FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6640

June 24, 1930.

Dear Sir:

There are attached hereto a copy of H. R. 10211, introduced by Congressman Steagall, providing for a change in the distribution of the earnings of the Federal reserve banks, together with favorable report thereon made by the Committee on Banking and Currency.

While the views of the Board on this bill were not requested by the Committee, the Board would like to have your comments on it in order that it may be in position to determine whether or not it should go on record as opposing the bill. A reply at your earliest convenience would be appreciated.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosures.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS.

UNION CALENDAR NO. 478

71st CONGRESS
2d Session

H. R. 10211

(Report No. 1909)

IN THE HOUSE OF REPRESENTATIVES

February 24, 1930

Mr. STEAGALL introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed

June 14, 1930

Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

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A BILL

To provide for a more equitable distribution of earnings of Federal reserve banks.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That that part of the first paragraph of section 7 of the Federal Reserve Act as amended which reads as follows: "after the aforesaid dividend claims have been fully met, the net earnings shall be paid to the United States as a franchise tax except that the whole of such net earnings, including those for the year ending December 31, 1918, shall be paid into a surplus fund until it shall amount to 100 per centum of the subscribed capital stock of such bank, and that thereafter 10 per centum of such net earnings shall be paid into the surplus," to be further amended to read as follows:

"After the aforesaid dividend claims have been fully met, the net earnings shall be paid into a surplus fund until it shall amount to 100 per centum of the subscribed capital stock of such bank, and thereafter 10 per centum of such net earnings shall be paid into the surplus. The remaining net earnings shall be divided between the United States and the stockholders as follows: The Federal Reserve Board shall determine as nearly as may be possible what proportion of such net earnings was derived from the issuance of Federal reserve notes and what proportion was derived from the rediscount, investment, and other banking activities of the Federal reserve bank. Such proportion of the remaining net earnings as are thus found to have been derived from the issuance of Federal reserve notes shall be paid over to the United States as a franchise tax, and the whole of the net earnings then remaining shall be distributed among the stockholders of such Federal reserve bank in proportion to the stock held with such Federal reserve bank by the respective stockholders since the last dividend."

71st CONGRESS) HOUSE OF REPRESENTATIVES (REPORT
2d Session) (No. 1909

EQUITABLE DISTRIBUTION OF EARNINGS OF FEDERAL RESERVE BANKS

June 14, 1930. - Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

MR. STEAGALL, from the Committee on Banking and Currency, submitted the following

REPORT

(To accompany H. R. 10211)

The Committee on Banking and Currency, to whom was referred the bill (H. R. 10211) to provide for a more equitable distribution of the earnings of Federal reserve banks, having considered the same, report favorably thereon with the recommendation that the bill do pass without amendment.

The purpose of this bill is to secure a more equitable distribution of the earnings of Federal reserve banks. Under the law as it now exists a member bank is required to subscribe to the capital stock in a Federal reserve bank in an amount equal to 6 per cent of the capital stock of the member bank and to maintain balances equal to 7 per cent of the regular deposits and to 3 per cent of time deposits of such member banks. Federal reserve banks after paying stockholding member banks a dividend of 6 per cent annually on the stock held by them, are required to carry to their surplus fund all the remaining net profits until the surplus fund equals the subscribed capital, after which 90 per cent of all remaining net profits must be paid into the Treasury of the United States as a franchise tax and the other 10 per cent applied to surplus. Member banks are allowed no other returns on their stock and balances than the 6 per cent dividend of stock held by them in Federal reserve banks.

Federal reserve banks have accumulated a surplus of $276,936,000 and have paid into the Federal Treasury as a franchise tax $147,109,573. In addition, Federal reserve banks have absorbed the initial costs incident to the inauguration of the system, including the expenditures incident to the vast building program which has been consummated. The total net profits of the Federal reserve banks up to January, 1930, are $515,215,983. From the standpoint of member banks and the communities served by them there is ample reason for the view that they are entitled to a larger share of the net profits of the Federal reserve banks than a mere cumulative 6 per cent dividend on the amount of stock held in the Federal reserve banks. Every dollar of the capital stock of Federal reserve banks is furnished by the member banks, and the great bulk of deposits held by Federal reserve banks is furnished by member banks. Treasury deposits are inconsequential in amount and temporary in character and are compensated for by the services rendered by Federal reserve banks as fiscal agents.

The profits of the Federal reserve banks are made almost entirely from transactions with their member banks. The bill provides that the Government shall receive as a franchise tax such profits as accrue through operations with the Government and that profits derived from operations with member banks shall be paid to member banks upon a basis of the stock held by them in Federal reserve banks. This is fair to the Government and fair to member banks. It is simple justice and will in some measure afford relief to member banks in small communities where unit banks are struggling to serve the public and prosper, and will undoubtedly aid in checking the number of bank failures, with their demoralizing and unfortunate results.

The bill will remove in part dissatisfaction that exists toward the Federal reserve banks on the part of member banks and will unquestionably serve as an inducement to nonmember banks to join the Federal reserve system. It will make membership in the Federal reserve system more attractive to small and average-sized banks whose existence may depend upon the continued operation of the Federal reserve system which was created for the benefit of the independent banks of the country. The banks of the country need the Federal reserve system with its mobilization of reserve and rediscount facilities. It is a reservoir of credit essential to the safety and soundness of our banking institutions. It is essential to the success and safety of individual banks and the success of the Federal reserve system rests upon its member banks. The bill is designed to promote the interests of both the Federal reserve banks and their member banks.

In conformity with section 2a of Rule XIII of the House rules, there is herewith printed section 7 of the Federal reserve act as it will read with the amendment proposed in this bill, such amendment being printed in italics and the part stricken out in brackets, as follows:

Sec. 7. After all necessary expenses of a Federal reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, the net earnings shall be paid (to the United States as a franchise tax except that the whole of such net earnings, including those for the year ending December thirty-first, nineteen hundred and eighteen, shall be paid) into a surplus fund until it shall amount to one hundred per centum of the subscribed capital stock of such bank, and that thereafter ten per centum of such net earnings shall be paid into the surplus.

The remaining net earnings shall be divided between the United States and the stockholders as follows: The Federal Reserve Board shall determine as nearly as may be possible what proportion of such net earnings was derived from the issuance of Federal reserve notes and what proportion was derived from the rediscount, investment, and other banking activities of the Federal reserve bank. Such proportion of the remaining net earnings as are thus found to have been derived from the issuance of Federal reserve notes shall be paid over to the United States as a franchise tax, and the whole of the net earnings then remaining shall be distributed among the stockholders of such Federal reserve bank in proportion to the stock held with such Federal reserve bank by the respective stockholders since the last dividend.

The net earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the

Treasury. Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the property of the United States and shall be similarly applied.

Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom shall be exempt from Federal, State, and local taxation, except taxes upon real estate.