board was trying to follow a policy, I presume, of slowing the economy down somewhat, of inhibiting too rapid an expansion, of trying to at that time, at least, although you say earlier even, in the twenties they did not follow a policy of trying to stem inflation, certainly this was the conscious policy of the Federal Reserve in 1966.

If you had had a more active discounting operation, would not this have frustrated the whole purpose of monetary policy?

Mr. ROBERTSON. It would not have frustrated the policy because the Federal Reserve could have met demands for accommodation at the window with higher rates.

Chairman PROXMIRE. Then, it would have really clobbered the housing industry. It was clobbered as it was but then, if you had even higher rates you would have had a situation in which the banks would have been accommodated, big business, the principal customers of banks, would have been accommodated but the housing industry which by and large are not customers of the banks, but of savings and loan institutions, which have no access to the discount window, would have been hit even harder, is that not right?

Mr. ROBERTSON. Senator Proxmire, I would say that the ready availability of funds at some rate is essential at certain points in time. May I also remark that mutual savings banks and savings and loan associations are the customers of commercial banks. They keep deposit accounts with commercial banks, and many of them have substantial credit lines with commercial banks. If funds are available at a rate, the thrift institutions can at least achieve liquidity positions that they