

Mr. ROBERTSON. No announcement effect. Announcement effect can be catastrophic. I recall the change in the discount rate in mid-November of 1957, following an *increase* in the discount rate in the previous August. This change in November of 1957 brought about a precipitous drop in rates in general—that is, a rapid run up in bond prices—because it signified to the whole financial community that the Fed was moving toward a rapid easing of monetary policy.

Or take the very slight decrease in the discount rate at the Minneapolis Reserve Bank just a few weeks ago. At the beginning of that week, following 6 weeks of rising bond prices, everyone felt that the Fed was easing money. During the week, rumor had it that Federal Reserve was going to stop easing monetary conditions, and I am sure the announcement—as I recall on a Thursday or Friday—of this slight decrease in the discount rate was meant to allay those rumors, and it did.

Now, I concur with Professor Ritter that there ought to be a better way of communicating than by these subtle, and to many people, sinister devices.

Chairman PROXMIRE. Well, sometimes, of course, I think that is what you are saying, that the Federal Reserve when it varies the discount rate has no intention of giving an announcement effect but they feel they have to follow the market. They do not want the discount rate way out of line with the market. Sometimes they do want to have an effect. You think this would get them away from locking themselves into a situation that is ambiguous, into a situation in which they can be clear about what they are going to do?

Mr. ROBERTSON. It is fluid and completely flexible, if we have a discount rate posted each day.

Chairman PROXMIRE. Then, if they wanted an announcement effect they could simply change the fundamental basis for it.

Mr. ROBERTSON. I would like to remove the announcement effect. The discount rate should move on a day-to-day basis with other rates, much as the Federal funds rate does. If Federal Reserve posts a somewhat higher rate, a rate 10 basis points higher, let us say, on one day than on the day before, it should not expect an announcement effect.

Chairman PROXMIRE. I would like to ask you gentlemen finally to comment, if you would—as I recall there was a Friedman assertion—perhaps I am confused. I thought it was—on the argument that this might constitute a subsidy of several tens of millions of dollars to the Federal Reserve System. I mean, to the banks if this would go into effect, that the taxpayer would be asked to unnecessarily subsidize the commercial banks. If this is right, is it significant? If this is wrong, why is it wrong?

Let us start again with Mr. Gies and go from right to left.

Mr. GIES. I am not sure that I can offer a particularly telling criticism of it. It seemed a trivial complaint considering he had much better grounds for objecting to the discount mechanism. The fact that you happen to offer a subsidy to one particular industry is not a very serious indictment and the amount of the subsidy that he is speaking of, \$60 to \$70 million, if in effect it is that much it is trivial compared to any number in bank profits. It would not have any visible effect on bank profits and surely not on the attractiveness of new capital going into banking.