system. However, the prevention of runs is not and never ole or even the most important function of the discount win- In a highly fragmented banking system such as that existing in United States, it is important that there be some method whereby l member banks can obtain Reserve Bank credit quickly and to meet their individual reserve needs.

The net reserve needs of the banking system as a whole can be and ptly and effectively met by open market operations. However, at least two factors that can combine to prevent these opera- from adequately responding to the needs of individual banks. size and timing of short-term reserve pressures often varies om bank to bank. Thus, individual banks may be experiencing of funds far in excess of reasonable expectations given cur- etary conditions, whether of ease or restraint. Their problems g these needs cannot be allowed to dilute the effectiveness of policy, but neither should these institutions be exclusively because of their special needs for funds, which may be quite from the national credit conditions being dealt with by open operations.

A second and closely related factor is the imperfection of distribu- cial mechanisms in the United States. With perfect mobility credit, the impact of any general monetary policy would be equi- ributed throughout the financial system relative to the oppor- or profitable employment of funds. However, this degree of simply does not exist. Financial markets and mechanisms do not function with sufficient speed and elasticity to guarantee a bank can always effect its needed adjustments through these d very large numbers of member banks, practically speaking, not have adequate access to such markets. These markets have improved in the past, and doubtless will continue to do so. umerous banks, the ability to tap these markets expeditiously eveloped commensurately with local credit demands, and the of borrowing from time to time from the Federal Reserve such banks more efficient in serving their communities by them the needed flexibility for an orderly working out of heet adjustments.

In addition, it is important to recognize that the discount mechanism serves, in effect, as a "safety valve" for open market operations. such a mechanism, open market operations would have to be by the need to avoid impact on individual institutions. How- use individual banks do have the ability through borrowings central bank to offset temporarily what at times may be a par- harsh impact of open market operations, such operations be conducted more vigorously and in accordance with the credit tary needs of the economy as a whole. Thus, it is my judg- that the existence of the discount window not only does not e the task of overall monetary management, but in fact it.

Furthermore, I believe that this latter beneficial effect would be in- with the adoption of the proposal for its redesign. One of the effects of the change would be to shift a somewhat larger part reserve adjustment initiative to the individual member bank. probability this can relieve open market operations of a portion