

instead of the present requirement that the entire legal reserve be maintained with the regional reserve banks; (b) prohibition of the present right to issue federal reserve notes against gold or against acceptances purchased in the open market; (c) repeal of the present provision that gold serving as collateral for federal reserve notes also may be counted by a reserve bank as part of its required reserve; (d) a drastic requirement that federal reserve notes be issued only against the collateral of paper obtained by rediscount.

**Forecasting Needs**

In general, these and similar suggestions seem to assume that it is possible to gauge in advance the exact amount of lending power that the reserve banks may require at any time. That is not the case. They overlook the fact that the need for reserve credit is subject to wide and unforeseeable variations. In our view it is not a matter of great consequence if the credit powers and resources of the reserve banks are at times even materially in excess of immediate requirements.

**Adaptation of  
Credit Volume**

Furthermore, the precise adaptation of the volume of reserve credit to the needs of business is of necessity a problem of administration rather than of law. In the exercise of such powers to regulate credit as the federal reserve system possesses, it is better for the country to rely positively upon experienced administration rather than upon rigid statutory limitation. No automatically operative statute can be substituted in this particular for prudent judgment and discretion. The reserve administration is acquiring by experience an art and technique that will produce more definite and continuous progress than prescription by the legislative body. Successful management of our federal reserve system should be sought through development of the administrative ability of its officers and governing board to meet changing conditions instead of through limitation of power by legislation.

**Administrative  
Problem**

**Legislative  
Restrictions  
Opposed**

We do not believe that the changes referred to above or other changes should be made in the provisions of the Federal Reserve Act relating to the issue of federal reserve notes or to reserve requirements, pertaining either to reserve banks or to member banks, solely for the purpose of restricting the lending powers of the reserve banks.

*The Committee recommends that:*

Recommendation

(a) *As the future need for reserve credit and currency cannot be definitely foretold, the reserve banks should possess powers of credit and currency expansion sufficient to insure the largest measure of serviceability in any periods of strain.*

Recommendation

(b) *The precise adaptation of the volume of reserve credit in all its forms, including note issues, to the requirement of trade should be regarded as a problem of administrative instead of legislative control.*

(Continued on page 16)