sures would develop to buy other obligations and he called it a prostitution of monetary policy.

Mr. Robertson. Well, I would say that it is an imaginative and useful application of Federal Reserve bank lending.

Chairman Proxmire. I want to emphasize incidentally, what we did was to leave the discretion entirely with the Board as to whether or not in their view there were no other funds available to the home loan bank board or to the housing industry, and that they should only come in when they decided that it was necessary to do so. We were not saying that they were mandating them to come in under any other guidelines. The decision was theirs.

Mr. Robertson. I would suspect that Mr. Gies will disagree with this view, but I feel that there should be a special injection of reserves via the home loan banks to the thrift institutions in order to make more equitable the impact of monetary policy.

Chairman Proxmire. And you feel the discipline would come from the higher rates, the higher rates should have a neutral impact as far as housing and business, et cetera, is concerned.

Mr. Robertson. That is correct. Rates will impose a discipline. Let me qualify this remarks with the observation that we should have had an increase in tax rates long before reaching the near-panic conditions of late 1966. In late 1965 we should have reversed the previous tax-rate decrease, the secondary decrease of early 1965, and I think we would have avoided a lot of these problems. I suspect that my colleagues here and in the academic community generally would support this view.

But the point that I wish to stress, Senator, is that if the discount window had been open at a rate, interest costs would not necessarily have gone up further; readily available central-bank credit would have relieved a great deal of apprehension in the security markets, and would have had the effect of preventing the almost frightening rise in rates that occurred in late August and early September of 1966.

Chairman Proxmire. Mr. Ritter?

Mr. Ritter. Everywhere I go, Senator, I have to talk about Milton. [Laughter.]

I have been in this business 20 years and 19 of them I have been talking about Friedman.

Chairman Proxmire. I am sorry. You know we wanted to get some viewpoints of a reputable economist who has hit hard at this proposal. You gentlemen in general, not entirely, of course, there are some considerable exceptions, do not seem to object to it as vigorously as Mr. Friedman does, so I thought that might be a good way to get into this. If you want to forget him go ahead and address yourself to the argument.

Mr. Ritter. No, no. That would not be playing the game right. I think he may have something in stating that the discount facility is an anachronism. It is quite possible that FDIC now serves the same function that discounting was supposed to serve and that the existing deposit insurance could do the job. But I am not positive of this, and precisely because I am not positive of this I think it would be a shame to abandon a facility such as the discount window.

When the discount window is necessary or when it might be necessary it would be awfully necessary. It would be crucially important.