attrition in the membership of the Federal Reserve. Since 1957, the assets of all commercial banks have grown from $222.7 billion to $451 billion, an increase of 102.5 percent, while the assets within the Federal Reserve System have grown from $188.8 billion to $373.6 billion, a gain of only 97.9 percent. In 1957, the Federal Reserve System contained 47.1 percent of the Nation's more than 13,000 commercial banks. By yearend 1967, it contained 44.2 percent.

Stemming attrition from the Federal Reserve System, or increasing the percent of financial assets over which the Fed has direct control is not discussed in the discount proposals. However, if such a goal is implicit in the proposals for amending the discount procedure, the appropriateness of attaining the goal in this manner is subject to question.

Whether the goal of the Federal Reserve is to increase the attractiveness of membership in the System or ease reserve adjustments of commercial banks, the objective is not questioned. Safeguards should be provided such that the attaining of the objectives, whatever they may be, does not provide substantial hardships on the balance of the economy. Proposals which increase the sensitiveness of housing to monetary changes seem especially questionable.

Chairman PROXMIRE. I would like to say at this time that any comments the Board of Governors may choose to make responding to Professor Friedman's comments will be accepted for inclusion in the record up to the time of publication of these hearings.

The committee will stand in adjournment subject to the call of the Chair.

Thank you.

(Whereupon, at 12:10 p.m., the committee was adjourned, subject to the call of the Chair.)

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(The following letter was received from the Board of Governors of the Federal Reserve System in response to comments included in the letter of Professor Friedman which was incorporated into the record (see p. 32).)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
*Washington, October 15, 1968.*

Hon. WILLIAM PROXMIRE,
*Joint Economic Committee,*
*U.S. Senate,*
*Washington, D.C.*

DEAR SENATOR PROXMIRE: I would like to take this opportunity to respond to the issues raised in the September 13 letter sent to you by Prof. Milton Friedman with regard to the proposals currently under consideration for redesign of the Federal Reserve discount mechanism.

As you know, the System, presently as in the past, sees the role of the discount mechanism in a different light than does Professor Friedman. We agree that the advent of Federal deposit insurance substantially lessened the possibility of "runs" on the banking system and view this insurance as a vital part of a dependable and effectively operating