

Offsetting  
Factor

almost fifty millions of dollars. Last year, after meeting dividend and surplus requirements, the net earnings of the reserve banks amounted to two and a half million dollars, and in the previous year to only two hundred fifty thousand dollars. Thus it is seen that the interest which could be paid upon reserve balances would be negligible. Last year, for instance, only one-tenth of one percent could have been so paid. In rejecting the interest payment proposal attention should be directed to the fact that under the Reserve Act the reserve percentages have been reduced by amounts calculated to be sufficient to offset the loss of interest earned on reserve balances when carried with other banks.

*The Committee recommends that:*

Recommendation

*(a) Member banks should be given a larger participation in earnings of reserve banks with proportionate reduction in earnings required to be paid to the federal government.*

Recommendation

*(b) The reserve system should maintain the policy of refusal to pay interest to member banks upon their reserve balances.*

Importance of  
Management

In this report the Committee has endeavored to stress as a factor of utmost importance the necessity for capable management throughout the system. Upon capacity for good management and its increasing efficiency as distinguished from legislative devices, must now rest the well-being of the system and its ability to realize the high purposes for which it was created in the interest of all the people.

No banking system is self-operating, no matter how perfect its structure, nor how smooth its working parts. This is especially true of central or supplementary banking systems; and peculiarly so of the federal reserve system.

## Unusual Problems

Certain unusual management problems are encountered in the reserve system. The special needs of twelve, largely autonomous, districts must be met, while at the same time the policies and activities of district organizations must be blended into a national policy conceived in the interest of long-sustained business stability. In the direction of meeting these two-fold requirements the Federal Reserve Act provides for a balanced system of administration, wherein the activities and policies of the district banks are integrated with those of the Federal Reserve Board. The function of coordinating the activities in a national way must rest with the Federal Reserve Board.

Function of  
Reserve Board

It is obvious that the Board cannot concern itself in any high degree with the minutiae of operation. The Board could not acquire such knowledge of local conditions as is required in passing upon the large number of rediscount applications which may be made by

*(Continued on page 42)*