

Authority  
of Board

It has been generally accepted that when a reserve bank applies to the Board for permission to raise or lower its rediscount rate, the Board can grant or refuse that permission—a power of veto. It has not been so generally accepted that the Act gives to the Board the authority to force a regional bank to change its rate.

Position  
Taken by Board

There have been occasions when it has appeared proper to the Board to initiate and insist upon a change in rate against the active and determined opposition of the reserve bank concerned. If the Board compels a reserve bank to lower its rate, the reserve bank may be deprived of its most effective method of discouraging excessive local rediscount applications. As a corrective it might then be compelled to arbitrarily refuse applications for rediscount at the risk of threatening the good will of member banks, thus impairing the spirit of willing cooperation so essential to the operation of the federal reserve system. Similarly, if the Board orders a reserve bank to maintain or increase a rate, it may result in special disadvantage to the commerce and industry of the particular district.

Result for  
Reserve Bank

Considerations  
Affecting  
Reserve Banks

It can be recognized that regional banks may be swayed in their judgment by the special problems of their districts and may not hold so impartial an attitude as would the Federal Reserve Board concerning the needs of the whole country. If given unrestricted freedom in the matter of rediscount rates, it is conceivable that the reserve banks could precipitate discrepancies and inequalities of a disturbing nature. As a rule, however, general financial developments would shortly indicate to any reserve bank whose rate is out of line the necessity of correcting its rate.

National  
Emergencies

Even if it be admitted that the Federal Reserve Board should exercise an authority to compel rate changes in a presumed national emergency, the country has a right to expect that it adopt a consultative attitude toward the reserve banks and take action only after conference with regional bank directors and after full consideration of the resulting influence upon the commerce and industry of the districts especially affected. The persistent refusal of the Federal Reserve Board to permit a change in rate can be as violative of district autonomy as the actual forcing of a rate change.

The Committee does not believe that the proper solution of this difficulty lies in legislative enactment. It should be left to the governing bodies of the system to agree upon mutually helpful safeguards.

Uniform Rate  
Nationally

In this connection another question of general application which has emerged with respect to the rediscount rate is whether or not it should be uniform throughout the country. Because the Federal Reserve Board's jurisdiction is nation-wide, a determination to establish the same rediscount rate in all the districts would operate to

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