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COOPERATION WITHIN THE FEDERAL RESERVE SYSTEM

COOPERATION A PRINCIPLE OF THE SYSTEM

The Federal Reserve System was formed for the purpose of giving unity to the American banking structure, which consists of thousands of separate banks. Before the System was established, the efforts of these separate institutions to protect themselves in times of emergency by individual action was a frequent cause of general weakness. As it is now, the member banks in each district pool their reserves and thereby make reserve funds more efficient and more readily available. The local banks are united by membership in the Reserve bank of the district.

The principle of cooperation does not end with the union of banks in a given district as members of the Federal Reserve Bank, however. The Reserve banks themselves unite with one another to make the services of the System more effective. They do this in several ways:

1. Open Market Operations. Each Federal Reserve bank has its own rates of discount and final authority to accept for discount the paper submitted to it by member banks. But, although a higher or a lower discount rate has an influence on the demand for credit, the individual Federal Reserve bank is in a more or less passive role until actually called upon to discount. It has no means of making the discount rate exercise its influence upon credit conditions except as it is asked to discount member bank paper. Moreover, such influence as any particular Reserve bank can exercise through its discount rate is largely local or regional. In order to carry out a comprehensive and nation-wide control of credit the Reserve banks must act in cooperation with one another. This fact is recognized in the establishment of an open market committee, which includes members of the Board in Washington and also representatives of the twelve banks. It constitutes the System's instrumentality for taking positive action in concert upon matters of credit. Through it the System is able not only to take comprehensive and nation-wide action, but is also able under ordinary circumstances to take the initiative instead of having to wait for a request for action. The Reserve banks, by selling securities in the open market, can force a reduction in member bank reserves; by buying securities in the open market they can expand member bank reserves. Through cooperation, accordingly, the Reserve banks and the Board can accomplish a control of credit that would be impossible if attempted alone.

2. Par Clearnace and Interdistrict Settlement. The Gold Settlement Fund, after January 1 to be called the Interdistrict Settlement Fund, was established by the deposit by each Federal Reserve Bank of a sum of gold with the Treasury in Washington. The credit created in the name of each Reserve bank

by this deposit is daily increased or decreased by debits and credits on account of items to be cleared and funds to be transferred from one district to another. This system effects interdistrict settlements in the shortest possible time. It replaces a former system of clearances and transfers that was excessively burdensome, slow, and expensive. By cooperating in the establishment of a single system for effective clearances and settlements the Federal Reserve banks have made possible an immeasurable improvement of service.

3. Statistical Information. Each of the Federal Reserve banks compiles for its own district figures which are forwarded to the Board in Washington for combination with similar figures furnished by other Federal Reserve banks. These compilations and reports include figures of the condition of reporting member banks in 101 cities, debits to individual accounts, rates of interest charged by banks, department store sales, information with respect to the establishment and discontinuance of branches, etc. From the point of view of the employee of the individual Reserve bank, the preparation and submission of these figures to the Board may be thought of merely as something that is done for the Board. As a matter of fact the work is one of cooperation on the part of the System as a whole, and the publication of the results of such work is of interest to the country in general. The Reserve banks, by acting together, compile and furnish to the public information about the banking and economic situation which is more complete than that furnished by any central bank in the world. No one reserve bank could furnish the bankers and businessmen of its district the information that can be furnished by the System as a whole.
4. Retirement System. The Retirement Fund is not one of the public services of the Reserve System, but it is of importance to the personnel of the System, and it may therefore be pointed out that without the cooperation of the Reserve banks with one another and with the Board retirement benefits could scarcely have been provided in a satisfactory manner.
5. Special Problems. It frequently happens that special problems arise which the separate banks and the Board do not try to meet individually, but in cooperation. For example, years ago there was litigation over par clearance in the Atlanta district. It involved the Federal Reserve Bank of Atlanta directly, but because of its importance the Board and the other banks participated in the study and handling of the case. Similarly, the subjects of Reserves and of Branch, Group and Chain Banking, which concerned all the Reserve banks as well as the Board, were studied by a committee representing the System as a whole.

DECENTRALIZATION A PRINCIPLE OF THE SYSTEM.

While certain services are performed by the Reserve banks in union with one another and the Board, other services are performed by the Reserve banks individually. Cooperation normally implies a division of labor. An illustration of this within the bank is the division of labor

among the employees, whereby some handle checks, some handle currency, some have custody of securities, and so on, but all cooperate in conducting all of the activities essential to the efficient functioning of the organization. This decentralization is not merely necessary, but desirable. The autonomy of the Federal Reserve banks is apparent in such activities as the extension of credit within their districts, the clearance of checks drawn and payable within their districts, and the supplying of currency and coin to member banks.

FISCAL AGENT FOR U. S. TREASURY

In their respective districts, the Reserve banks are in a position to act as depositaries for the U. S. Treasury and as agents in the handling of government securities, with convenience both to the Treasury and to the public.

EXTENSION OF FEDERAL RESERVE BANK RESPONSIBILITY

There are many powers which might advantageously be vested in the Reserve banks. This would expand the authority and responsibility of the Reserve banks and make for more prompt and efficient administration of the System. The general supervision of the System must remain vested in the Board, but the direct and ultimate action in many matters should be taken by the Reserve banks. The law bars the way to much delegation of authority, but considerable decentralization can nevertheless be accomplished. An example of the kind of thing that might be advantageously handled at the Reserve bank without being referred to the Board is approval of changes in member bank holdings of Federal Reserve bank stock. Authority to approve these changes has recently been given to the Federal Reserve agents.