reserve banks became fiscal agents at the beginning of 1916; they have since continued to act in this capacity. It is not necessary to refer now to the services of the reserve banks in war financing. When the extent of the government's present financial operations are considered, the extent and value of the services performed by the reserve banks without cost to the government are obvious. The annual report of the Federal Reserve Board for 1925 contains a brief description of the functions performed as fiscal agents, as follows:

Description

"The fiscal-agency operations of the federal reserve banks include the sale and delivery of government securities newly issued, the redemption of securities called for payment or matured, denominational exchanges, interchanges of coupon and registered bonds, transfers of ownership, purchases of securities in the open market for government account, maintenance of government deposit accounts with designated depositaries, and the custody of government securities. Acting as depositaries for the Treasury, the reserve banks pay government checks, warrants, and coupons, collect checks and non-cash items for the account of the Treasury, withdraw government deposits from depositary banks, transfer funds by telegraph, and render services formerly rendered through the subtreasury offices, including the replacing exchange, and redemption of United States paper currency and coin. Expenses incurred by the reserve banks directly in connection with the issue of new securities are reimbursed by the Treasury, but all other expenses incurred in the discharge of their fiscal-agency functions are absorbed in the operating costs of the reserve banks."

Cost

The circumstance that in 1928 these reimbursable expenses were $371,000 suggests that the nonreimbursable expenses properly chargeable to the costs of the fiscal-agency function were a substantial portion of the total expenses of the reserve banks for all purposes, of $26,904,000.

Boston Reserve Bank

The facts about earnings of reserve banks and their disposition appear in a recent address of the governor of the Boston Reserve Bank at a meeting of its member banks. Although there was advocacy only of a distribution of a larger part of excess earnings to member banks, the following quotations are taken from this address, because the principles involved in fact support the cutting off of payment of any part to the government:

"I have noticed a sort of a feeling of unrest on the part of some of our member banks, due to what they term the expense of membership in the system. I take it the banks of New England may have to pay more on their deposits than banks in other sections. Now, the member banks know that the reserve balances which they carry with the federal reserve bank yield them no interest. If those balances were carried with other banks they would get interest. They inquire why it is that the federal reserve bank cannot pay them interest. I will tell you.

Amount of Reserves

"It is because this bank is a reserve bank. You carry, on an average, about 5% of all your deposits as a reserve with this bank. In the old days a national bank located outside of a reserve or central reserve city had to carry 6% lawful money in its own vault, on which it got no interest. You carry about 5% with the federal reserve bank. It would take at least $3,000,000 a year for us to pay you 2% interest on your reserve deposits. Ordinarily that is more than we make. We have had an exceptionally good year this year, but our total net earnings this year will hardly exceed $2,900,000 or $3,000,000. That includes a dividend of about $600,000. * * *

Ownership of Reserve Banks

"At the same time, there is a matter of gross injustice which member banks may call in a temperate way to the attention of the Federal Reserve Board and the Congress of the United States in the hope that they can get it remedied. The government, as Senator Glass has pointed out, has not one dollar of proprietary interest in the federal

(*Continued on page* 49)