

reserve bank. The federal reserve bank belongs to its member banks. It is all right, of course, that the federal reserve banks should be under very strict governmental regulation, but in other respects they are very much like the national banks. The national banks operate under government charters and the federal reserve bank operates under a government charter; a charter signed in each case by the Comptroller of the Currency.

"The law provides that you may have 6% cumulative dividends on your stock and requires your federal reserve bank to build up its surplus and when the surplus reaches a certain point, that is, after the surplus is equal to the subscribed capital or double the paid-in capital, the government gets 90% of all the rest of the earnings of the federal reserve bank, the remaining 10% going to surplus.

*Present Distribution
of Earnings*

"Every dollar with which the federal reserve bank operates, as to capital stock, and almost every dollar as to deposits, comes from the member banks. The government deposits are small and temporary in character, and their value is far more than offset by the actual out-of-pocket expense incurred by the federal reserve bank in acting as fiscal agent for the government. Senator Glass has pointed out that the government is tremendously compensated for anything it may have done for the federal reserve banks. The earnings of the federal reserve bank properly belong to you, and I believe if you stand up for your rights you are going to get them. I know the banks in other sections of the country feel as you do, and there are other sections that seem to have more political power than New England.

"There is another matter. The Federal Reserve Act provides that in the event of liquidation of a federal reserve bank, the member banks get back their deposits, they get back what they have paid in on the capital stock, and all the rest of the assets go to the Government of the United States. Now, we have approximately \$10,800,000 paid-in capital. This bank can be dissolved only by an act of Congress or be liquidated for violation of law. It cannot be liquidated by vote of the stockholders.

Liquidation

"It may continue in business as long as Congress permits; Congress could put us out of business tomorrow. What I want to point out is this: In the event of liquidation of this bank, you would get back approximately \$10,800,000. The Government of the United States would get about \$20,000,000. That money, that surplus, belongs to you; it has been made with money furnished by you, and it has been made principally by transactions which this bank had with you.

"That fund is the result of members dealing with this bank. Now, I ask, where is the justice of the great Government of the United States saying that your share in the earnings of your own bank, every dollar of the stock of which is owned by you, shall be treated in that way, that a certain amount shall be carried to surplus regardless of whether the bank needs the surplus or not, and that everything else shall go to the government and that in the event of liquidation all the accumulated profits and surplus shall go to the government? * * *

"Let us analyze this situation today. I estimate that we may have net earnings of approximately \$3,000,000 this year. We have already paid you approximately \$300,000 in dividends for the first six months of this year. In addition, under the present law, you will get \$300,000 more in dividends. We must, as the law stands, accumulate a surplus equal to 100% of our subscribed capital, or \$21,600,000 at this time. That means that we shall carry between \$1,800,000 and \$2,000,000 to surplus. There is no occasion for carrying \$2,000,000 more to surplus. Yet, under the present law, when we pay you a semi-annual dividend of \$300,000 on December 31, we must carry at least \$1,800,000 more to surplus and pay the remainder, or about \$600,000, to the Government of the United States as a franchise tax. * * *

*Boston Bank
in 1929*

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