number of institutions, and assistance is to be judged in terms of the likely impact of failure on the financial structure of the economy. It appears that the proposal is really talking of conservation of the economy rather than conservation of competition. One might question whether a vigorous competitive relationship between member banks and nonmember financial institutions is assured by the proposed cooperative arrangement for providing a conduit for nonmember borrowing.

However, a more fundamental objection to Federal Reserve lending to nonmember institutions is the simple fact that the effectiveness of monetary actions depends upon limited access of financial institutions to new reserves. Any action which enables savings and loan associations and other nonmember institutions to avoid the discipline of credit restraint undercuts the effectiveness of the monetary authority.

III. Implications of Frequent Changes in the Discount Rate

The primary criticism of the current discount mechanism is its allegedly ambiguous "announcement effects." In principle, changes in the discount rate are generally intended to support and reinforce the effectiveness of open market operations. As such, changes in the discount rate should tend to follow, rather than lead or move in tandem with, movements in market rates. But due to the continuous movements of market rates and the sporadic changes in the discount rate, the relationship varies. It is difficult, if not impossible at times, to ascertain whether the Fed is leading the market and initiating a new phase in monetary policy or following the market and simply adjusting to current conditions.

It is my opinion that announcement effects are important. When clarity prevails, they give official credence to the general movement in market rates and further can be of crucial importance in maintaining or rejuvenating confidence in the dollar. To decrease the ambiguity of announcement effects present in the current discount mechanism, our logic leads to the need for more frequent changes in the discount rate. So, the implications of these changes depend basically on the methodology used.

Numerous methodologies have been proposed, but only two appear to deserve serious consideration. The first involves setting up a planned schedule of changes in the discount rate. The changes themselves would be greater in number and smaller in size than the present mechanism entails, and would allow the discount rate to keep in step with market rates. And upon the need to declare a change in monetary policy, a relatively large change in the discount rate should unequivocally accomplish this.

The second proposal is perhaps more attractive. It involves the concept of a tied rate; that is, the discount rate would be tied to some market rate and then left to vary with that rate automatically. As with the first proposal, a relatively large discretionary change in the discount rate (thereby changing the differential between the rate and its related market rate) should achieve the desired announcement effect. In addition, other advantages could result from this methodology. It is more efficient; there is no need to set up a regular schedule of changes in the discount rate as required by the first method—the market takes