

vance the exact policy or formula which would produce a desirable result. In the employment of their resources the reserve officials must consider a variety of factors and credit conditions.

The Committee earlier recommended that the precise adaptation of the volume of reserve currency and credit to requirements of trade should be considered as a problem of administrative instead of legislative control.

Recommendation

It now recommends that no limiting policy such as one of the maintenance of price stability be imposed by legislation as a definite duty upon the Reserve Board and the reserve banks.

Recommendation

And further, while it does not believe that there should be prescription by Congress of precise methods to be followed, the Committee recommends that in determining the system's credit policies federal reserve authorities, with cooperation of the member banks, should endeavor to restrict the flow of bank credit into speculative channels when its volume or directions of use are such as to produce an immediate or prospective strain upon the reserve or member banks in their effort to provide credit accommodation for commerce and industry.

Forms of
Reserve
Accommodation

By the Federal Reserve Act and by regulations of the Federal Reserve Board certain types of commercial and agricultural paper which member banks accept from their customers are made eligible for rediscount with the regional reserve banks.

Notes of
Member Banks

A handier way for a member bank to get reserve accommodation is by presenting its own note, collateraled by either government securities or eligible paper, to the regional bank for discount. Such loans may be made for fifteen-day periods.

"Eligible" Paper
and "Acceptable"
Paper

The belief early arose and has long persisted that the presentation of eligible paper automatically opened the coffers of the reserve bank to its members. A distinction has come to be made between "eligible" paper and "acceptable" paper, cutting down somewhat the original conception. There has been little disposition on the part of the reserve banks, however, to deny reserve accommodation to the member which offered acceptable paper or government securities. There are instances of this attitude leading to unwise loans which contributed to member bank weakness.

Original Theory

At the time the Reserve Act was passed it was no doubt generally believed that strict insistence upon the commercial character of paper which the member banks might tender for rediscount would accomplish the two-fold purpose of, first, preventing the extension of too large a supply of reserve credit and, second, of encouraging member as well as reserve banks to keep in a liquid condition. Experience in administration has shown that the determination of the

Experience

(Continued on page 24)