

for banks subject to pronounced seasonal swings in either loans or deposit withdrawals. Finally, it is proposed that, over and above these three categories of borrowing, the Federal Reserve banks make unequivocal their willingness to extend emergency credit to member banks and as a "lender of last resort" to other financial sectors of the economy through non-member institutions. These proposed changes in the discount function contemplate an increase in the number of banks regarding the window as a source of funds and, presumably, in the dollar volume of discounts and advances to member banks.

At this point we should suppose that the System Committee would go on to recommend that Federal Reserve banks exercise a substantial degree of discount-rate flexibility. But no! Despite the quantity limitations placed on member-bank borrowing and, when necessary, the administrative sanctions that may be invoked, the System Committee is apparently apprehensive about too close a linkage of the discount rate to market rates generally. To be sure, it is anticipated that changes in the discount rate will be more frequent than in the recent past, but it is apparent that Federal Reserve officials do not wish to place reliance on the discount rate as an effective credit-rationing device. Instead, it is anticipated that "... the exact relationship to market rates at any time will depend largely on current monetary conditions and policy objectives. . . ." Indeed, the committee feels that "... related market rates would move higher relative to the discount rate in periods of restraint and lower relative to the discount rate during periods of ease." I should have thought that the expectation would be the other way around, as indeed it would be if the discount rate were envisioned as a true money-market price.

As I have already remarked, the proposed changes are commendable in that they move toward making the injection of Federal Reserve credit more responsive to signals transmitted from the financial marketplace. The consequence would almost surely be less dependence on week-to-week and day-to-day open market operations, so that the monetary authorities could place less reliance on fallible human judgments about transitory change in financial markets. Moreover, managers of member banks, who control nearly 85 percent of the commercial banking resources of the country, would have greater flexibility in the direction of their institutions and would almost certainly be able to plan more effectively over substantial periods of time. The patent fact remains that the discount departments of the several Reserve banks would still be required to intervene in the private marketplace and the ultimate consequence, I am afraid, would be continued intrusive meddling in the internal affairs of member banks. In fact, the proposals for calculating seasonal borrowing privilege imply that the credit departments of Federal Reserve banks will actually participate in the asset management of some member banks. Decentralization of central-bank intervention and a resulting boost in the importance of the 12 district banks may seem commendable in principle, but I am not sure that the economic consequences of decentralization would be a remarkable improvement over present intervention from Washington and New York.

Why does the Federal Reserve continue to insist upon both quantity and frequency limitations with the ever-present threat of administrative coercion? Why not simply make the discount window freely open