

Recommendation

(c) *Attention should be directed to the development of skill in management of the system of regional banks in preference to changes in the structure or credit powers of the system.*

Guides for
Credit Policy

The federal reserve system has not been provided with greater resources than on occasion may be needed, nor have the administrative bodies of the system been vested with too broad discretion as regards regulation of the volume of reserve credit and currency.

This, however, does not appear to be the view of those who advocate the adoption of precise guides for reserve credit policy. A number of such guides have been suggested.

Some urge an amendment to the Act whereby the reserve banks would be directed to employ their powers primarily for the purpose of realizing stability in commodity price levels. Others insist that the reserve ratio should be the predominant factor in the determination of reserve policy. Still others believe that principal effort should be exerted to regulate the course of speculation. There is also a school of thought which emphasizes the importance of adapting federal reserve policies to credit developments in the world at large.

Price Level
of Commodities

As to price stability, there may arise situations in which it would be generally agreed that the movement of prices might constitute the most important single factor. Considerable changes in price levels might serve to indicate whether credit is excessive or deficient in volume. But the significance of moderate changes in prices, either in an upward or downward direction, is difficult to diagnose. On some occasions they may be attributable to other than credit factors, and to the extent that this is true, harm would be occasioned by using credit manipulation as a correction. A downward drift of prices, for instance, might be due primarily to technical improvements in industry. When the cause of these fluctuations is not clear and uniform in its influence, a requirement in the Act that maintenance of the stability of prices be a primary obligation upon the administration of the system would be uneconomic and would inevitably invite reprisals both public and political.

Factors
Affecting
Prices

Even mild price movements in one direction if persisted in for a long period of time must make considerable changes in the purchasing power of the dollar. To require the system to attempt to keep the price level substantially unchanged would present an administrative problem impossible of solution. There can be no unanimity upon the precise causes of such a price trend or upon its desirability or upon the many forces other than the credit supply that may operate to alter it.

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