

standing American economists has concluded that the Reserve Board has almost unlimited powers over the reserve banks.

Central banks are now generally recognized as having two characteristic functions, 1) the issue of their notes for currency purposes on a basis which at once maintains the soundness of the currency and permits volume to expand and contract with the needs of business and 2) influence for the same purposes on the credit available for business. As to note issues the reserve banks do not have autonomous powers; for the law prevents them from issuing notes except with the permission of the Reserve Board, and puts into each reserve bank an agent of the Reserve Board. That the reserve banks are not now autonomous in regard to the second function mentioned above was the conclusion of the federal Court of Appeals last summer in the case of *Raichle v. Federal Reserve Bank of New York*, from which quotation has been made earlier in this pamphlet. The court held that if suit were to be brought for injunction against activities with respect to credit and its uses the suit would have to be brought against the Federal Reserve Board as well as the federal reserve bank, saying the Board "is specifically empowered to regulate open market transactions, to review and determine rates of discount, and to make reports as to conditions in the federal reserve system. In such circumstances, the bank is, as to the matters complained of here, a governmental agency under the direction of the Federal Reserve Board. If the plaintiff prevailed in his contention, the bank would be enjoined from fixing a discount rate which the board had presumptively directed. Such a situation under familiar principles renders the Federal Reserve Board an indispensable party to the suit." Of course, the decision of the Court of Appeals in the *Raichle* case may be later reviewed by the United States Supreme Court, but there is no apparent reason for expecting the Supreme Court to reach a contrary conclusion.

That the Reserve Board has substantial activities would seem to appear from its expenditures. In 1928 its expenditures for its own purposes were \$763,000—a figure which has been fairly constant over the last seven or eight years, having earlier been lower.

For illustration of the manner in which the reserve system is now operated reference might be made to the manner in which the reserve banks engage in open-market operations, the procedure they follow in buying and selling government securities, and other devices which have been set up in order to maintain the semblance of regional banks with autonomous powers. Space will permit, however, only reference to the facts set out in one of the auxiliary reports accompanying the report of the Banking and Currency Committee. These facts raise a question whether or not there is justification for continuance of some of the reserve banks. The facts to which the auxiliary report draws attention are that in 1926 the average daily holdings of rediscounted bills at one reserve bank were but 26% of its total holdings of bills and securities, at another were 25%, and at a third were 20%. This percentage may vary widely in a central banking institution for which there is complete justification and which is under active and wise management, but in the case of a considerable number of the reserve banks it tends to be low, thus suggesting that after years of experience there is not justification for these banks as they now exist. In 1928, when the average

Note Issues

Relations to Credit

Activities of Board

*Question as to
Usefulness of Some
Banks*

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