

Reserve  
Ratio

As to the reserve ratio—that is, the ratio of the total cash reserves to the federal reserve notes and net deposit liabilities combined—it is an extremely artificial and imperfect test when gold holdings are high. Changes in this ratio may not agree either in direction or in intensity with the country's need for more or less credit.

## Speculation

Widespread speculation in any of the markets—real estate, commodity or security—may make such demands upon the credit resources of the country as to impair their liquidity or dislocate the supply available for undertakings involving a normal business risk or unduly increase its cost. Speculation in a local or general market may arise from causes other than the immediate or prospective volume of money or credit. When widespread speculation is attributable in an important part, however, to an over-abundant supply of money or credit, it is clearly of concern to the system, since it possesses some power to influence the quantity and cost of that supply. On such occasions the system can not avoid seeking or urging such adjustments in the credit supply or in the directions of the use of credit as will assist in restoring the proper balance between the volume of credit used for speculative purposes and that used in accommodation to business and industry.

Credit in  
Security  
Markets

Special interest has been manifested in the security market uses of credit. Credit released in security operations is always tending to be distributed about the country and, on this account, a growth in the volume of brokers' loans or other forms of security credit may not operate to restrict the supply of credit for commercial or agricultural uses. The volume of security credits will also be affected by the particular methods employed by business to finance its projects. When, for instance, capital issues, instead of short-term bank borrowings are relied upon, the growth of security credits does not mean that business is being deprived of credit but only that its methods of securing this credit have changed. Since capital issues may be merely a substitute for bank credit directly obtained, it is not possible to determine with as near an approach to accuracy the amount required at any one time to service the security markets as it is to determine the total supply of credit needed for all purposes.

Effect of  
Stimulation  
of Capital  
Issues

There is, however, one respect in which any growth of security credits is peculiarly likely to lead to future credit strain. When the market for capital issues has been stimulated, business and industrial expansion is much more likely to take place at an excessively rapid rate than would be the situation if only short-term credit were available in liberal quantities. Funds obtained by capital issues may relieve business managements of any worry about the immediate sufficiency of their financial resources.

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