

paying a premium rate for funds, will be fulfilled rather than having been rationed out of the market.

The function that it fulfills, if it fulfills any at all—and certainly historically it does not have the same overriding importance that it did at the time we designed the act—but to the extent that it has a function, I think it has to do with this safety valve, and secondly, the allocation question. And there, I think, maybe it represents a reason justifying the Fed's attempt to reform and preserve it.

Chairman PROXMIRE. I can see you have a different kind of a proposal, in which you might find more merit; but addressing yourselves to this particular proposal, No. 1, the safety valve feature you have just indicated is of considerably less importance because you say there is a fund market available.

Mr. GIES. There are other ways than the Fed funds market and we can recite them. There are a number of conduits that the market has developed for itself. The Government security market is one.

Chairman PROXMIRE. And No. 2, this would seem to provide a worse rather than a better allocation of resources on the basis of our experience over the last 2 or 3 years, inasmuch as the housing industry has already been hit hard under present arrangements and it would seem that they would be hit harder under this arrangement; because what this arrangement would mean is that the banks would have more funds available but that rates would necessarily have to be higher to compensate for that fact.

Mr. GIES. No. I doubt very much if the price of funds would be higher. But you know—

Chairman PROXMIRE. Of course, they will. If you are going to have \$3 billion of additional reserve with the banks you have to compensate, do you not, by buying an additional \$3 billion of Federal obligations sold; and that would in effect drive up rates?

Mr. GIES. No. It will have a wash effect. There will be no net change in the price and the availability of credit. It may end up in slightly different hands.

Chairman PROXMIRE. Yes; but there is a very great difference in who gets that credit.

Mr. GIES. Yes, indeed, there is; but—

Chairman PROXMIRE. And it would not be housing. It would be business.

Mr. GIES. Not necessarily. That is not necessarily true.

Chairman PROXMIRE. That was the experience in the sixties, the experience in 1966.

Mr. GIES. I will tell you what the problem in 1966 was. It is very simple and I do not think anyone has really spelled it out; but it is so simple that we should not overlook it.

The housing market can pay as high a rate and the savings and loans institutions can afford to pay as high a rate as anybody in the whole credit market. You have just got to understand that. It is not level of rates that is going to drive me out of the market when I want a mortgage. I can pay the rate. I can pay just as high a rate as anybody else and the savings and loan association which is going to provide me with a mortgage market is capable of operating as an effective conduit when rates of mortgage are 15 percent as well as when they are 4 percent. We do not have to worry about the level