ARGUMENTS IN THE NEGATIVE

History

Having had to consider the nature of the federal reserve system, in reaching a decision that courts do not have jurisdiction to review the policies of reserve banks directed toward the credit situation, the federal Court of Appeals for the second circuit began its opinion with a brief description covering the reserve act and legislation which preceded it. As a summary, this description is quoted here, as follows:

Independent Treasury

"The federal reserve act marked the end of a long struggle and was thought to afford the solution of many difficulties. When the independent treasury bill was passed in 1846, the effect was completely to divorce the government from all connection with the money market by making it its own banker and by keeping government funds in the vaults of independent treasury office banks. The public then had to depend on state banks for currency and credit, with a result that in times of financial stress is well known.

National Banks

"To meet the necessities of the Civil War, national banks were established. They became the official depositaries of the government and furnished an enlarged currency because of their ability to issue circulating notes against government bonds deposited with the treasurer of the United States. They were required to maintain reserves in certain cities based upon a percentage of their deposits. As the government debts of the Civil War became liquidated, the means for issuing currency lessened, though the business requirements of the country were expanding. In such a situation business prosperity inevitably promoted monetary stringency. Moreover, as the reserves were deposited in relatively few banks in the metropolitan centers, when financial stringencies arose, pressure always came on the banks, their deposits would be withdrawn, the rates for call loans would advance and a liquidation of collateral and depreciation of values would ensue.

Treasury's Procedure

"While the national banking system was a great improvement over what went before, it provided no central regulating force and furnished no adequate means for controlling interest rates or preventing or lessening financial stringencies and panics. The usual method of furnishing funds needed for business was for the Treasury to deposit moneys from its vaults in the national banks and to withdraw these deposits if they were used too much in speculation. This was a rather ineffectual way of dealing with complicated and difficult situations. It was dependent too much upon the determination of a single official and lacked the information and guidance that a scientific federal banking system would afford.

Reserve Banks

"To remedy the difficulties we have mentioned, the federal reserve act was passed. The federal reserve banks have national charters and their stockholders are member banks. Each federal reserve bank has nine directors, three chosen from the member

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