

agement capability, loan demand, and investment opportunities are more available among larger than smaller banks. Thus, while both groups might benefit, the relative increase might be greater for large than small banks and thereby intensify rather than close the competitive gap.

The third observation is that an undercurrent of distrust over the new proposals is discernible. Because of this it is possible that the competitive status quo might not change materially. This distrust has been nurtured by two factors: (1) the jaundiced eye given in the past by Fed officials to member bank borrowings, and (2) the explicit but "played-down" objective of trying to gain greater precision in monetary policy.

The first factor has promoted a somewhat "natural" propensity to avoid the discount window. That which has come to be natural with managerial personnel cannot be abruptly changed. This is especially the case when "attitudes" are involved. Although it is appropriate to say that bankers, like all businessmen, should be profit-maximizers and, therefore, relegate any incongruous subjective tendencies to the profit regimen, it is another thing to have this accomplished. Thus, the process of implementation could be long and arduous. It is by no means certain that the reluctance of bankers to borrow from the Fed has significantly diminished over recent years.

The second factor may reinforce the first. It nearly always appears noble to support a cause for the betterment of the "common good." And certainly, trying to gain greater precision in monetary policy can be construed as promoting that common good. Two points, however, diminish the luster of such an objective. For one thing, there is serious concern over the effectiveness of monetary policy and its oft-used open market operations. To then use the discount window as perhaps the primary means of shaping monetary policy, as is intimated, and in turn use open market operations to smooth any subsequent flaws seems inconsistent. If open market operations are not really effective as the major tool, does it not seem questionable to then use it as a refining device?

The second point is the reasonable fear of bankers that their individual credit policies will become more tightly controlled as a result of more direct dependence on the Fed for funds. Banking is one of the more regulated and circumscribed industries. Such independence as remains is highly valued. Further limitation of this independence may be inferred from the proposed greater availability of borrowing.

In summary, if the above conditions prevail it is not likely that the competitive position of small banks will materially improve; rather, it could worsen. Further, nearly everybody thinks in relative terms. Unfortunately, the usual connotation with regard to competition is that "bigger" banks are intrinsically bad, that they distort and disrupt the process of efficient allocation of resources. It only seems natural then, and perhaps patriotic, to nurture the growth of "smaller" banks (for example, via seasonal borrowing privileges) and in so doing hopefully improve their competitive position.

But by aiming to do this through the fundamental character of monetary policy is to imply that the current design of monetary policy is a major contributor in this competitive inequality. Is it in fact? There would probably be few of us here who would say it is. By and