

Chairman PROXMIRE. I can tell you that to my constituents that is probably the strongest argument against it and I think the constituents of most Members of Congress: \$60 to \$70 million is a lot easier to understand than \$60 to \$70 billion.

Mr. GIES. That is an unfortunate problem, though.

Chairman PROXMIRE. And it is a lot of money.

Mr. GIES. Well, it depends on what the tradeoff is, I suppose, and if you can have a total mechanism which satisfied you as a monetary apparatus that would serve the economy favorably, you would say the price of \$60 to \$70 million is trivial. We are certainly willing to afford

We would not be willing to deny ourselves a good apparatus if it only cost \$60 to \$70 million. I do not think that is the objection.

It seems to me to even raise it is to sort of kick dust in the air and obscure the more important part of this whole issue. So while politically it has interest because \$60 million is sort of a big number to a guy whose income is \$10,000—

Chairman PROXMIRE. Well, now, I just do not know if you kick it away that much. I wonder if the Fed has shown that the benefits of this system are worth \$60 to \$70 million. We debated at great length on the Teacher Corps which I happen to think is a highly valuable instrument of improving education in areas where people are getting inadequate education for a number of reasons now. We will debate \$70 million 3 or 4 days in the Congress and it can make a great difference in a very vital program. So, if the Federal Reserve is not making any showing whether this is really going to improve monetary policy, and the economists seem to be divided on it, I wonder if we can simply say \$60 or \$70 million is not important. We can forget about that, let us go to the other questions.

Mr. GIES. But on the other hand, if the Fed could satisfy us that it even gave a small amount of improvement, a 1-percent improvement in the effectiveness of monetary policy, then we are talking about something that would cause the economy to gain perhaps a billion dollars a year in annual growth or to avoid a billion dollar decline in the level of output. To obtain a billion dollar gain at a price of \$60 or \$70 million is a very worthwhile investment.

Chairman PROXMIRE. Friedman's point is that this is a retrogression in monetary policy. This inhibits it, handicaps it, makes it less sharp. Makes its timing duller, slows it down, and, therefore, to spend \$60 or \$70 million is an added argument against it.

Mr. GIES. That is right, but it is a trivial addition. I would say in terms of his conclusion I would not feel terribly bad if we give up the discount message but they are surely not arguments that would convince anyone.

Chairman PROXMIRE. Mr. Robertson?

Mr. ROBERTSON. I simply deny the possibility of a subsidy, and I perhaps it is better for me to state my strong position on that and let my temperate friend to my left, Professor Ritter, make the statement.

In the first place, it is simply a wrong calculation. We base the calculation on an erroneous assumption if we put it that member will be able to borrow at lower rates from the Reserve banks than they can borrow in the market generally. It may very well be that they will have to borrow at higher rates than the market; indeed