It seems to me that just because the chances might be great that we no longer will face financial panics of the old sort is not sufficient reason to throw away a mechanism that could be crucially important at times when it is desperately needed. So, I just would not throw it away so quickly.

Chairman PROXMIRE. Why cannot the banks get their funds they need from the Federal Fund Market, the banks that are in really stringent trouble?

Mr. RITTER. Well they can, to a certain extent, although smaller banks have difficulty because of the volume of blocks in which this is traded, but the Federal Fund Market can only trade around existing reserves. It cannot inject totally new reserves into the system.

Chairman PROXMIRE. Yes, but the totally new reserves in the System is an element that the Federal Reserve if they want to have an effective monetary policy might want to avoid.

Mr. RITTER. This really gets down to really the heart of my disagreement with Friedman. I do not think that monetary policy can be that precise. I think it is a rough and ready thing, and it operates within a range of tolerance of accuracy. Friedman thinks it is much more powerful and much more potent and precise than I think it is.

Chairman PROXMIRE. You see, as a Member of Congress and as chairman of this committee, this is very, very frustrating because we look at all of our economic policy instruments. We know how very difficult it is to manipulate fiscal policy, how long it takes to get a tax reduction or a tax increase, and I am one of the obstacles in the way of both. I was opposed to the 1964 tax cut and opposed to the 1968 tax increase because I think it is very disturbing to have to push taxes up and down at the instinct of some economists who are wrong most of the time or at least part of the time.

At any rate, it is hard to do that and, as you all know, it is very hard to manipulate on the basis of the spending side of it, although I think that is probably easier to handle than the tax side.

So, if we do not rely on monetary policy, that means it is very, very hard to have an effective economic policy.

Mr. RITTER. Well, it is hard to have——

Chairman PROXMIRE. And what I am so concerned about with this new device, this new proposal, and one of the reasons we felt it was desirable to have hearings on it and go a little slow on it is because it did seem to somewhat dull and blunt the honing edge of monetary policy. Recognizing monetary policy is not very sharp now as you say, this seemed to make it even less effective. To fade it out even more because it would be possible as all you gentlemen have indicated that the banks would come in for more funds precisely when the Fed is trying to restrain credit and this is the time they would come in and especially use that second measure provided here, the emergency reserve, big banks would do that, at the time when you have a crunch. They would have come in in 1966 and asked for an additional $3 billion. Naturally they would have. This would have made it harder to restrain the economy through monetary policy.

Mr. RITTER. It would, but there is a need for a safety valve. The Federal Reserve cannot pinpoint precisely the degree of pressure it is going to achieve and sometimes it moves a little far and when it moves a little far there has to be some pressure-relieving mechanism. I do