

A P R O G N O S T I C A T I O N

One feature of the general question of the clearing and collection of checks is worth pointing out because it has not been referred to by writers on the subject, and that is the strengthening of the bonds uniting the Federal reserve banks and their members which this action by the Board will accomplish. Until now the only member banks having direct communication with the reserve banks were those having occasion to rediscount their paper. This represented in some districts less than ten per cent of the member banks; in none more than one-third. The great majority of member banks have regarded the Federal reserve banks as an emergency provision for which they were paying rather dear. The Board's action in designating the reserve banks to act as clearing houses for their own member banks at once establishes a new and far-reaching relationship. Not only will the Federal reserve banks put themselves in a position to render a service to their members which only the largest banks in New York, Chicago and St. Louis have been able to render heretofore, but it seems entirely probable that on a bare cost basis this service will be rendered for less than it ever was before. But in order to protect themselves against the sendings of other banks, each member bank will find it advantageous to send items to its Federal reserve bank sufficient to offset items coming against it, and if unable to meet the flow of items against it, will find it advantageous to increase its book balances in the Federal reserve bank, which may be done by remittances, but more naturally as time goes on by discounting short-time paper with the reserve bank.

By these features of the check clearing and collection plan the relations of the Federal reserve bank with its members will necessarily become more intimate, and if, as it is fair to assume, the officers of the reserve banks treat their members with the same suavity and sagacity that the officers of large reserve city banks now treat their customer banks, there can be no doubt as to the outcome. Furthermore, while this service is to be rendered to the member banks at cost, without profit, the rediscounting of paper to create excess balances will necessarily yield a profit to the Federal reserve bank and so help that bank in a normal and natural way to earn dividends for its members. It has been pointed out that the Federal reserve banks exist chiefly to extend credit to their members through the rediscounting privilege, but it is not to be supposed that this credit is to take the form solely, nor even chiefly, of note issues; the more common form will undoubtedly be, as time goes on, book credits subject to draft.

When this clearing plan shall have been put into operation we shall hear less of the Federal reserve banks acting as emergency institutions; less of their being costly instruments for insurance. Then it will be appreciated that they exist to render a valuable service to their members, every day in the week, every week in the month, every month in the year!

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