

Increase from 7%
to 10% Proposed

a country institution is not obliged to maintain as high a reserve for bank deposits as a reserve city bank. In view of the recommendations above, which would have the effect of lowering country bank reserve requirements, it would be only equitable to require country banks to keep a ten percent reserve, instead of the present seven percent, against net deposits due to other banks.

Reserves of
State Banks

A factor which has engendered other inequalities is the difference in the reserve requirements of the various state laws, a number of which do not coincide with the federal statutes. State requirements generally should be correlated with the reserve provisions of the Federal Reserve Act.

Review of Reserve
Requirements

As indicated, the changes advocated above are put forward to remove discrepancies and to make the system somewhat more attractive to member banks. Their adoption would not confuse the situation pending a review of the whole subject of reserve schedules. Such a review has been proposed from time to time by federal reserve authorities and we support the suggestion, provided the review is undertaken in the first instance within the system itself. We believe that recommendations should be made by administrative officials of the system because of the complicated nature of the subject and the many ramifications of the effects of changes.

Reserve
Authorities

Recommendation

The Committee recommends that based on the recommendations of administrative officials of the reserve system there should be a legislative revision of those provisions of the Federal Reserve Act relating to member bank reserves.

Extension of
Membership

Approximately one-third of the banks of the country belong to the federal reserve system. This membership includes all the national banks, some seventy-five hundred in number, as compulsory members, and some twelve hundred state banks as voluntary members.

It is sometimes urged that steps should be taken to bring into the membership a larger number of state banks. From the standpoints either of increasing the resources of the reserve banks or of providing greater effectiveness in the distribution of credit to all localities, no additional membership is now urgently required.

Attractiveness
of Membership

If, however, measures can be taken, which, without lowering membership standards, will make membership more attractive to present and prospective members, they should be given consideration. One such, we believe, is the distribution of reserve bank earnings in greater part to member banks.

Distribution of
Earnings of
Reserve Banks

At present each reserve bank, after payment of a six percent dividend to member banks of its district, passes the balance of its

(Continued on page 38)