TEXT OF ARTICLE APPEARING IN THE UNITED STATES DAILY

Saturday, February 19, 1927.

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Congress has invested the Federal Reserve Board with broad supervisory powers in the administration of our Federal Reserve System. These powers the Board exercises in cooperation with the 12 Federal Reserve Banks, each of which within the territory assigned to it functions as a central reserve institution.

In passing the Act of December 23, 1913, Congress rejected, along with many other schemes of banking and currency reform, the proposal of a central bank operating branches in different sections of the country. Some coordinating agency exercising supervisory control was, however, clearly essential for the effective functioning of a system of regional reserve banks, and such an agency was provided in the Federal Reserve Board, which is composed of six members appointed by the President, selected "with due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographic divisions of the country," and two members who serve ex-officio - the Secretary of the Treasury, who acts as Chairman of the Board, and the Comptroller of the Currency.

One of the appointive members is designated by the President to serve as Governor of the Board, and one as Vice Governor. Members are appointed for terms of 10 years. The Board occupies rooms in the Treasury Building, and salaries of members are fixed by Congress; but expenses of the Board are levied upon the reserve banks in proportion to their capital and surplus.

One-third of the commercial banks of the country are members of the Federal Reserve System. National banks are required by the Act to subscribe to the capital of the reserve banks and to operate as members, and State banks and trust companies may elect voluntarily to do so, retaining their charter powers as State institutions in so far as these do not conflict with provisions of the Federal Reserve Act or with regulations of the Board. Of the member banks approximately 8,000 are national and 1,300 are State institutions, and these banks control nearly two-thirds of the banking resources of the country. There are a number of State banks, it may be noted, with insufficient capital to meet the minimum requirements of the Federal Reserve Act which are, therefore, ineligible for admission to membership in the system.

Consolidation of bank reserves and their use as a basis for loans to member banks at times of seasonal or other temporary needs is one of the principal purposes of the Federal Reserve Act. Each member bank is required to deposit its reserve in the Federal Reserve Bank of the district in which it is located, and only deposit credits with the reserve bank can be counted as legal reserve by the member bank.

On January 22 these reserve deposits of member banks amounted to nearly $2,200,000,000. Against these deposits the reserve banks are required to hold a reserve of 35 per cent in gold or lawful money. These deposits, together with the banks' capital and the surplus accumulated out of earnings, provide funds in the reserve banks available for making advances to member banks, and for purchases of acceptances and Government securities in the open market.

Under provisions of the Act member banks are enabled to provide adequately for the seasonally and periodically fluctuating credit requirements of agriculture, industry, and commerce, since in any period of unusual credit strain, they can increase their reserves and their lending power temporarily by borrowing at the reserve banks.

On January 23, to take a recent date, member banks were borrowing at the reserve banks through the operation of discounting commercial paper and their secured notes, in the amount of $365,000,000. On reference to condition statements of the reserve banks, it will be found that advances of these banks to their member banks through discounting operations are constantly increasing or decreasing in response to the varying credit needs in the several districts.

By the terms of the Federal Reserve Act the discount rate charged member banks in any district on advances through discounting operations is established by the reserve bank of the district subject to review and determination of the Federal Reserve Board. Another important function of the Board is to define the character of paper that may be accepted as eligible for rediscounting within the meaning of the Act.

The other activities of the reserve banks, including the issue of Federal Reserve notes, open-market operations, the exercise of clearing-house functions for member banks, and the rendering of services as fiscal agents of the Federal Government are subject to the general supervision of the Federal Reserve Board.

The Board appoints three of the nine directors of each Federal Reserve Bank, and designates one of these three, who must be a person of tested banking experience, to serve as chairman of the board of directors of the bank, and as Federal Reserve agent representing and reporting to the Federal Reserve Board. The remaining six directors of each bank are elected by the member banks of the district, three to represent the member banks and three chosen from persons actively engaged in the district in commerce, agriculture, or some other industrial pursuit.

The Board may authorize or in its discretion require any Federal Reserve Bank to rediscount the discounted paper of any other reserve bank, and so make available to meet a temporary deficiency of reserves in one district any surplus that may have accumulated in another district. In effect this power consolidates the reserve resources of the system.

Acting through its agents at the reserve banks the Board may "grant in whole or in part or reject entirely" applications of any Federal Reserve Bank for Federal Reserve notes. The amount of note circulation is, however, in fact determined rather by the varying demand for currency in the several districts than by any decision of the Board or of those administering the reserve banks.

On January 26, the note circulation of the reserve banks amounted nearly to $1,700,000,000. In December this circulation increased in response to the holiday demand for currency to $1,930,000,000 and fell off in the weeks following in proportion as this seasonal demand subsided. In the post-war years the note circulation rose above $3,000,000,000.

Notes are issued to the reserve banks on a collateral of gold or eligible commercial paper deposited with Federal Reserve agents, and the reserve banks are required to hold gold reserves of 40 per cent against notes in circulation. The continuous fluctuation of this circulation, as shown on the condition statements, is evidence that one of the principal purposes for which the reserve act was passed, the "furnishing of an elastic currency," has been achieved.

The Board may on occasion suspend reserve requirements specified in the Act, establishing a graduated tax upon reserve deficiencies during any period of suspension. It may, if it should find occasion for doing so, reclassify cities as reserve, central reserve, and nonreserve cities. It may permit or require a reserve bank to establish branches. It prescribes regulations under which State banks and trust companies are admitted to membership in the system, and approves applications for membership.

Among the Board's administrative functions may be mentioned administration of the gold settlement fund, through which check clearings and transfers, in so far as they involve inter-district payments and collections are effected. The reserve banks maintain balances in this fund and wire in each day to the Board amounts owed by them to other reserve banks on account of checks received for collection and transfers sold. Clearings through this fund on the average exceed $2,000,000,000 in the course of a week.

Through its division of examination the Board regularly examines the reserve banks and their branches at least once a year. It may conduct examinations of State member banks, or it may accept examinations of these banks by State authorities. Examinations of national banks are conducted under the direction of the Comptroller of the Currency, who files reports of his examinations with the reserve banks.

Each week the reserve banks report by wire their condition to the Board, which publishes weekly a statement showing the condition of each bank and a consolidated statement for the system, and the Board may require such special reports as it may deem necessary for its own information.

In exercising its supervisory powers the Board seeks the counsel of those administering the reserve banks. It invites the governors of those banks to Washington at least twice each year for formal conference on matters of Federal Reserve policy, and at least once a year it invites the Federal Reserve agents to meet in Washington for conference.

An Advisory Council, consisting of one member from each district appointed by the boards of directors of the several reserve banks under specific provision of the Federal Reserve Act, meets at least four times each year to confer and report in an advisory capacity its recommendations to the Board. Finally the Board maintains a research and statistical staff whose function it is to compile data relating to current business and credit conditions which must be taken into account in formulating credit policies.