other purposes they serve to bring out clearly the extent in which banks outside of New York still put out funds in New York as loans on securities. These loans in New York on call reached $1,897,000,000 on September 18, 1929, and remained over $1,700,-000,000 to October 23. They then dropped rapidly and on November 27 stood at $638,000,000.

So large a volume of "country money" on call in the New York market raises a question if the federal reserve system has brought about some of the fundamental changes which its supporters undoubtedly expected. Before the reserve system was organized there was much criticism of a situation which resulted in out-of-town banks keeping a large aggregate of reserves in New York, where these funds were predominantly lent on call. It was argued that this concentration of funds caused dangers which had been actually experienced when conditions arose which led the out-of-town banks to withdraw suddenly any considerable portion of their funds. In the reserve system many of its supporters saw means for preventing this concentration of bank funds, through the transfer of reserves to the respective reserve banks and ways for utilization of other funds nearer home. Yet, in 1929, the aggregate of funds of out-of-town banks on call in New York was larger than at any time before the reserve system came into existence.

Banking Policy

Banking is a business. It is privately owned and privately operated. In the interest of those who deal with banks, and of the public at large, banks have been subjected to public regulation for the purpose of maintaining their solvency. The federal reserve system was created to aid the banks in performing their functions, both in their own interest and in the interest of the public. For the reserve banks to attempt to discriminate among the uses of credit, to refuse to grant rediscount of eligible paper, and to take other steps of a similar kind would seem to involve interference in the management of banks which is foreign to the proper functions of central banking.

Federal Reserve Board

The regulation of banks for purposes of safety is covered by statutes dealing with the subject and compliance with these statutes is enforced by the Comptroller of the Currency in the case of national banks and by state banking commissioners for state banks. So far as the federal reserve system intervenes in the affairs of its member banks it is therefore dealing with their banking policies with which the law does not otherwise concern itself. There may well be question whether or not such intervention should occur at all, as well as further question whether or not, if it is to occur, it should occur as a matter of discretion, being unaccompanied by responsibility for results. The distinction between attention of the reserve system to banking policy—and, incidentally some of the difficulties which arise, in the nature of things—and the attention of the system to credit policy appears in the following passage in the annual report of the Federal Reserve Board for 1928:

Banking Policy

"Influence exerted by a reserve bank on the loan and investment policy of an individual member bank is ordinarily exercised only over banks that are borrowers from the reserve banks. It is in the nature of banking supervision, and is akin in many respects to the bank examination function of the reserve system. This phase of reserve bank policy may be called banking policy, as distinguished from credit policy, which deals with more general developments of banking in relation to the credit needs of the country. Banking policy ordinarily has but limited effect on credit conditions as a whole, because no class of borrowers is confined for accommodation to any single bank or group of banks, and because of the general mobility of bank credit. When one mem-

(*Continued on page* 41)