

increase the Board's influence. This again would tend to decrease the exercise of reasonable regional authority. If it be required that the cost to member banks of securing reserve credit be the same in all districts, each district directorate is in the position where it may have to subordinate local needs, even of an acute nature, to a more or less artificial national requirement. We believe that a policy favoring a single rate of rediscount as a principle of reserve system should be disapproved.

*The Committee recommends that:*

Recommendation

(a) *In maintenance of the principle of regional autonomy, the Federal Reserve Board should avoid initiation of a change in a rediscount rate without conference with the directorate of the regional bank and full consideration of the resulting influence of its act upon the commerce and industry of the district.*

Recommendation

(b) *A policy favoring a uniform rate of rediscount as a principle of reserve-system operation should be disapproved.*

Functions of  
Central Banking

Although the federal reserve system is not a central bank, its fundamental operations are in the field of central and not of ordinary banking. It is designed to supplement the credit distribution activities of ordinary banks that deal directly with the public and depend upon profits. It is charged with the primary responsibility to which, if necessary, every other consideration should be subordinate, viz., the maintenance of the currency and credit structure firmly upon an adequate foundation of gold. In general, as a reserve or supplementary credit institution, it must seek to exert a steadying influence upon the money market and upon the course of industry.

Powers  
Necessary

Such an agency must be endowed with ample powers of credit and currency expansion and contraction. The successful discharge of these powers requires not only an experienced and politically independent management but the absence of narrow, restrictive legal limitations.

Reserve Credit

It is to be admitted that any over-use of the credit-granting and currency-issuing powers of the reserve system might result in serious financial disturbance. A dollar of federal reserve credit establishes the basis upon which more dollars of member bank credit may be built. An excessive expansion of reserve credit may have the result, therefore, of exaggerating any rapid increase in the volume of member bank credit and thus lead to inflationary conditions. Because of this it is sometimes argued that restrictions should be placed in the Federal Reserve Act, beyond those now existing, to insure that the reserve banks are not provided with unduly large powers of credit and currency expansion at any given period of time.

Proposals to  
Restrict Powers

Among the proposals designed to restrict further the lending power of the reserve banks, are (a) permission to member banks to keep 40 percent of their legal reserve and cash in their own vaults

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