

emergency credit assistance do not have sizable holdings of this asset, credit would normally be extended through a conduit arrangement with a member bank. Most types of nonbank financial institutions have borrowing relationships with their commercial banks as a matter of course and, ideally, this indirect lending by the Federal Reserve could fit in with such business practice. Such credit would be provided at a higher rate than the basic discount rate.

The proposed discount window does not include the provision of intermediate- or long-term credit to meet the needs of banks servicing credit-deficit areas or sectors—that is, areas or sectors where the opportunities for profitable investment continuously outstrip the savings generated locally. While this is recognized as a problem of some significance, it was concluded that its solution lies outside the proper scope of the discount window. The steering committee concluded that an appropriate and effective solution to this problem was most likely to be found in the improvement of secondary markets for bank assets and liabilities. Detailed studies of the feasibility of actions to promote such improvement are expected to begin in the near future.

I should emphasize that Federal Reserve open-market operations are still envisioned as the main tool of monetary policy. The proposed changes in discount operations, however, would alter to some degree the current relationship between these two methods of reserve injection, with the discount mechanism assuming a somewhat increased role. This would come about as a result of the accommodation of more of the day-to-day fluctuations of reserve needs at the window, the improved distribution of reserves brought about by injection of some reserves directly at the point of need, and more flexible and effective use of the discount rate as an influence on bank borrowing. The first and second of these benefits would entail a generally higher level of borrowing being done by a typically rotating group of member banks. But this is not conceived to mean a corresponding increase in total reserves or a loss of control in this area, since the Federal Reserve would retain the ability to bring about and maintain the desired level of overall credit availability, taking into account the relatively small increase expected in credit outstanding at the window, through purchases and sales of securities in the open market.

To simplify my oral remarks this morning, I have avoided citing specific numbers, technical conditions, or underlying statistical evidence associated with the proposed changes in the discount mechanism. For your convenience, I have summarized these details in the two-page appendix table attached to my statement. If you have any questions about such matters, I will be glad to answer them either now or in subsequent correspondence.

Let me emphasize that all these details are provisional at this stage, and subject to review and modification in the light of our study of the comments and reactions received. The proposal at this stage represents a report of a Federal Reserve committee. The Board of Governors has not yet taken any substantive action on the proposals contained in the Report nor published any change in its Regulation A which governs borrowing. We have already received a good many comments on the Report from a variety of sources, including both bankers and banking organizations and others. We have had assistance from the reactions