that is supplied. It has previously been argued that in encouraging the desirable type of member bank operations dependence should be placed largely on the condition of the member banks. So far as concerns the general encouragement given to business to expand or contract, what counts at any particular time is the amount of deposit credit reserve banks extend to member banks. It is these deposit accounts which constitute the legal reserves of member banks. The problem of the reserve banks is thus to insure that the total supply of credit is properly adjusted to the country's requirements. So far as note issues and currency are concerned, the problem is merely to relate these properly to the supply of credit. If the outstanding supply of credit is correct, any excessive supply of currency would be promptly returned to reserve banks. On the other hand, under differing conditions, a deficient supply of circulating currency would be met by member banks requesting currency in place of their credit. If the credits thus checked against are not provided contraction is discouraged.

Currency Restrictions Not Necessary

By the use of their discount and open-market weapons the reserve banks must endeavor to provide the country with the proper supply of credit. It is not necessary, or in fact desirable, to impose special restrictions upon currency issuance. Advocates of such special restrictions appear to lose sight of the fact that credit control is the principal problem of the reserve banks and that in the regulation of their credit activities the reserve banks are provided with certain powers. These powers should not be confused by establishing any restrictions which might interfere with the free exchange of currency for credit.

Notes Against Bankers Bills

To prohibit the issuance of reserve notes against bankers bills would produce difficulties. Reserve banks in the interior districts subjected to currency demands may not be provided with an adequate quantity of discounted paper to collateral note issues. To obtain the necessary collateral they may now purchase bills in the central money markets. To prevent the use of this type of collateral as the security for reserve notes might interfere unduly with reserve banks whose territory does not include any large money market.

Counter Money

At the present time, furthermore, the outstanding currency of the country is very largely utilized for counter-money purposes. In the future some of the present elements in the currency, such as national bank notes, may be reduced in supply. To prevent the reserve banks from using bills as collateral for reserve issues might then interfere unduly with the ability of the reserve banks to provide the country with the desirable quantity of currency.

Notes Against Gold

Permitting the issuance of reserve notes against the collateral of gold is now desirable for the purpose of simplifying the enforce-

(*Continued on page* 32)