

"What has been the history of this government franchise tax? Up to January 1, 1929, the Government of the United States has received as franchise tax from the federal reserve banks \$142,826,000, but those payments have not been at all regular. In 1920 the banks paid the government something over \$60,000,000; in 1921 they paid the government something over \$59,000,000; in 1922 and 1923 they fell off; in 1924 the banks all told paid the government \$113,000; in 1925 they paid the government \$59,000, and last year, although the total net earnings of the federal reserve banks were over \$32,000,000, the government received a franchise tax of \$2,500,000, which was paid by the six smaller banks in the system. Except for the year 1926, when it paid \$45,000, the Federal Reserve Bank of Boston has paid no franchise tax to the government since 1923.

Franchise Taxes

"Last year the net earnings of the Federal Reserve Bank of New York were over \$11,000,000. The amount left after payment of \$2,700,000 in dividends was not enough to build up its surplus to the required amount and consequently it did not pay anything to the government. The Federal Reserve Bank of Minneapolis, smallest in the system, made net earnings of over \$600,000 and, because it had a large surplus in proportion to its capital, it paid a franchise tax of \$390,000 to the government."

New York Bank

Minneapolis Bank

There are sound business reasons for continuing the membership of the Secretary of the Treasury on the Federal Reserve Board and for keeping the office of the Comptroller of the Currency independent of the Board.

Secretary of Treasury

Comptroller of Currency

The federal reserve banks are commonly described as bankers' banks—i. e., banks which render services for banks. As has been pointed out above, however, they perform services for the federal government. It is accordingly appropriate, and in accordance with business practice, that the Treasury should have representation in the direction of the federal reserve system. It is to be remembered, too, that there is public advantage in having the fiscal operations of the government handled by the reserve banks and that, if the Secretary of the Treasury ceased to be a member of the Reserve Board, he might refuse to continue this arrangement. There is further reason in the circumstance that the notes issued by the reserve banks are obligations of the United States government. With six appointed members and only two ex-officio,—the Secretary of the Treasury and the Comptroller of the Currency,—the Board is certainly in a position to base its decisions upon consideration of the general public interest.

Treasury Representation

The Federal Reserve Board is a committee and subject to all the defects of committee action in matters requiring executive action. The difficulty on the executive side does not stop with the Board, either; for whatever advantages are found in the present reserve system it should be recognized that responsibility is diffused.

Comptroller of Currency

On the other hand, the task of examination and supervision of the great system of national banks calls for executive action, which often has to be quick and decisive, if the interests of depositors and the public are to be safeguarded to the fullest possible extent. This was emphasized by the Comptroller of the Currency who was in office in 1923 and who then appeared before a joint Congressional committee. In the course of his testimony he spoke as follows with respect to the office he held:

Executive Action

"The office of the Comptroller of the Currency is one of the most independent in the government service. It is a part of the Treasury organization, but the Comptroller reports directly to Congress, and his appointment is made by the President on the recommendation of the Secretary of the Treasury, to be confirmed by the Senate, and his term is not necessarily or usually concurrent with that of the Secretary of the Treasury. This arrangement was made with the obvious purpose of protecting the

Independence of Comptroller

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