ment of reserve provisions. While the discussion of this phase involves highly technical banking arrangements, it should be evident that no inflationary effect is produced by permitting the circulation of reserve notes against the full collateral of gold.

Conclusions Summarized

The Committee has already stated that changes should not be made in the provisions of the Federal Reserve Act relating to the issuance of federal reserve notes solely for the purpose of restricting the lending powers of the reserve banks. It has observed that it is impossible to gauge in advance the exact amount of lending power the reserve banks may require at any one time; that 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. It has taken the position that reserve banks should possess powers of currency and credit expansion sufficient to insure the largest measure of serviceability in any periods of strain. It has also concluded that the precise adaptation of the volume of reserve credit in all its phases, including note issues, to the requirements of trade should be regarded as a problem of administrative instead of legislative control.

Recommendation

In the light of the foregoing *the Committee recommends that the powers of issuance of currency against gold, bankers' acceptances and eligible paper be continued.*

Reserves of Member Banks

The Federal Reserve Act specifies the reserves which member banks must maintain against deposits. These reserves must be carried with the regional reserve banks. Because they are so concentrated, it has been possible to reduce materially the reserve requirements from those which were usual before the establishment of the system.

Effects of Changes

Changes in the legal reserve requirements would affect either the total volume of credit the member banks can extend or the relative credit granting powers of the different classes of member banks. The desirability of encouraging an expansion in the aggregate volume of member bank credit by means of a general reduction in reserve requirements depends upon the need of business for more abundant supplies of credit. The reserve banks are in a position to meet any demands of the immediate future. The increase of lending powers of member banks that would result from a lowering of their reserve requirements would not coincide, save by accident, with any need of business for more credit. Once the country has become adjusted to certain reserve requirements it is undesirable to subject them to serious and sudden alteration. The extent to which such reduction would benefit the average bank may also be questioned. The increased lending power thereby acquired by any one bank would be offset to some extent, at least, by the intensified competition

(*Continued on page* 34)