

in discount rates" (1961, pp. 46-47). Second, confidence in reliance on member-bank reluctance to borrow has deteriorated still further. Now one of the "special circumstances" that "may at times weaken this reluctance" is specified as "continuing pressures on their reserve positions" (1961, p. 45)! Third, considerably more stress is laid in the 1961 edition on the interrelations among discount rates, open-market operations, and short-term interest rates, and on least-cost methods of adjusting bank reserve positions. Member-bank reluctance to borrow evidently becomes much stronger when the discount rate is above short-term market rates (see 1961, pp. 48-50 and 58-59). In this connection, the interesting statement is made that "experience since the re-establishment of flexible monetary operations in 1951 suggests that when the indebtedness of member banks as a group has reached about 5 per cent of their total required reserves, the pace of bank credit and monetary expansion has tended to slacken" (1961, p. 59). It is not stated whether this is due to member-bank reluctance to borrow further, stricter supervision of the discount window, increases in the discount rate, or other factors.

*Open-market operations.*—The 1939 and 1947 editions contained similar expositions regarding the effects of open-market operations on bank reserves and deposits. They differed primarily in that each called special attention to the particular problem of the day. In 1939 it was the large volume of member-bank excess reserves relative to System securities holdings, so that even if the System were to sell its entire portfolio it would still absorb only about half of the then-existing volume of excess reserves.

In 1947 it was the newly expanded national debt and the need to protect

government securities from price variation, especially in a downward direction. In 1947 the magnitude and distribution of the national debt were seen as hampering monetary policy in general and open-market operations in particular; pegging the interest-rate pattern was believed to be necessary, particularly at the long end. "The vast amount of Government securities held by individuals, corporations, endowments, and savings institutions, including insurance companies, makes it desirable to continue to protect these securities from wide variations in price" (1947, p. 110). It was to be several years later before the Federal Reserve advocated unpegging the long rate.

By 1954, of course, this view of the significance of the debt as hampering monetary policy had turned a full 180 degrees. The 1954 edition viewed the magnitude and wide distribution of the debt as strengthening monetary policy, rather than obstructing it, by serving as a principal vehicle through which monetary policy was transmitted throughout the economy. "Because Government securities play a key role in the credit market, and because all financial institutions are affected by changes in the yields and prices of such securities, as well as by changes in member bank reserve positions, open market operations have direct effects upon credit availability and the climate of business expectations" (1954, p. 195). In this vein, the section on open-market operations was greatly expanded in the 1954 edition. Previously they had been discussed almost exclusively in terms of their impact on member-bank reserves and deposits; in 1954, however, non-bank financial institutions were seen as being prominently involved in transmitting the impact of open-market operations through their