if the discount window is run properly, rates will as often be higher than alternative short-term rates as lower.

Chairman PROXMIRE. Why in the world would they borrow from the discount window if they have to pay a higher rate?

Mr. ROBERTSON. Because this is the function of the window. The central bank is the lender of last resort.

Chairman PROXMIRE. They only borrow at discount at the window if you get a lower rate.

Mr. ROBERTSON. Or perhaps as an alternative to selling off securities yielding rates higher than the discount rate. For convenience it is often useful to member banks to go to the window and obtain temporary accommodation quickly, speedily, for a specific purpose, even though they could run off securities and save interest by so doing.

The second point is that the members of the Federal Reserve System are required to keep reserves in substantial amounts. These assets earn nothing, and it is improper, it seems to me, to say that a group is being subsidized when a part of the social cost of running the financial system is borne by these institutions through the maintenance of nonearning assets for social purposes.

Chairman PROXMIRE. I could give you an argument but at this late hour I will not.

Mr. Ritter?

Mr. RITTER. They must also buy stock in the Federal Reserve System. What interest do they get on that now?

Mr. ROBERTSON. Six percent.

Mr. RITTER. Which you might look at as perhaps a reverse subsidy.

Mr. RITTER. I think Professor Robertson is quite right, that it depends on the level at which the discount rate is set. If it is higher than market rates, banks will not be subsidized and if it is lower than market rates they will. I think the Federal Reserve sort of sidestepped that in the report.

Chairman PROXMIRE. Why would anybody go to the discount window if it is higher than the market rate?

Mr. RITTER. First, they would go to the Federal Fund Market and elsewhere and finally if there is no other source of funds and they are desperate and they have tremendous problems they would go to the discount window.

Mr. GIES. There is another reason. Do not forget the Federal Reserve prohibits a bank from repeatedly going to the discount window. If I go there this week and then I insist upon going there next week, I will be most unwelcome.

Chairman PROXMIRE. They would not go to the discount window if they were discouraged from going there and the Federal Reserve policy prevents it but they certainly will not go there if they can go someplace else and if the regular rate in the market is lower.

Mr. GIES. You would have to change the whole rules of the game and set up a pricing mechanism which did not make it objectionable to come to the discount window on principle. You would be permitted to come as frequently and for as long a period and for as much money as you can afford and that is the end of it, but that is not at present the arrangement and Larry is quite right in saying that bankers avoid the discount window simply because the Fed looks very suspiciously at