

As such, it followed the long tradition of central banking as the lender of last resort, and I still look upon the discount window as performing primarily the function of lender of last resort rather than the function of day-to-day, month-to-month, or cyclical stabilization policy. So that from my point of view, from the point of view of the functioning of a lender of last resort, this proposal moves in the right direction, although perhaps it does not go far enough.

I would not have thought it was too necessary, actually, to say all of this except for the fact that 2 years ago almost to the day, in August and September of 1966, the Federal Reserve, through the methods it used to impose tight money, brought the economy awfully close to the brink of an old-fashioned financial panic, an old-fashioned financial crisis. You might remember that during the year 1966 the Federal Reserve instituted a program of tight money. I am not objecting to that. I am just stating a fact. Market rates rose in response to this, and the banks found themselves as the summer progressed under considerable pressure. Negotiable CD's started to run off at the larger banks and even the smaller banks found their nonnegotiable certificates of deposit disappearing. As a result, the banks found themselves severely squeezed for funds in August of 1966.

Well, that is the kind of situation which the discount window operated by a lender of last resort is supposed to alleviate. That is what the discount window has historically been and that is what we all thought it still was.

But what happened in the summer of 1966 was that on September 1 the Federal Reserve issued a letter which was rather ambiguous in its statements and gave rise to considerable apprehension throughout the banking community that the discount window was closed to banks which did not behave themselves.

The only way you could get a loan was if you behaved yourself in some way; that is, stopped extending too many loans or did not liquidate municipals. It was not quite clear precisely what was meant except that the Federal Reserve was policing the discount window and in a way that it had never done before, at least in any obvious fashion.

The result of this combination of the September 1 letter which warned banks about the availability of discounting and the tight money pressures which had been building up all year came awfully close to bringing about the first financial crisis this country had seen since the 1930's, the early thirties.

Up to that time I would have thought that the Federal Reserve understood clearly that the function of the discount window was more to serve as a lender of last resort in emergency situations than as a shortrun stabilization device. That episode gave me a lot of food for thought as it did many others, and I think the Federal Reserve also started thinking about the implications of the discount window. Within this framework I like what emerged from this study, because the proposal should make very clear that the discount window, although it will still be used for shortrun stabilization purposes, will be more accessible than has been true in the past for lender of last-resort functions.

Finally, I might note that Congress itself could clarify some of the procedures involved in the rediscounting process by passage of