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Speaking on the subject of "Currency Elasticity" in the course on Federal Reserve Policies, before the New York University School of Commerce, Accounts and Finance, Mr. A. C. Miller, Member of the Federal Reserve Board, took occasion to emphasize the importance of the currency functions of the Federal Reserve Banks.

"There is some misconception", said Mr. Miller, "of the relative importance of the functions performed by the Federal Reserve Banks. The Federal Reserve Banks are frequently described as bankers' banks or as banks of rediscount; and such they are; but they are also, and in a more important sense, banks of issue. They are the banks which supply currency to their member banks and for the use of the public when the currency supply needs to be increased. To rest content with simply saying that the Reserve Banks are banks of rediscount overlooks what it is that leads member banks to rediscount with their Federal Reserve Banks. Taking the Federal Reserve Banks as a whole a review of their history will disclose that rediscounting takes place on a large scale only when additional circulating medium is required by member banks to meet the demands of their customers for pocket currency. There is great constancy in the "reserve deposits" item in the Federal Reserve Bank statement over fairly long periods of time, but there is much fluctuation in the "note issues" and the "earning assets" items. It will be found to be pretty invariably true that when the earning assets, that is the loans and investments, of the

Federal Reserve Banks rise it is because of increased currency issues. There is a very close parallelism observable between variations in the total volume of the earning assets of the Federal Reserve Banks and the total volume of their Federal Reserve notes in circulation. This means that while the Reserve Banks are banks of rediscount, rediscounting by member banks, looking at the matter in the aggregate, is for the purpose of obtaining currency. Essentially, therefore, the Reserve Banks are currency banks, banks to which the other banks turn when they need more cash, and more cash specifically in the form of currency of hand.

"The Reserve Banks, of course, perform several other functions for their member banks and the public, but these are either not banking functions strictly speaking, such for example as acting as custodian of securities, making collections and transfers, performing fiscal functions, and acting as a clearing house, etc., or they are functions that are also performed in one degree or another by the ordinary banks of the country, such as acting as reserve agent, depositary, etc. In addition to doing all these things the Reserve Banks also issue currency. They are the only institutions permitted under law to create fiduciary currency (that is currency not covered by gold) against other collateral than United States bonds with the circulation privilege. In their essential nature, therefore, Federal Reserve Banks are best conceived and described as banks of issue. Currency issue is their distinctive function. They were set up and invested with broad powers in the creation of fiduciary currency in order to provide a much needed elastic element in our national circulation. The reserve moneys previously carried by member banks are concentrated in the Federal Reserve Banks in order to give them an ample and secure basis for the exercise of their currency functions. In brief, the Federal Reserve Banks are reserve banks because they are currency banks. The supplying of currency is their primary function. The reserves taken over by them from their member banks constitute reserve primarily for the protection of their currency issues.

"An examination of the currency history of the United States in the last five years clearly demonstrates the manner in which the Reserve Banks supply the elastic element in the nation's currency. There has been considerable variation in the total volume of money in circulation in this period of time. That variation is closely paralleled by the volume of Federal Reserve notes in circulation. During the great expansion of 1919 and 1920 it was the expansion of Federal Reserve notes that supplied the great increase in the volume of money in circulation. The decline in the total volume of circulation in the year 1921 is fully reflected in the decline in the volume of Federal Reserve notes. A characteristic of an elastic currency is that it shall expand or contract according to the volume of currency required by the country to take care of the volume of trade at a given price level. A large upward or downward swing in the trade curve of the United States is usually pretty well mirrored in the upward or downward swing of the Federal Reserve note curve. The one exception to this statement in recent years is found in the year 1923. That was a year of expanded trade calling for an increased quantity of circulating medium. No increase, however, took place in the volume of Federal Reserve notes. This was for the reason that the continued heavy influx of gold into the United States made it expedient for the Federal Reserve Banks to supply the increased currency demands of the community by paying out gold certificates instead of by issuing Federal Reserve notes. In brief, our unprecedentedly strong gold position caused gold to be used to supply the elastic element in our national circulation in this instance. But it still continued to be true, nevertheless, that the Federal Reserve Banks were providing the increase needed in the country's total circulation.

"This shows that there are two methods by which the Federal Reserve Banks provide currency elasticity. The one method is to pay gold or lawful money out of their holdings of reserve money when these are abundant and this course seems advisable on other grounds. The other method is to create new currency by the issue of additional Federal Reserve notes against the kinds of collateral prescribed by the Federal Reserve Act."