

ing basic principles of Federal Reserve lending that were reaffirmed by our study.

First among these is that Federal Reserve credit is extended primarily to accommodate bank asset and liability adjustments over limited time periods and to meet essentially short-term fluctuations in member bank needs for funds.

In short, no continuous borrowing.

The second principle reaffirmed, however, is that Federal Reserve banks always stand ready to lend to any of their member banks caught in special regional or local adversities—such as droughts, drastic deposit drains, or other emergencies—for as long as reasonably needed for the bank to work out of these circumstances.

Thirdly, the Report recognizes that the Federal Reserve serves as “lender of last resort” to buttress the entire financial system in the event of widespread emergency. Within the limits of existing law, and lending primarily through member banks as intermediaries, the Federal Reserve is prepared to supply liquid funds to other types of financial institutions when such assistance is not available elsewhere and is necessary to avoid major economic disruption.

Along with these continuing principles, the Report suggests several modifications of lending operations to better serve emerging needs. Let me summarize the main new suggestions briefly, and then outline each one in somewhat greater detail.

To provide more clear-cut access to Federal Reserve lending facilities, the Report proposes that each soundly operated member bank be given a “basic borrowing privilege,” enabling it to borrow up to a specified limit from its Reserve bank upon request in as much as half of its weekly reserve periods.

In addition, it is proposed that any member bank foreseeing large seasonal bulges in its needs for funds would be able to arrange for loans from its Reserve bank to meet such needs in excess of a specified minimum. This arrangement, more explicit and more liberal than currently provided, is termed the “seasonal borrowing privilege.”

Member banks experiencing drains of funds that are not of a seasonal or emergency nature, but that are bigger or longer in duration than can be accommodated under the new “basic borrowing privilege,” could also arrange for additional credit pending an expected and timely reversal of their fund outflows or an orderly adjustment of their assets and liabilities. Such borrowings would be subject to essentially the same kinds of administrative procedures now applied in similar situations.

A final innovation proposed by the Report is to make the rate—the interest rate charged by Federal Reserve banks on loans to member banks—more flexible than heretofore. It is recommended in the Report that the discount rate be changed considerably more frequently and by smaller amounts, keeping it reasonably in line with the movements in other money market rates.

Turning now to some of the major features of these recommendations, the most commonly used of the new lending provisions for member banks in sound condition would undoubtedly be the basic borrowing privilege. The size of each bank's basic borrowing would be established as a proportion of some base drawn from the bank's balance sheet; the current proposal suggests capital stock surplus. Required reserves could also be used.