and automatically retired they are in effect gold certificates, or receipts for gold, the retirement of which may have no relation to the course of business.

*Notes Against Open-Market Purchases*

Similarly, notes issued against paper purchased by reserve banks in the open market have no connection to the actual requirements of the business of the country but may depend only upon the reserve banks' desire to increase their earnings by employing a portion of their assets which otherwise would be idle.

*Reserve Board*

The questions which may properly be raised about continuance of authority to issue currency notes against gold illustrate the problems which exist through continuation of the war-time amendments of the Federal Reserve Act into a period which may fairly be described as remote from war conditions. The amendment permitting the use of gold was made through the Act of June 21, 1917, and was recommended by the Federal Reserve Board in the annual report presented to Congress in February, 1917. In making the recommendation the Reserve Board dwelt upon the desirability of "mobilizing" the gold supply.

*Security behind Notes*

*Amendment of 1917*

The nature of this amendment should be understood, in order that the propriety of reexamination now may be realized. Before the amendment was made, a reserve bank in order to get reserve notes had to turn over to the reserve agent 100% of commercial paper from its portfolio and as it issued the notes it obtained it had to provide 40% additional in gold. Consequently, there was behind the notes in circulation 140% of direct security. The currency could be expanded, consequently, only as the commercial paper owned by the reserve banks expanded. But in war financing bank deposits would grow without relation to commercial paper. Therefore, the Reserve Act was amended not only to allow issue of notes against paper secured by government obligations but against gold. This meant that, instead of having behind them 100% of commercial paper and 40% of gold, notes could have behind them 40% of gold and 60% of paper secured by government obligations and/or commercial paper and/or gold. The result was to open the way to the war inflation, according to some critics, and according to well qualified experts to transfer anywhere from half to three-quarters of a billion in gold to the reserve banks.

*Bank Acceptances*

The open-market operations of the federal reserve system have as one of their purposes the building up in the United States of a market comparable with the markets in which central banks in Europe operate. The results raise some question about the desirability of continuation of the preferences which have been given to acceptances and some of the developments leave doubt about the propriety of the issue of currency against acceptances purchased in the open market by reserve banks. The considerations which are to be weighed may be suggested by quotations from a report made in 1922 by a committee of national bank examiners, as follows:

*Abuses*

*Foreign Trade*

"The new regulations which have been issued by the Federal Reserve Board in connection with the use of bankers' acceptances covering import and export transactions emphasize the necessity of more carefully considering the basis upon which acceptance credits are being granted by the various member banks. In spite of the comprehensive regulations issued by the Federal Reserve Board regarding this phase of banking practice, there have been numerous and flagrant violations upon the part of the large as well as the small banks. * * * Perhaps the most frequent abuse in connection with granting acceptance facilities against import and export transactions is found in the continued renewals given by some banks to their customers. * * * When the Federal Reserve Board announced its intention of showing greater leniency toward rediscounting by the federal reserve banks of renewals, in connection with transactions affected by the worldwide depression in business, many banks took advantage of this to too great and unintended an extent, and advances which were originally made by acceptance credits, but which should long since have been either liquidated

(*Continued on page* 45)