

SHOULD THE STOCK OF THE
FEDERAL RESERVE BANKS
BE RETIRED?

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CONTENTS

	<u>Page</u>
INTRODUCTION -----	1
PRESENT LAW -----	2
LEGISLATIVE HISTORY OF PROVISIONS OF THE ORIGINAL ACT -----	10
PAST PROPOSALS FOR CHANGES IN THE LAW -----	20
THE CASE FOR RETIREMENT OF STOCK:	
Stock is unnecessary -----	32
Retirement of stock would aid the Treasury -----	35
Stock is a deterrent to membership -----	33
Retirement of stock would eliminate clerical work -----	39
Stock suggests that Reserve Banks are owned and controlled by member banks -----	40
THE CASE AGAINST RETIREMENT OF STOCK:	
The "traditional" arrangement has worked well -----	49
Stock reflects familiar business practice -----	50
Stock symbolizes merger of public and private interests -----	52
Stock stimulates interest and support by member banks -----	55
Stock enables the Reserve Banks to obtain capable directors -----	56
Stock is incentive for membership -----	59
Retirement of stock would be a move toward nationalization that would weaken System independence and confidence in the dollar -----	62
SUMMARY -----	67

SHOULD THE STOCK OF THE FEDERAL RESERVE BANKS BE RETIRED?

INTRODUCTION

All of the stock of the twelve regional Federal Reserve Banks has been owned by privately-organized banks since the Federal Reserve System was established in 1913. From time to time over the past 30 years or more, questions have been raised, chiefly by Congressman Wright Patman, whether such stock ownership is necessary or appropriate. In 1938, Mr. Patman urged that the stock should be taken over by the Government. In recent years, he has repeatedly introduced bills to retire Reserve Bank stock and to substitute "certificates of membership".

On the surface, the question may seem relatively unimportant; and there are many who believe that it makes little difference one way or the other whether member banks continue to hold Reserve Bank stock.^{1/} Undoubtedly, the Reserve Banks could operate without capital stock.

^{1/} In his book, American Monetary Policy (McGraw-Hill 1951), p. 294, Dr. E. A. Goldenweiser, once the director of the Federal Reserve Board's Division of Research and Statistics, noted that, since "Federal Reserve stock ownership is essentially a formality without corresponding powers or obligations . . . the ownership of Federal Reserve Bank stock makes little difference." Many witnesses at hearings on bills to retire Reserve Bank stock and respondents to questionnaires by Mr. Patman indicated that they had no strong feeling about this issue. For example, Professor Thomas Mayer has stated: "While, on grounds of tidiness, there is something to be said for eliminating the present arrangement, it is hardly the type of issue for which I would be willing to die at the barricades." Compendium on Monetary Policy Guidelines and Federal Reserve Structure, Subcommittee Print of Subcommittee on Domestic Finance of House Committee on Banking and Currency, 90th Cong., 2d Sess. (Dec. 1968), p. 471. [This document is hereafter cited as 1968 Compendium.]

However, there are some who feel that the issue has basically important philosophic, conceptual, or "symbolic" implications. As will be noted later, those who defend the traditional arrangement contend not only that stock ownership by member banks symbolizes a desirable "mix" of public and private interests but that retirement of such stock might portend a trend toward "nationalization" of the banking system, weaken the System's "independence", and even lead to impairment of confidence in our economy and in the value of the dollar. On the other hand, those who challenge the present arrangement argue that Reserve Bank stock is not only unnecessary but gives rise to the impression that the Reserve Banks are "owned" and dominated by commercial banks.

The purpose of this paper is to set forth, as objectively as possible, the arguments for and against retirement of Reserve Bank stock. First, however, it is important to have clearly in mind the precise nature of those provisions of present law that relate to Reserve Bank stock; discussions of this matter have too often been obscured by a failure to understand that such stock is quite different from stock in ordinary private corporations. It may also be helpful, as well as interesting, to review the legislative history of the original Federal Reserve Act insofar as it relates to ownership of Reserve Bank stock.

PRESENT LAW

Under provisions of the original Federal Reserve Act that have never been repealed, every national bank in the United States was required, within 60 days after the passage of the Act, to signify its

acceptance of the Act and, within 30 days after notice from the "organization committee", to subscribe to the capital stock of the Reserve Bank of its district.^{2/} The penalty for the failure of any national bank to become a "member bank" within one year after enactment of the Act was forfeiture of its rights, privileges, and franchises under the National Bank Act.^{3/} Thus, national banks were in effect compelled to become members of the System by subscribing to Reserve Bank stock. Technically, this compulsion applied only to national banks in existence on the date of the original Act; but the law was later construed as applying to such banks organized after that date, and in 1958 the law was amended so as specifically to require every national bank in any State to become a member of the System upon commencement of its business.^{4/}

State-chartered banks have never been required to become members of the System. However, any such bank may voluntarily become a member, with the approval of the Federal Reserve Board, by subscribing to Reserve Bank stock.^{5/}

^{2/} Federal Reserve Act, § 2, ¶ 3. The organization committee consisted of the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency.

^{3/} Federal Reserve Act, § 2, ¶ 6 (12 U.S.C. § 501a).

^{4/} Federal Reserve Act, § 2, ¶ 1, as amended by Act of July 7, 1958 (72 Stat. 350) (12 U.S.C. §§ 222, 223). It should be noted that national banks in dependencies or insular possessions or in any part of the United States outside the continental United States are not required to, but may voluntarily, become members. Federal Reserve Act, § 19(h) (12 U.S.C. § 466).

^{5/} Federal Reserve Act, § 9, ¶ 1 (12 U.S.C. § 321).

While the law reflects some discrepancies as to the amount and manner of subscriptions to Reserve Bank stock,^{6/} it is now well settled that each member bank, whether national or State, must subscribe to an amount equal to 6 per cent of its own paid-up capital stock and surplus, with half of the subscription to be paid upon membership and the remainder to be subject to call by the Federal Reserve Board.^{7/} The Board has never made such a call. Thus, every member bank holds Reserve Bank stock in an amount equal to 3 per cent of its own capital stock and surplus.

The original Act provided that no Reserve Bank could commence business without a subscribed capital of at least \$4,000,000.^{8/} If subscriptions by banks were not sufficient to provide this minimum, the organization committee was authorized to offer Reserve Bank stock

^{6/} Thus, § 2 of the Federal Reserve Act literally requires a national bank to subscribe to Reserve Bank stock in an amount equal to 6 per cent of the national bank's paid-up capital stock and surplus, with one-sixth to be paid on call of the Board of Governors, one-sixth within three months, one-sixth within six months thereafter, and the remainder on call of the Board; § 5 of the Act provides that a bank applying for Reserve Bank stock must subscribe to an amount equal to 6 per cent of its paid-up capital stock and surplus, "paying therefor its par value"; and § 9 of the Act provides that a State bank shall subscribe for the same amount of stock that it would be required to subscribe to as a national bank (§ 1) but that its subscription (literally all, instead of only half) shall be payable on call of the Board of Governors (§ 5).

^{7/} See the Board's Regulation H, § 208.5(b), and Regulation I, § 209.1.

^{8/} Federal Reserve Act, § 2, ¶ 13 (12 U.S.C. § 224). This was a requirement for commencement of business only; it was not intended to apply after a Reserve Bank was in operation. 30 Op. Atty. Gen. 517 (1916). As of the end of 1960, the paid-in capital of the smallest Reserve Bank was \$14 million, while that of the largest was \$160 million.

to the public, but not more than \$25,000 worth to any one subscriber.^{9/}
If total subscriptions by banks and the public did not produce the
minimum, the organization committee was required to allot stock to
the United States.^{10/} As it turned out, the minimum capital for each
Reserve Bank was fully subscribed to by banks. Consequently, the pro-
visions relating to subscriptions to stock by the public and the United
States, although never repealed, have long been obsolete and of no
effect.^{11/} It may be noted that, if such stock had been issued, it
would have had no voting rights; only stock held by member banks was
given voting power.^{12/}

Under the law, as it has been in effect since 1913, each
share of Reserve Bank stock is valued at \$100.^{13/} The amount required
to be held by a member bank varies as its own capital stock and surplus
vary. If it increases its capital stock or surplus, it must subscribe
to Reserve Bank stock in an amount equal to 6 per cent of the increase;
if it reduces its capital stock or surplus, it must reduce its sub-
scription to Reserve Bank stock proportionately.^{14/}

^{9/} Federal Reserve Act, § 2, §§ 3, 9 (12 U.S.C. § 283).

^{10/} Federal Reserve Act, § 2, ¶ 10 (omitted from U. S. Code).

^{11/} These provisions would have been omitted from a recodification of
the Act contained in the proposed "Financial Institutions Act of 1957".
During hearings on that proposal, Chairman Martin agreed with Repre-
sentative Patman that the provisions are obsolete. See Hearings before
House Committee on Banking and Currency on S. 1451 and H.R. 7026, 85th
Cong., 1st Sess. (July, Aug. 1957), Part 1, p. 452. [These hearings
are hereafter referred to as House Hearings on Financial Institutions
Act.]

^{12/} Federal Reserve Act, § 2, ¶ 11 (12 U.S.C. § 205).

^{13/} Federal Reserve Act, § 5 (12 U.S.C. § 287).

^{14/} Ibid.

Up to this point, ownership of Reserve Bank stock by member banks might be regarded as generally similar to ownership of stock in any private corporation. Here the similarity comes to an end. The Federal Reserve Act places four restrictions upon Reserve Bank stock that differentiate it from ordinary corporate stock.

In the first place, Reserve Bank stock held by member banks may not be transferred or hypothecated.^{15/} Thus, such stock is not a liquid asset nor a basis for obtaining credit.

Secondly, such stock is entitled only to an annual dividend of 6 per cent on the amount paid in (i.e., on 3 per cent of the member bank's own capital and surplus), although this dividend is cumulative.^{16/} In other words, a member bank has no claim to participation in the net earnings of its Reserve Bank over and above the dividend fixed by the law. It may be noted at this point that the only substantive change in the law with respect to Reserve Bank stock that has been made since 1913 dealt with the tax treatment of dividends on such stock. The original Act exempted income from the stock from all Federal, State, and local taxation. In 1942, this exemption was limited to dividends on stock issued prior to March 28, 1942.^{17/}

^{15/} Ibid.

^{16/} Federal Reserve Act, § 7, § 1 (12 U.S.C. § 209).

^{17/} The Public Debt Act of 1942 (31 U.S.C. § 742(a)) provided that dividends on stock issued on or after Mar. 28, 1942, by the United States or "any agency or instrumentality thereof" shall not have any tax exemption, as such.

In passing, reference should be made to the disposition of Reserve Bank earnings over and above the dividends paid to member banks. Under section 7 of the original Act, half of such net earnings after payment of dividends was required to be paid into a surplus fund until it amounted to 40 per cent of paid-in capital stock, and all remaining net earnings were required to be paid to the United States as a franchise tax. In 1919, the law was changed to require all net earnings, including earnings for that year, to be used for the accumulation of a surplus equal to 100 per cent of subscribed capital stock of the Reserve Bank, with a provision that, after 1919, 10 per cent of net earnings after dividends should be paid into surplus.^{18/} The result was to require 90 per cent of net earnings to be paid to the United States as a franchise tax. In 1933, the franchise tax was repealed,^{19/} with the result that section 7 itself has provided since that date for the payment of all net earnings into the Reserve Bank's surplus fund. However, in 1947, under a provision of section 16 of the Act^{20/} authorizing the Board to establish a rate of "interest" to be paid by the Reserve Banks on outstanding Federal Reserve notes not covered by gold certificate collateral, the Board required the annual transfer to the Treasury of approximately 90 per cent of the Reserve Banks' net earnings after the accumulation of a surplus equal to 100 per cent of subscribed capital.^{21/}

^{18/} Act of Mar. 3, 1919 (40 Stat. 1314).

^{19/} Banking Act of June 16, 1933 (48 Stat. 162).

^{20/} Federal Reserve Act, § 16, ¶ 4 (12 U.S.C. § 414).

^{21/} See 1947 FEDERAL RESERVE BULLETIN 518.

The formula has twice been modified by the Board and the present rate of interest results in payment to the Treasury of all Reserve Bank earnings after payment of dividends and expenses and maintenance of surplus equal to the amount of paid-in capital.^{22/}

A third respect in which Reserve Bank stock differs from ordinary stock is that, if a Reserve Bank should be dissolved or liquidated, any surplus remaining after payment of debts, dividends, and the par value of its stock, would go, not to the Reserve Bank's stockholders (as in the case of a private corporation), but to the United States.^{23/}

Finally, and perhaps most important, the voting rights attached to Reserve Bank stock are by no means as important as those that attach to ordinary corporate stock. The law gives member banks none of the usual rights to vote with respect to corporate policies. The sole right is to vote in the election of six of the nine directors of the Reserve Bank. Even this right is not as important as it may seem, since each member bank, regardless of the amount of stock owned by it, actually has only one vote for each of two of the nine directors. Under the law, member banks elect three "Class A" directors to represent the banks of the district and three "Class B" directors to represent "commerce, agriculture or some other industrial pursuit"; and the Federal Reserve Board appoints the remaining three "Class C" directors.^{24/}

^{22/} See 1966 FEDERAL RESERVE BULLETIN 43.

^{23/} Federal Reserve Act, § 7, ¶ 2 (12 U.S.C. § 290).

^{24/} Federal Reserve Act, § 4, ¶¶ 9-12 (12 U.S.C. § 302).

However, for purposes of electing Class A and Class B directors, the law requires the Board to classify member banks into three groups according to capitalization; and, as a result, each group nominates and elects only one Class A and one Class B director.^{25/}

In the light of these statutory restrictions, those who challenge the present stock ownership arrangement and those who defend it agree on one point: ownership of the stock does not give member banks a "proprietary" interest in the Reserve Banks like that usually attached to ownership of stock in a private corporation.^{26/} Both challengers and defenders appear to concur in the following description of the unique nature of Reserve Bank stock set forth by Chairman Martin of the Federal Reserve Board in one of his replies to a questionnaire submitted by Representative Patman in 1952:^{27/}

^{25/} Federal Reserve Act, § 4, ¶ 16 (12 U.S.C. § 304).

^{26/} One of the first to make this distinction was Marriner S. Eccles, then Chairman of the Board of Governors, at Congressional hearings in 1938. He stated:

"Ownership of stock by member banks does not enable the bankers to control the Federal Reserve System. It is more nearly in the nature of a compulsory capital contribution than stock ownership." Hearings before House Banking and Currency Committee on H.R. 7230, 75th Cong., 3d Sess. (March-April 1938), p. 446. [These hearings are hereafter cited as 1938 Hearings on Government Ownership of Reserve Banks.]

^{27/} Replies to Questions Submitted by Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report, 82d Cong., 2d Sess. (Feb. 1952), pp. 261, 262. [Hereafter cited as 1952 Patman Questionnaire.]

"As a consequence of the public nature of the Federal Reserve Banks, ownership of their stock does not carry with it the same attributes of control and financial interest usually attached to stock ownership in private corporations. The amount of Reserve Bank stock which a member bank must own is fixed by law in relation to the member bank's own capital and surplus. Such stock may not be transferred or hypothecated. Ownership of stock entitles the member banks to no voice in the management of the affairs of the Reserve Bank other than the right to participate in the election of six of the nine directors of the Reserve Bank. As the result of the election procedure prescribed by the Federal Reserve Act, each member bank votes for only two of the nine directors. Under the law, dividends on Federal Reserve Bank stock are limited to 6 percent per annum; and in the event of the liquidation of a Federal Reserve Bank, any remaining surplus would be paid to the United States.

"Ownership of Federal Reserve Bank stock by member banks is an obligation incident to membership in the System-- in effect, a compulsory contribution to the capital of the Reserve Banks. It was not intended to, nor does it, vest in member banks the control of the Reserve Banks or the determination of System policies. Such control would obviously be inappropriate in view of the functions exercised by the Reserve Banks."

But agreement with respect to this statement regarding the statutory attributes of Reserve Bank stock does not resolve the question whether such stock should continue to be owned by member banks.

LEGISLATIVE HISTORY OF PROVISIONS OF THE ORIGINAL ACT

While it may not provide an answer to the question at issue, a review of the legislative history of the original Federal Reserve Act insofar as it relates to Reserve Bank stock may be of interest in this connection. The views then expressed in Congress foreshadowed the principal arguments that have been advanced in recent years for and against ownership of such stock by member banks.

In the first place, it is significant that in 1913 everyone apparently assumed that the Reserve Banks should be organized like private corporations and that they should have stock. There was no suggestion that they be organized without stock. The Report of the House Banking and Currency Committee clearly indicated that, as "bankers' banks", the Reserve Banks should be organized along the same lines as private commercial banks. "Indeed", said that Report, "with one or two minor modifications of existing law they could be so organized under the present national bank act."^{28/}

The real question was not whether the Reserve Banks should have stock but whether it should be owned by the Government, by commercial banks, or by the public.

In the House, Carter Glass, then Chairman of the House Banking and Currency Committee, argued that the Reserve Banks should be "bankers' banks", with their stock owned by member banks. The House Committee supported this position. It recommended that the Reserve Banks "be assigned the function of bankers' banks" and that they "be given a definite capital, to be subscribed and paid by their constituent member banks which hold their shares" ^{29/} It described the proposed Reserve Banks as "cooperative institutions, carried on for the benefit of the community and of the banks themselves by the banks acting as stockholders therein."^{30/}

28/ Report of House Banking and Currency Committee on Original Federal Reserve Act, 63d Cong., 1st Sess. (Sept. 9, 1913), p. 32. [Hereafter cited as House Report on Original Federal Reserve Act.]

29/ Id., p. 16.

30/ Id., p. 17.

Glass's colleague, Representative Phelan, during the House debates described the proposed system in the following language: ^{31/}

"In order to lay the foundation for any adequate system of banking in this country it is necessary to provide an organization whereby the thousands of banks, National and State, can cooperate and coordinate. The bill before the House, accordingly, provides for a unification of our whole banking system.

"The banks of the country are all grouped into 12 great divisions. State banks as well as national banks, by conforming to the regulations, may become members of the organization. In each district a Federal reserve bank is organized. The capital for this bank is supplied by the contributions of banks becoming members. . . ."

In similar vein, Representative Hardy stated that member banks "hold the stock of the reserve bank and are the base of the whole system." ^{32/}

But the Glass concept of bankers' banks did not prevail without some dissent. Representative Thompson, for example, argued "that the capital stock of the [Federal Reserve] bank should be subscribed entirely by the Government." ^{33/} In the Senate, the dissent was even more pronounced.

The Senate Banking and Currency Committee split into two equal factions of six members each. One, led by the Chairman of the Committee, Senator Owen, favored bank ownership of Reserve Bank stock; the other, led by Senator Hitchcock, favored ownership by the public. In the face of this impasse, the Committee submitted separate reports

^{31/} 50 CONG. REC. 4673 (Sept. 10, 1913)..

^{32/} Id., 4867 (Sept. 13, 1913)..

^{33/} Id., 5009 (Sept. 16, 1913)..

that differed in many respects. With respect to Reserve Bank stock, the Owen Report recommended a compromise that eventually was enacted into law: that the stock should be offered first to commercial banks, but that, if the minimum capital was not fully subscribed by banks, then it might be offered to the public, and, if not then fully subscribed, that the balance would be allotted to the United States.^{34/}

The Hitchcock Report, after waiving "a strong preference . . . in favor of a single Government bank with branches",^{35/} recommended ownership of Reserve Bank stock by the public.^{36/}

In the Senate debates, the issue was sharply joined. The Hitchcock supporters argued that the Reserve Banks, in view of their public nature, should be "people's banks", with their stock owned by the public. They contended that public subscription to the stock would provide the banking system with new capital, whereas bank subscription would take capital out of the system.^{37/} They were confident that the

34/ Report of Owen Section of Senate Banking and Currency Committee on Original Federal Reserve Act (Nov. 22, 1913), p. 9.

35/ Report of Hitchcock Section of Senate Banking and Currency Committee on Original Federal Reserve Act (Nov. 22, 1913), p. 2.

36/ Id., p. 3. The Hitchcock bill would have allotted to each national bank an amount of Reserve Bank stock equal to 6 per cent of the national bank's capital stock and surplus, but with a requirement that the stock be "underwritten" by the national bank and be offered by it for subscription by the public; only stock not purchased by the public would then have been required to be purchased by the national bank.

37/ Senator Weeks asserted that, under the Hitchcock bill, "we will, in effect, have \$100,000,000 of banking capital added to the present bank capital of the country instead of diverting \$100,000,000 of the present capital of the banks into a fixed and immovable investment." 51 CONG. REC. 282 (Dec. 5, 1913).

public would "eagerly subscribe" to the tax-exempt Reserve Bank stock,^{38/}
They also argued that public ownership would "popularize the system".^{39/}
But their principal argument against bank ownership of Reserve Bank
stock was that it would result in "a bank owned and bank controlled
central bank".^{40/} Senator Borah, in support of this argument, noted
that, with the directorship of each Reserve Bank under the control of
member banks and with "the stock ownership completely under the control
of the banks", the Reserve Banks would be "absolutely within the con-
trol of the member banks."^{41/}

Referring to the fact that under the Owen bill the stock
would first be offered to banks and then to the public if necessary
to provide the minimum capital, Senator Works noted that a majority
of the stock would undoubtedly be taken by banks and that this would

^{38/} Senator Weeks stated that "we are convinced that the public will
eagerly subscribe for the stock, as it will pay 5 per cent, which is
cumulative, is not subject to taxation, and does not carry any liability
or responsibility, voting or otherwise" 51 CONG. REC. 282
(Dec. 5, 1913). Similarly, Senator Nelson said that the "public will
undoubtedly subscribe for the stock" 51 CONG. REC. 456
(Dec. 8, 1913).

^{39/} Thus, Senator Nelson said that one of the reasons that actuated
the Hitchcock section of the Committee "was to popularize the system".
51 CONG. REC. 456 (Dec. 8, 1913). And Senator Bristow argued that
ownership of the stock by the public "would interest a large number
of our people, the rank and file of our population, directly in the
success of our Government banking system." 51 CONG. REC. 529
(Dec. 9, 1913).

^{40/} Senator Borah, 51 CONG. REC. 762 (Dec. 12, 1913).

^{41/} Ibid.

thus "give the banks complete control".^{42/} He then added:^{43/}

" . . . But it can make but little difference whether they acquire a majority of the stock or not, for the bill is scrupulously careful to give the banks control in any event, for the private individuals who may acquire any part of the stock are denied the right to vote, except by voting trustees who are directors of the banks. To insure continued control by the banks it is provided that shares of stock owned by member banks shall not be transferable or hypothecable. The directors of the banks are chosen by electors selected by the banks, and other holders of stock, even if they own a majority of the stock, are not allowed to vote or participate directly in the election of the directors who are to conduct the business of the banks. . . ."

Senator Hitchcock, in an ironic vein, observed that it was "remarkable" that, after the revelations resulting from the "money trust" hearings of the Pujo Committee, there would seem to be such a willingness on the part of the Owen group "to intrust to them [member banks] the control of these reserve banks which are to be created".^{44/}

As we know, Senator Owen and his supporters prevailed. Following the Glass concept, they argued that the Reserve Banks should be bankers' banks and that, as such, they would provide a means "by which the people's banks [the commercial banks of the country] can fulfill their functions."^{45/} Comparing the Reserve Banks to then-existing clearing house associations, Senator Owen stated:^{46/}

"In devising this new system of mutual cooperative assistance, if we had 12 Federal reserve banks, we would be

^{42/} Id., 896 (Dec. 15, 1913).

^{43/} Ibid.

^{44/} Id., 908.

^{45/} Senator Owen, id., 536 (Dec. 9, 1913).

^{46/} Id., 708 (Dec. 11, 1913).

concentrating on an average of 2,000 of these banks in each one of the 12 banks, because there are 25,000 of these independent banks. In effect, what we are doing here is providing a plan of mutual cooperation between these banks. We have had the wise and efficient example of self-assistance set to us in the clearing-house associations of the city banks, where they stand back to back in times of a run or of a panic.

". . . And now we are arranging a plan by which an average of 2,000 of the banks may lock arms as members of a Federal reserve bank.

* * * * *

"We propose that these banks - whose stock is owned by thousands of citizens - shall be the stockholders in these Federal reserve banks established for the mutual protection of the member banks themselves. It is a bankers' bank indeed. It is established for that purpose."

At another point, in explaining the purpose of stock ownership by member banks, Senator Owen stated: ^{47/}

"The reason why these banks were framed so that the stock should be held by the member banks was for the primary reason stated by the Senator from Colorado, that these Federal reserve banks were intended to be bankers' banks, and not to be a Government bank dealing with individual citizens of the United States as stockholders, depositors, and borrowers from the bank. . . ."

Since the Reserve Banks were so clearly intended to be bankers' banks, it appears that Senator Owen and his colleagues assumed that the stockholding member banks would have control, or at least some control, of the operations of the Reserve Banks and that, unless this was the case, banks would be unwilling to join the System. Thus, Senator Shafroth defended the proposal for selection of a majority of directors by the member banks on the ground that the Reserve Bank "deals with their money and deals with their capital, and because any other system

^{47/} Id., 536 (Dec. 9, 1913).

would not be adhered to nor would it be acceptable in any way to the banks nor could they be forced to come into that system."^{48/} He followed with a statement that sounds fantastic in the light of later events. He said that, while the Federal Reserve Board would be paramount with respect to governmental matters, "the question of the amount of money, the paper to be discounted, is not a matter in which the Government can be interested."^{49/}

Senator Owen himself observed that, if the Hitchcock proposal were adopted, "we would be in the attitude of compelling the member banks to put all their reserves in a bank in which they had no stock, in which they were not expected to be stockholders, and in which of necessity they would have no right to ask any control or representation."^{50/}

Hitchcock supporters attacked the Owen proposal for stock ownership by member banks on the ground that it was included solely for the purpose of obtaining support from banks and indeed at the dictation of banks. For example, Senator Borah remarked that it had been stated on the floor of the Senate that "it was one of the demands of the banks that they should have control of the directorship";^{51/}

^{48/} Id., 538. At another point in the debates, Senator Shafroth said: "It is absurd to say that banks will put their deposits and their capital into a Federal reserve bank and then not control it." Id., 535.

^{49/} Id., 538.

^{50/} Id., 537.

^{51/} Id., 762 (Dec. 12, 1913).

and Senator Clapp made the following statement:^{52/}

"But, Mr. President, to-day with more emphasis than heretofore we have been told that in order that the banks may submit to the organization of these reserve associations it is necessary to allow the banks to control them, and that unless we allow the banks to control these reserve associations, miscalled banks, because they are not banks, the banks of the country will not go into this plan, and consequently the plan will fail. In other words, we find here a monopoly so powerful that, in order to deal with it at all, we must allow it to dictate the terms."

On the other hand, Senator Weeks stated that there had been no evidence that the stock-ownership provision was included in the Owen bill in order to "placate the banks".^{53/}

Arguing that the Reserve Banks would be privately owned, Senator Cummins challenged the legal authority of Congress to require the reserves of national banks to be "put at the hazard of the business of another private corporation."^{54/} Senator Shafroth countered that, despite private ownership of their stock, the Reserve Banks would be "public" corporations;^{55/} and Senator Pomerene pointed out that the members of the Federal Reserve Board would be Government appointees with supervisory power and that they could "control the situation if there is any dereliction of duty on the part of the board of directors or officers of the regional banks."^{56/} Noting that the Federal Reserve

^{52/} Id., 907 (Dec. 15, 1913).

^{53/} Id., 910.

^{54/} Id., 825 (Dec. 13, 1913).

^{55/} Ibid.

^{56/} Id., 839.

Board would have power to remove Reserve Bank directors without cause,
Senator Pomerene asked: ^{57/}

"Is it possible that anything radically wrong can be done by this board against the public interests when the Government has at least three representatives on the board who can keep, and will keep, the Federal reserve board fully advised as to what is going on, and when it has at the same time the power to remove arbitrarily upon its own motion, when the circumstances are such, in its opinion, to justify it, every member of that board?"

Supporting Senator Pomerene's statement, Senator Reed called attention to the fact that the Federal Reserve Board would have power to "exercise general supervision over the Federal reserve banks" and that this would give the Board "the right at any minute to interfere with the bank and direct the course of its business."^{58/}

In concluding this review of the legislative history of the stock provisions of the original Act, it is worth noting that the bill that passed the Senate and that was finally enacted into law omitted a feature of the House bill that would have made it more difficult in subsequent years to say that Reserve Bank stock does not give member banks a "proprietary interest" in the Reserve Banks.

With respect to division of the earnings of the Reserve Banks, the House bill provided that, after payment of expenses, member banks should receive an annual dividend of 5 per cent on their paid-in capital stock; that, after payment of such dividends, one-half of net earnings should be paid into a surplus fund until it amounted to

^{57/} Ibid.

^{58/} Ibid.

20 per cent of the Reserve Bank's paid-in capital stock; and that, of the remaining net earnings, 60 per cent should be paid to the United States and 40 per cent to the member banks in proportion to their average balances with the Reserve Bank for the preceding year.^{59/}

This provision was changed in the Senate-passed Owen bill to provide for annual dividends of 6 per cent and, after transfer of a certain amount to surplus, for payment of all remaining net earnings to the United States as a franchise tax. Thus, member banks were entitled to receive no more than the dividends fixed by law, regardless of the earnings of the Reserve Bank. If the House provision had been enacted, member banks would have had an important interest in the profits of the Reserve Banks similar to the interest possessed by holders of stock in ordinary private corporations.

PAST PROPOSALS FOR CHANGES IN THE LAW

In March and April 1938, the House Banking and Currency Committee, then under the chairmanship of Henry B. Steagall, held hearings on a bill, H.R. 7230, introduced by Representative Wright Patman, to provide for Government ownership of the Federal Reserve Banks.^{60/} The Secretary of the Treasury would have been directed to acquire and hold all of the stock of the Reserve Banks on behalf of the United States; and the bill expressly provided that the assets,

^{59/} See House Report on Original Federal Reserve Act, pp. 111, 112.

^{60/} 1938 Hearings on Government Ownership of Reserve Banks.

property, and records of the Reserve Banks should become the property of the United States. The bill also would have reconstituted the Federal Reserve Board to consist of 15 members - 12 to be appointed by the President, one from each Federal Reserve district, plus the Secretary of the Treasury, the Comptroller of the Currency, and the Chairman of the FDIC. In addition, it would have provided for transfer to the Board of the functions of the Federal Open Market Committee; abolition of the Federal Advisory Council; appointment by the President of the United States of all Reserve Bank directors; and the placing of all positions in the Reserve Banks, except directors and officers, in the classified civil service.

Mr. Patman's chief argument for Government ownership of Reserve Bank stock was that the Reserve Banks perform governmental functions and accordingly should be operated and controlled by the Government and not by member banks.^{61/} Apparently feeling that stock-holding banks in fact influenced the operations of the Reserve Banks,^{62/} he stated:

"The Government should have an agency completely and entirely its own, not influenced or directed by any authority except that of the Government for the purpose of regulating the value of money."

Patman's foremost supporting witness was former Senator Robert L. Owen, one of the "framers" of the original Federal Reserve Act. Although in 1913 he had led the fight for a bill providing for

^{61/} Id., p. 17.

^{62/} Id., p. 49.

stock ownership by banks and for the election of a majority of Reserve Bank directors by the member banks, Senator Owen in 1938 strongly endorsed stock ownership by the Government and appointment of all directors by the Government.^{63/} He now saw the Patman bill as a means

" . . . of preventing private interests, by cajolery, by intrigue, by cleverness in social relationships, and in the scientific use of economic jargon, to control the policy of an institution that ought to be exclusively employed in the welfare of all of the people of the United States, and not permitted to be used to promote the interests of those who speculate in money."^{64/}

However, the Patman bill was opposed by other witnesses, including Professor Walter E. Spahr (representing the Economists' National Committee on Monetary Policy), Professor Clyde Fisher of Wesleyan University, Professor Ray B. Leffler of Dartmouth College, and Chairman Marriner S. Eccles and Vice Chairman Ronald Ransom of the Federal Reserve Board. On behalf of the Board, Chairman Eccles asserted that ownership of Reserve Bank stock by member banks "does not enable the bankers to control the Federal Reserve System"^{65/} and that the evils at which the bill was directed simply did not exist.^{66/}

In 1949, the Subcommittee on Monetary, Credit, and Fiscal Policies of the Joint Committee on the Economic Report, under the chairmanship of Senator Paul H. Douglas, sent a questionnaire to the

^{63/} During the 1938 hearings, Senator Owen claimed that in 1913 he had "favored giving the Government a majority on the board of directors." 1938 Hearings on Government Ownership of Reserve Banks, p. 104.

^{64/} Id., p. 73.

^{65/} Id., p. 446.

^{66/} Id., p. 448.

Treasury, the Federal Reserve Board, the Presidents of the Reserve Banks, the Comptroller of the Currency, the FDIC, and others. One of the questions addressed to the Treasury, the Board, and the Presidents was whether any changes should be made in "the ownership of the Federal Reserve banks". The Secretary of the Treasury replied that he did not believe there was "any urgent need to deal" with this matter.^{67/} Reserve Board Chairman Thomas E. McCabe stated that the stock-ownership provisions had "worked reasonably satisfactorily" and that he would not recommend that they be changed.^{68/} Similarly, the Reserve Bank Presidents suggested no change in these provisions.^{69/}

In October 1951, the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report, under the chairmanship of Representative Wright Patman, addressed another questionnaire to the Treasury Department, the Federal Reserve Board, the Reserve Bank Presidents, and others. The replies, published in 1952 as a Joint Committee print, entitled "Monetary Policy and the Management of the Public Debt", have since been generally referred to as the 1952 Patman Questionnaire.

One of the questions directed to the Board and the Reserve Bank Presidents related to "the implications, advantages and disadvantages of the private ownership of the stock of the Federal Reserve Banks."

67/ Monetary, Credit, and Fiscal Policies: Collection of Statements Submitted to Subcommittee on Monetary, Credit, and Fiscal Policies of the Joint Committee on the Economic Report (Nov. 1949), p. 16.

68/ Id., p. 86.

69/ Id., p. 192.

On behalf of the Board, Chairman Martin stated that, in view of "the positive advantages in System operation of the present plan of stock ownership and in the absence of serious disadvantages, it is believed that a change in this arrangement would not result in any substantial improvement in System organization or functions."^{70/} The joint reply of the Reserve Bank Presidents reviewed the positive advantages of stock ownership by member banks and maintained that the only disadvantage was the occasional misconception that the policies of the System may be subject to private domination; they suggested that the method of dealing with this problem would be the conduct of "a continuing program of public information as to the role and functioning of the Federal Reserve System."^{71/}

Following hearings on the replies to this questionnaire, Mr. Patman's Subcommittee on General Credit Control and Debt Management in June 1952 filed a report in which, with respect to Reserve Bank stock ownership, the following conclusions were stated:^{72/}

"The private ownership of the stock of the Federal Reserve banks, then, is one of those anachronisms which, although it has lost its original significance, lives on because it continues to be practically useful. One of its functions is to serve as a memo from Congress to itself that it has chosen to leave to the System a great deal of autonomy in its day-by-day and year-by-year operations. This is so because, as long as the private ownership continues, the System will not be amenable to the ordinary techniques of detailed Congressional control.

^{70/} 1952 Patman Questionnaire 262.

^{71/} Id., 647.

^{72/} Joint Committee Print, Report of the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report, 82d Cong., 2d Sess. (1952), pp. 60, 61. [Hereafter cited as 1952 Patman Subcommittee Report.]

"The private ownership of the stock of the Federal Reserve banks also serves as a practical and well-understood link between the System and the private business community, and has been of great help in obtaining the services of able men as directors of the Federal Reserve banks. In theory, an equally effective link might be established by other means - as by the election of local advisory committees - but a newly-established link would not enjoy the sanction of tradition and it would be difficult to devise one which would conform so well to the mores of the business and financial communities. As Mr. A. L. M. Wiggins said so ably on this point (Hearings, pp. 220-221):

The question has been raised as to whether or not the stock of the Federal Reserve banks should be owned by the Government instead of by the member banks. In my opinion it should not be owned by the Government.

The Federal Reserve banks represent a combination of Government and private business under which the control is vested in the Government. But it is through the ownership of the stock by the banks that the Reserve System mobilizes the services of able individuals as directors. These men represent private enterprise and represent the public, and while the control is vested in the Board of Governors almost entirely, at the same time these directors bring the viewpoint of business, industry, and agriculture and banking to the officers of their banks. I think that it is highly important for the Reserve banks to maintain close touch with conditions prevailing in their respective districts, and this is the only official relationship of the Federal Reserve System with business, agriculture, and industry.

The members elect, it is true, part of the board, the Board of Governors appoint part of the board, and if the Government owned the stock there would be no particular basis on which member banks would select men to serve on the boards of these respective banks. In fact, I think the relationship should be encouraged rather than discouraged, and I have been able to find no sound reason for the Government to acquire the stock in the Federal Reserve banks unless the ultimate objective is to destroy the independence of the System and make it merely a Government bureau.

The Subcommittee accordingly sees no reason why this memo and link should be disturbed as long as it continues to serve a useful purpose."

In 1956, the Senate Banking and Currency Committee asked the Federal bank supervisory agencies to submit recommendations for a complete "noncontroversial" codification of Federal banking laws. The Federal Reserve Board suggested, among other things, that the provision for payment of a franchise tax by the Federal Reserve Banks, that had been repealed in 1933, be restored to the law, and that dividends on Reserve Bank stock should be subject to Federal taxation regardless of the date of issue of such stock.^{73/} However, neither the Board nor any other agency made any suggestion with respect to changes in the ownership of Reserve Bank stock. On the basis of replies to the Committee's questionnaire, Senator Robertson, Chairman of the Committee, introduced a bill^{74/} that, if enacted, would have been known as the "Financial Institutions Act". The bill passed the Senate in March 1957, but died in the House Banking and Currency Committee. Nevertheless, during hearings on this bill before the House Committee, there was considerable discussion of Reserve Bank stock. Mr. Patman contended that such stock should be retired since it served no purpose,^{75/} whereas Chairman Martin maintained that the ownership of such stock by member banks had certain advantages.^{76/}

^{73/} Committee Print of Senate Banking and Currency Committee, "Legislative Recommendations of the Federal Supervisory Agencies", 84th Cong., 2d Sess. (Oct. 12, 1956), pp. 77, 80.

^{74/} S. 1451, 85th Cong., 1st Sess.

^{75/} House Hearings on Financial Institutions Act, Part 1, p. 76.

^{76/} Id., p. 392.

In November 1957 and April 1958, the House Select Committee on Small Business, under the chairmanship of Representative Patman, held hearings on a proposal to use some of the surplus of the Reserve Banks to finance a small business capital bank system.^{77/} Mr. Patman again pressed his arguments for retiring Reserve Bank stock. Members of the Federal Reserve Board and several Reserve Bank Presidents testified at these hearings. While generally agreeing with Mr. Patman that Reserve Bank stock was not financially necessary and did not give member banks any "proprietary" interest in the Reserve Banks, they nevertheless contended that such stock has advantages and that retirement of the stock could have adverse effects.

In February 1960, during hearings held by the Joint Economic Committee,^{78/} Mr. Patman again questioned Chairman Martin as to the need for Reserve Bank stock. Again agreeing that such stock may not be needed and does not represent a proprietary interest in the Reserve Banks, Chairman Martin nevertheless defended the existing arrangement.

Later in 1960, Representative Patman introduced a bill^{79/} to provide for the retirement of Reserve Bank stock and to substitute a "certificate of membership" to be accompanied by a "membership fee" of

77/ Hearings before House Select Committee on Small Business on "Problems of Small-Business Financing", 85th Cong., 1st Sess. [Hereafter cited as 1957-58 Hearings by Committee on Small Business.]

78/ Hearings before Joint Economic Committee on Economic Report of the President, 86th Cong., 2d Sess. (Feb. 1960). [Hereafter cited as 1960 J.E.C. Hearings.]

79/ H.R. 8516, 86th Cong., 1st Sess.

\$10. Another bill,^{80/} introduced by Representative Multer, likewise would have eliminated Reserve Bank stock but would have substituted a requirement that each member bank should maintain a deposit with its Reserve Bank equal to 3 per cent of its paid-up capital stock and surplus on which interest should be paid by the Reserve Bank at a rate equal to the lowest current discount rate charged by the Reserve Bank plus one-half of 1 per cent. Hearings were held on these bills by a subcommittee of the House Banking and Currency Committee in June 1960.^{81/} Witnesses included Chairman Martin of the Federal Reserve Board and three Reserve Bank Presidents. Once again the Federal Reserve representatives contended that the maintenance of Reserve Bank stock was desirable and that elimination of such stock could have undesirable results, including possible impairment of confidence in the economy.

In 1961, the Commission on Money and Credit, established by the Board of Trustees of the Committee for Economic Development, submitted a report (usually referred to as the CMC Report) in which, among other things, it was recommended "that the present form of capital stock of the Federal Reserve Banks should be retired" and that "membership in the System should be evidenced by a nonearning certificate of, say, \$500, the same for each member bank." The Report argued that member banks are alone among nationally regulated industries in

^{80/} H.R. 8627, 86th Cong., 1st Sess.

^{81/} Hearings before Subcommittee No. 3 of House Banking and Currency Committee on "Retirement of Federal Reserve Bank Stock", 86th Cong., 1st Sess. (June 1960). [Hereafter cited as 1960 Hearings on Reserve Bank Stock.]

technically "owning" the institutions that regulate them and that it would be better "to end any vulnerable appearances forthwith."^{82/}

In 1964, Representative Patman held extensive hearings for the asserted purpose of making "a general checkup" on the Federal Reserve System, which had recently reached its fiftieth birthday.^{83/}

The hearings dealt specifically with six bills relating to the structure of the Federal Reserve System and certain other matters. One of the bills^{84/} would have increased the number of members of the Federal Reserve Board from 7 to 12, to include the Secretary of the Treasury as Chairman; would have abolished the Federal Open Market Committee and vested regulation of open market operations in the Board; would have substituted for the Federal Advisory Council a new "Federal Advisory Committee" consisting of the Comptroller of the Currency, the Chairman of the FDIC, and not more than 50 other members to be appointed by the President; and would have made the Board and the Reserve Banks subject to audit by the Comptroller General. Another bill^{85/} would have required all earnings of the Reserve Banks to be covered into the Treasury and would have made the payment of expenses of the Board dependent upon Congressional appropriations. A third

82/ 1961 CMC Report, pp. 91, 92.

83/ Hearings before Subcommittee on Domestic Finance of the House Banking and Currency Committee on "The Federal Reserve System After Fifty Years", 88th Cong., 2d Sess. [Hereafter cited as Hearings on Federal Reserve After Fifty Years.]

84/ H.R. 9631, 88th Cong., 2d Sess.

85/ H.R. 9685, 88th Cong., 2d Sess.

bill ^{86/} would have eliminated the statutory prohibition against the payment of interest on demand deposits by member banks and nonmember insured banks. For present purposes, the relevant bill considered during these hearings was one ^{87/} providing for the retirement of Reserve Bank stock and the substitution of a certificate of membership accompanied by a membership fee of \$10. The bill was identical with that introduced by Mr. Patman in 1960.

The hearings began on January 21, 1964, and, with interruptions, continued through April 29, 1964. The members of the Federal Reserve Board and all Reserve Bank Presidents were among the witnesses. Other witnesses were Secretary of the Treasury Douglas Dillon and a number of prominent economists and bankers. The result was a three-volume transcript of the hearings, totaling some 2,200 pages, designated as "The Federal Reserve System After Fifty Years".

With respect to the proposal for retirement of Reserve Bank stock, Board members and Reserve Bank Presidents reiterated the position that any advantages of such retirement would be outweighed by the disadvantages. The Secretary of the Treasury, the American Bankers Association, and the Independent Bankers Association likewise opposed any change in the existing arrangement with respect to stock ownership. On the other hand, the proposal was strongly favored by many economists, including Professor O. H. Brownlee of the University of Minnesota, Professor Dudley Johnson of the University of Washington, Professor Harry G. Johnson of the University of Chicago, Professor John Gurley

^{86/} H.R. 9687, 88th Cong., 2d Sess.

^{87/} H.R. 3783, 88th Cong., 1st Sess.

of Stanford University, Professor Eli Shapiro of Harvard University, and Professor Ross H. Robertson of Indiana University.

In July 1968, Representative Patman, as Chairman of the Subcommittee on Domestic Finance, addressed a questionnaire to the members of the Federal Reserve Board, the Reserve Bank Presidents, the Secretary of the Treasury, the members of the Council of Economic Advisers, and some 125 economists and bankers. The replies were published in December 1968 in a Subcommittee print entitled "Compendium on Monetary Policy Guidelines and Federal Reserve Structure". In general, the questionnaire was directed toward the provisions of a bill ^{88/} introduced by Mr. Patman that provided for retirement of Reserve Bank stock and, in addition, for a reduction in the number of Board members from 7 to 5, for the service by the Chairman of the Board of a term coterminous with that of the President, for annual audits of the Board and the Reserve Banks by the Comptroller General, and for the operation of the Federal Reserve System with funds appropriated by Congress. The replies from representatives of the Federal Reserve System once again expressed the view that the retirement of Reserve Bank stock would have more disadvantages than advantages. They were joined in this view by Secretary of the Treasury Fowler and a few economists, including Dr. Paul W. McCracken. However, a great majority of those responding to the questionnaire (including the Council of Economic Advisers) favored retirement of Reserve Bank stock with varying degrees of enthusiasm.

88/ H.R. 11, 90th Cong., 1st Sess.

Such, in brief, is the history of past proposals with respect to changes in the law regarding ownership of Reserve Bank stock by member banks. At the present time, there is pending in the 91st Congress a bill,^{89/} introduced by Representative Patman, that is identical with the bills introduced by him in 1960 and 1962.

THE CASE FOR RETIREMENT OF STOCK

Stock is unnecessary

The initial or threshold argument for retirement of Reserve Bank stock is that such stock is not needed for any financial or operational reasons. Whatever may have been the presumed need when the Reserve Banks were first organized, the capital stock today, so the argument goes, is not actually used and is not considered as a means of insuring the solvency of the Reserve Banks.

In 1952, the Report of the Patman Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report concluded that the stock-ownership arrangement should not be disturbed,^{90/} but at the same time it contained the following statement of the argument that Reserve Bank stock serves no financial need:^{91/}

" . . . It is clear . . . that the capital provided by the private shareholders of the Reserve banks is not a substantial factor either in assisting in their operations or in insuring their solvency. If the Federal Reserve banks

^{89/} H.R. 11, 91st Cong., 1st Sess.

^{90/} 1952 Patman Subcommittee Report, p. 61.

^{91/} Id., p. 59.

depended upon their capital for their solvency, we would be confronted with the paradox that the institutions upon which the solvency of the entire financial structure of the country rests would be themselves the most narrowly and precariously financed institutions in the whole structure. In fact, this is not the case and we are confronted with no such paradox. The solvency of the Federal Reserve banks depends, not upon their capital structure, but upon their legal status, upon the lucrative (and exclusive) functions which have been entrusted to them, and, above all, upon the fact that they may issue money which is a liability of the United States."

On numerous occasions, Federal Reserve officials have agreed with Mr. Patman that the stock of the Reserve Banks is not essential to their financial operations.

In November 1957, when Mr. Patman asked Chairman Martin if it was not a fact "that you do not use this stock for any purpose in your operations", Chairman Martin replied: "That is correct; we do not."^{92/} Later Chairman Martin said that, while the stock "was part of the organization capital of the Federal Reserve banks", he thought "we could get along without it today."^{93/} Governor Szymczak of the Federal Reserve agreed with Patman's statement that "the central bank having the power to create money doesn't need any surplus funds and doesn't need any capital stock."^{94/} Governor Robertson similarly agreed that the Federal Reserve System could operate "without the member banks having stock in Federal Reserve banks."^{95/}

^{92/} 1957-58 Hearings by Committee on Small Business, Part I, p. 338.

^{93/} House Hearings on Financial Institutions Act, Part I, p. 396.

^{94/} 1957-58 Hearings by Committee on Small Business, Part II, p. 421.

^{95/} Id., p. 467.

In 1960, Representative Multer asked Chairman Martin whether Reserve Bank stock was needed for liquidity, for solvency, or for any purpose at all, "other than the psychological reaction." Mr. Martin answered: "At the moment I don't think we do."^{96/} President Mangels of the San Francisco Reserve Bank agreed that Reserve Bank stock was "not needed in the Federal Reserve System for any financial purpose."^{97/} When Representative Reuss stated that Reserve Bank stock was not "really related to any current need of the Federal Reserve System for this money" and that the System could repay the stock and "not feel it at all", President Carl Allen of the Chicago Reserve Bank commented: "That offers no problem."^{98/} President Hayes of the New York Reserve Bank conceded that, in theory, "it is probably true that the Federal Reserve banks could operate without capital stock."^{99/}

In recent years, Federal Reserve representatives and others, while opposing the retirement of Reserve Bank stock, have frequently conceded that such stock is not essential. Thus, in 1964, Chairman Martin agreed again that the stock is not "necessary";^{100/} Governor Robertson stated that "the System certainly has no need for the funds represented by that stock";^{101/} President Deming of the Minneapolis

^{96/} 1960 Hearings on Reserve Bank Stock, p. 236.

^{97/} Id., p. 210.

^{98/} Id., p. 26.

^{99/} Id., p. 74.

^{100/} Hearings on Federal Reserve After Fifty Years, p. 94.

^{101/} Id., p. 104.

Reserve Bank recognized that the Reserve Banks "do not need capital stock to operate";^{102/} and President Scanlon of the Chicago Reserve Bank said that the Reserve Banks "can operate without such stock".^{103/} Former Secretary of the Treasury Henry H. Fowler agreed that "Federal Reserve banks do not require capital stock as a financial underpinning for their operations."^{104/}

On a few occasions, some Federal Reserve representatives have suggested that Reserve Bank stock might be needed in some circumstances. Thus, in 1957, President Hayes of the New York Reserve Bank, referring to such stock, stated that "we should have some cushion somewhere to take up unforeseen expenses."^{105/} In 1964, Chairman Martin stated that he had not conceded "that we would under no circumstances need" Reserve Bank stock.^{106/} Nevertheless, it seems clear that on balance the Federal Reserve has admitted the validity of Mr. Patman's position that the stock is not essential for any financial purpose.

Retirement of stock would aid the Treasury

Since capital stock is not needed by the Reserve Banks, Mr. Patman and others have argued that it should be retired and that the par value of the amounts paid in for such stock should be repaid

^{102/} Id., p. 692.

^{103/} Id., p. 753.

^{104/} 1968 Compendium, p. 65.

^{105/} 1957-58 Hearings by Committee on Small Business, Part I, p. 33.

^{106/} Hearings on Federal Reserve After Fifty Years, p. 72.

to member banks. As a result, they have pointed out that the amounts paid each year as dividends on such stock would be saved for the Government and that the Treasury would indirectly benefit.

During the 1933 hearings on his bill to transfer ownership of Reserve Bank stock to the Government, Mr. Patman stated: 107/

"The Government should not pay the banks 6 percent on \$132,000,000. It is not needed and the amount, 6 percent, is excessive. One good reason why the Government should own these 12 Federal Reserve banks is for the purpose of receiving the earnings of the system which should belong exclusively to the Government without any claim on the part of the member banks."

In 1957, Mr. Patman again advanced the argument that, if the stock is not needed, there is no reason why it should not be retired and thus "save" the Government the amount paid in dividends.

In a colloquy with Chairman Martin of the Federal Reserve, Mr. Patman stated: 108/

"Mr. Martin, in view of the fact that this so-called stock, which is not stock, which the member banks claim to own, but do not own, but for which they make an involuntary investment of 6 percent of their capital and surplus but really pay in only 3 percent, since these funds from the member banks are not used for any purpose on earth, don't you think that they should be paid back to the banks in order to save the \$20 million a year interest payments on these funds? Why keep them? They are not used. They are not needed. And the amount is so insignificant in comparison to the business done by the Federal Reserve banks, it would be ridiculous to think that you would ever have to depend on that little money. Don't you think you should repay that and save that 6 percent interest charge which amounts to \$20 million a year?"

107/ 1933 Hearings on Government Ownership of Reserve Banks, p. 49.

108/ House Hearings on Financial Institutions Act, Part 1, p. 76.

Similarly, in 1960, Mr. Patman said: ^{109/}

" . . . We are out about \$24 million a year paying them [member banks] interest or dividends on it [the stock] for no purpose on earth."

Chairman Martin and other Federal Reserve representatives, admitting that retirement of Reserve Bank stock would increase the Treasury's receipts to some extent, have argued that this benefit would not outweigh the disadvantages of retiring such stock. They have pointed out also that the Treasury would not benefit by the full amount of dividends paid on Reserve Bank stock, since at the same time the Treasury would lose the income presently received from taxes on dividends paid on such stock and since, also, the Reserve Banks would have less earnings from their holdings of Government securities. Thus, ^{110/} Chairman Martin has stated:

"Another reason is sometimes advanced for elimination of Reserve bank stock: The termination of dividends on that stock, it is said, would expand the Treasury's annual receipts by some \$24 million. Calculation of the actual net increase in Treasury receipts would be very difficult because there are factors such as income taxation on the dividends and diminished income from Federal Reserve bank holdings of Government securities that need to be taken into account. The net cost, after these factors are allowed for, would be considerably less than the figure of Reserve bank expense."

In 1964, President Hickman of the Cleveland Reserve Bank calculated that, while the Reserve Banks in 1963 had paid dividends to member banks amounting to about \$29,000,000, the actual net gain to the Treasury, if such dividends had not had to be paid, would have been only \$3,400,000. Consequently, he felt that the small amount involved

^{109/} 1960 J.E.C. Hearings, p. 207.

^{110/} 1960 Hearings on Reserve Bank Stock, p. 222.

would not justify the disadvantages that would result from retirement of the stock.^{111/}

As member banks have increased in size over the last 25 years, they have had to increase their holdings of Reserve Bank stock, and consequently annual dividends on such stock have also increased. In 1968, such dividends amounted to nearly \$37,000,000. However, the proportion of outstanding stock on which dividends are exempt from Federal taxation (i.e., stock issued before March 28, 1942) has steadily decreased. In this respect, therefore, the net gain to the Treasury as a result of retirement of Reserve Bank stock would be even less today than it was in 1960 or 1964.

Stock is a deterrent to membership

Ownership of Reserve Bank stock means that each member bank has an amount equal to 3 per cent of its capital stock and surplus "tied up" or frozen, and that the member bank receives only a 6 per cent return on that amount. Moreover, the net return is even less, since, as has been noted, dividends on Reserve Bank stock issued since 1942 are subject to Federal income taxation. For these reasons, it has occasionally been argued that Reserve Bank stock "may act as a deterrent to membership".^{112/} Thus, one economist has stated that,

^{111/} Hearings on Federal Reserve After Fifty Years, p. 137. Similarly, President Hayes of the New York Reserve Bank noted that taxes on Reserve Bank stock dividends were "substantial". He agreed with Representative Reuss that every million dollars of savings to the Treasury would be a gain; but he questioned whether the relatively small saving would outweigh the disadvantages. 1960 Hearings on Reserve Bank Stock, pp. 81, 82.

^{112/} Carl H. Madden, Chamber of Commerce of the United States, 1968 Compendium, p. 459.

if the requirement for subscription to Reserve Bank stock deters State-chartered commercial banks from becoming members of the Federal Reserve, it would be wise to abolish the stock.^{113/}

Obviously, the validity of this argument depends upon whether a member bank could obtain a net return on the funds invested in Reserve Bank stock greater or less than the dividends on such stock. As has been said, purchase of such stock "will be a deterrent to membership if, other things equal, a bank can earn more than 6 per cent by investing its funds elsewhere."^{114/}

With today's high interest rates, the argument that Reserve Bank stock is a deterrent to membership may theoretically be more convincing than it was some years ago. Nevertheless, the argument does not appear to be a major one in favor of retirement of Reserve Bank stock. There are other factors, e.g., reserve requirements, that serve as much more effective deterrents to membership. As will be noted later, it has been argued on the other side that such stock and the dividends paid thereon constitute a positive incentive for membership.

Retirement of stock would eliminate clerical work

An argument in favor of retirement of Reserve Bank stock that is clearly of no great weight and that apparently has been made only once is that elimination of such stock would also eliminate a certain amount of clerical work. This argument was stated by

^{113/} Professor Dudley W. Johnson, University of Washington, id., p. 334.

^{114/} Professor George Macesich, Florida State University, id., p. 456.

115/

Dr. Clark Warburton as follows:

"A minor advantage resulting from retirement of Federal Reserve bank stock, and substitution of a certificate of membership, would be elimination of the clerical and administrative work involved in issuing additional stock when a member bank increases, and of canceling some stock when a member bank decreases, its own capital or surplus."

As an additional detail necessitated by the fact that stock issued before 1942 is exempt from Federal taxation, a Reserve Bank issuing a single share certificate to a member bank must make a notation on the back of the certificate as to the number of shares issued before that date and the number issued after that date; as an alternative, the Reserve Bank may issue two share certificates, one for pre-1942 stock and the other for post-1942 stock. 116/

Stock suggests that Reserve Banks are owned and controlled by member banks

The principal and perhaps most persuasive argument for retirement of Reserve Bank stock is that ownership of such stock by member banks gives rise to a misconception that private bankers own and control the Reserve Banks and thereby exert an influence on the operations and policies of the System.

As has been noted, some of the sponsors of the original Federal Reserve Act in Congress apparently contemplated that stockholding member banks would exercise at least some control over the operations of the Reserve Banks. The fact is that stock ownership

115/ Hearings on Federal Reserve After Fifty Years, p. 1329.

116/ See Board's Regulation I, § 209.13(c).

has never enabled member banks to exercise such control, and this fact has been consistently recognized by Reserve Board members and Reserve Bank Presidents, as well as by members of Congress.

Reference has already been made to Chairman Martin's statement in reply to the 1952 Patman Questionnaire explaining why ownership of Reserve Bank stock does not have the same attributes of control and financial interest usually attached to stock ownership in private corporations. Like Chairman Eccles in 1938,^{117/} Chairman Martin described Reserve Bank stock as being more in the nature of "a compulsory contribution to the capital of the Reserve Banks."^{118/} In recent years, Federal Reserve representatives on numerous occasions have agreed that the stock does not give member banks any "proprietary" interest in the Reserve Banks,^{119/} Most recently, in 1968, Chairman

117/ 1938 Hearings on Government Ownership of Reserve Banks, p. 446.

118/ 1952 Patman Questionnaire, p. 262. Similarly, the joint answer by the Reserve Bank Presidents stated:

"Ownership of stock does not imply proprietary interest in or the control over policies and operations of the Reserve banks, and thus differs essentially from the case of ordinary commercial or industrial corporations or banks carried on for profit. . . ." Id., p. 646.

119/ See, e.g., statements by Chairman Martin in 1957-58 Hearings by Committee on Small Business, Part I, p. 330, 1960 J.E.C. Hearings, p. 197, and Hearings on Federal Reserve After Fifty Years, p. 71; Governor M. S. Szymczak, 1957-58 Hearings by Committee on Small Business, Part II, p. 416; Governor Abbot L. Mills, Jr., id., p. 448; Governor J. L. Robertson, id., p. 466; President Carl Allen, Federal Reserve Bank of Chicago, 1960 Hearings on Reserve Bank Stock, p. 16; President Alfred Hayes, Federal Reserve Bank of New York, id., p. 175; and President Watrous H. Irons, Federal Reserve Bank of Dallas, Hearings on Federal Reserve After Fifty Years, p. 646.

Martin stated; ^{120/}

"There is clearly no foundation for any assumption or inference that ownership of Reserve bank stock by member banks enables them to 'control' the operations of the Reserve banks or to determine System policies. . . ."

Despite such statements, Representative Patman and others have often pointed to evidence that bankers and textbook writers reflect an impression that the Reserve Banks are "owned" by the member banks in much the same way that ordinary private corporations are owned by their stockholders.

As early as 1938, Representative Patman suggested that the member banks "owning the [Federal Reserve] System" were in a position to say: ^{121/}

"We own that System; we are telling you, the members of the Board, that it is our System that you are dealing with; we bought it and paid for it. . . ."

More than 20 years later, Mr. Patman repeated his view that the member banks "think they own the Federal Reserve System." ^{122/}

During 1960 hearings on a bill to retire Reserve Bank stock, Mr. Patman stated: ^{123/}

"Now if the private banks had never asserted ownership, there would be little occasion for this hearing. . . ."

"Over the years, however, the member banks have tended to assert ownership of the Federal Reserve System and the Federal Reserve System has more and more, I think, rather corroborated these contentions."

^{120/} 1968 Compendium, p. 44.

^{121/} 1938 Hearings on Government Ownership of Reserve Banks, p. 17.

^{122/} 1960 J.E.C. Hearings, p. 207.

^{123/} 1960 Hearings on Reserve Bank Stock, pp. 15, 16.

By that time, other Congressmen were supporting him. Thus, Representative Multer, in 1958, stated that some members of the American Bankers Association had in effect said: "Why, this is our bank. The Federal Reserve bank belongs to us, the private bankers."^{124/}

And Representative Moorhead, in a colloquy with Reserve Board Chairman Martin, said:^{125/}

"Mr. Martin, some of the people in my district, I think, are less willing to accept the policies of the Federal Reserve such as, say, the tight money policy because they say that the Fed is owned by the commercial banks and this is a banker's policy, not a people's policy. . . ."

Mr. Patman has quoted textbooks on money and banking that, he alleges, give the impression that the Reserve Banks without qualification are "owned" by the member banks. Thus, he once confronted President Mangels of the San Francisco Reserve Bank with the following statement in a textbook used at the University of Oregon:^{126/}

". . . The member banks purchase stock in and therefore own the Federal Reserve banks of their own district."

Similarly, he cited a book by Professor Lester Chandler used at the University of Washington that stated that the Federal Reserve Banks "are owned wholly by their member banks."^{127/} Representative Oliver^{128/} cited excerpts to the same effect from other textbooks.

^{124/} 1957-58 Hearings by Committee on Small Business, Part II, p. 480.

^{125/} 1960 Hearings on Reserve Bank Stock, p. 236.

^{126/} Id., p. 195.

^{127/} Ibid.

^{128/} Id., pp. 179-181.

Not only bankers and textbook writers but even officers and employees of the Reserve Banks have been accused by Mr. Patman of spreading the idea that the Reserve Banks are owned and controlled by the member banks of the System. Thus, he referred on one occasion to a report in a Chicago newspaper that an assistant vice president of the Chicago Reserve Bank had stated:^{129/}

"A Federal Reserve bank is owned lock, stock, and barrel by its member banks."

And he said that visitors to the Richmond Reserve Bank were told "that the Federal Reserve Banks belong to the member banks."^{130/}

Some Reserve Bank Presidents have discounted the charge that member banks believe that they "own" the Reserve Banks. In 1960, the President of the Chicago Reserve Bank told Mr. Patman that he had "not found that either the member banks or others have increasingly said that the member banks own the Federal Reserve banks";^{131/} and the President of the San Francisco Reserve Bank stated that the banks in his district did not have that belief.^{132/} In 1964, the President of the Minneapolis Reserve Bank said that he had never heard a member banker assert that he had the ordinary rights of a stockholder;^{133/} and President Hayes of the New York Reserve Bank

^{129/} Id., p. 18.

^{130/} Id., p. 165.

^{131/} Id., p. 16.

^{132/} Id., p. 195.

^{133/} Hearings on Federal Reserve After Fifty Years, p. 692.

stated that he had never encountered among bankers the attitude that they "own the System".^{134/}

Notwithstanding these statements, Federal Reserve representatives have conceded that there may be some misconception as to the significance of ownership of Reserve Bank stock by member banks. The possibility of such a misconception was admitted by the Reserve Bank Presidents in their joint answer to the 1952 Patman Questionnaire.^{135/} In 1960, when Representative Johnson suggested that ownership of the Reserve Bank stock provided a basis for believing that the Reserve Banks may be "privately owned tools of the banks", Chairman Martin replied: "...there is a tendency from time to time for some bankers to think of it as having that connotation."^{136/} Reserve Board Governor Robertson, while doubting that member banks believed that they own or control the System, agreed that stock ownership had "led some people, including some legislators, to suspect . . . that the System is banker dominated."^{137/}

In any case, the implications of member bank stock ownership is not always easy to explain. One Reserve Bank President, in 1964, admitted that he had "had occasional difficulty in explaining how in this instance stock ownership does not imply stockholder

^{134/} Id., p. 526.

^{135/} 1952 Patman Questionnaire, p. 647.

^{136/} 1960 Hearings on Reserve Bank Stock, p. 231.

^{137/} Hearings on Federal Reserve After Fifty Years, p. 106.

control."^{138/} The difficulty is illustrated by the following excerpts from 1960 hearings when President Hayes of the New York Reserve Bank and his General Counsel attempted to explain why ownership of a Reserve Bank's stock does not mean ownership of the Reserve Bank:^{139/}

"MR. OLIVER. Your statement would lead me to believe there is a contention that there is no proprietary interest in this so-called stock which the member banks have subscribed to.

"MR. HAYES. No proprietary interest in the sense in which that phrase is usually used; that is correct.

"MR. OLIVER. And one could draw the assumption from that, then, that the Federal Reserve Banking System is a publicly owned system.

"MR. HAYES. I think it is essentially a system identified with the public interest.

"MR. OLIVER. You would not say categorically it is a publicly owned institution?

"MR. HAYES. That is a complex point. I certainly wouldn't say it is privately owned. I would say the stock is owned by private interests. What that makes the ownership of the System is very difficult to define, but I certainly would agree in spirit with what you say, that it is a public entity. I don't know whether my associate here could enlarge on that or not.

"MR. CLARKE. It is very difficult, Mr. Oliver, but in response to an observation that was made earlier I did take out a copy of the report rendered by Mr. Patman's subcommittee of the joint committee in 1952 in which the attempt had been made to classify the System, and I have always admired extravagantly these words which I found in the report on page 51, on that subject: 'The Federal Reserve System has been a helpful institutional development. Its roots are sunk deeply in the American economy and it has borne good fruit. This is more important than that each portion of it

^{138/} President Scanlon of the Chicago Reserve Bank, Hearings on Federal Reserve After Fifty Years, p. 756,

^{139/} 1960 Hearings on Reserve Bank Stock, pp. 175-177.

be subject to classification by species and genus according to the rules of a textbook on public administration. But, one fact with respect to the legal status of the Federal Reserve banks stands out, and it is the only fact of importance. Congress created the Federal Reserve banks and Congress can dissolve them or can change their constitution at will. On dissolution the entire surplus of the banks would become by law the property of the United States. Ultimately they are creatures of Congress.'

"MR. OLIVER. Well, that is pretty much saying, is it not, that it is publicly owned?

"MR. CLARKE. Not at present. That is to say

"MR. OLIVER. You mean upon dissolution it would be publicly owned?

"MR. CLARKE. Yes, sir.

"MR. PATMAN. Just a minute, if you insist on that you are changing all of Mr. Hayes' testimony.

"MR. CLARKE. I have no intention to do that, sir.

"MR. PATMAN. Maybe you can nail it down by just saying it is not privately owned.

"MR. HAYES. I am perfectly willing to say that.

"MR. PATMAN. You are willing to say that it is not privately owned, aren't you?

"MR. CLARKE. I am perfectly willing to say that. I think, Mr. Patman, as your subcommittee said so well in 1952, it is not possible to classify the system by species and genus according to the rules of a textbook on public administration.

* * * * *

"MR. OLIVER. Well, it is a little bit difficult for me to understand the status of the Federal Reserve System as you have described it here, other than it is hanging here in mid-air somewhere with no determination and therefore I should think that it be very desirable that a determination should be made definitely."

Those who favor retirement of Reserve Bank stock argue that it would remove any appearance that the Reserve Banks are owned and controlled by member banks. They contend that it would "demonstrate the public nature of the Federal Reserve"; ^{140/} that it would eliminate "the myth that the Reserve System is somehow owned and hence controlled by the banking community"; ^{141/} that it "would help remove the stigma of a private, banker-dominated organization controlling the money supply"; ^{142/} and that the "appearance of private ownership should be ended." ^{143/}

Professor G. L. Bach has stated the matter as follows: ^{144/}

" . . . Even though commercial bank ownership of Reserve bank stock clearly does not now mean control by the bank over national monetary policy, it opens a suspicion that such improper influence might be exerted."

And, in 1961, the Commission on Money and Credit, in recommending retirement of Reserve Bank stock, made the following statement: ^{145/}

" . . . The member banks of the Reserve System are alone among nationally regulated industries in technically 'owning' the institutions that regulate them. It is better to end any vulnerable appearances forthwith. The member banks should welcome an opportunity to clarify their status in the System in this manner."

^{140/} 1968 Compendium, p. 146.

^{141/} Id., p. 283.

^{142/} Id., p. 191.

^{143/} Id., p. 633.

^{144/} Hearings on Federal Reserve After Fifty Years, p. 1398.

^{145/} CMC Report, p. 92.

THE CASE AGAINST RETIREMENT OF STOCK

The "traditional" arrangement has worked well

Those who oppose retirement of Reserve Bank stock start with the argument that member bank ownership of the stock is sanctioned by long tradition, that the arrangement has "worked well", and that there is no overwhelming reason for changing the arrangement.

Reserve Board Chairman Martin once stated: ^{146/}

"To my mind, the strongest argument against action in these circumstances is the sound principle that existing institutions, operating well, should not be disturbed except to do away with evils or to gain some new benefits. . . ."

"In this matter, the proposed change threatens to bring detriment rather than to promise improvement. . . ."

In a similar vein, President Hayes of the New York Reserve Bank has ^{147/} said:

". . . I am not one who treasures tradition blindly, and thinks we should preserve everything simply because it has existed. . . . The point I was trying to make was this: If a traditional structural feature seems to have real advantages, unless it can be demonstrated that removal of that feature will bring greater advantages in some other areas, I would be very reluctant to make a change. . . ."

* * * * *

". . . Every country has a different setup and rightly so, because there are different economic and other conditions to meet."

^{146/} 1960 Hearings on Reserve Bank Stock, p. 223. As has been noted, a previous Board Chairman, in 1949, had felt that the existing arrangement had "worked reasonably satisfactorily". See note 68 supra.

^{147/} Id., pp. 88, 89.

"Now, our country, being an enormous economic entity spread out over an enormous area, obviously has a different setup from almost any other country that I know, and the Federal Reserve System is certainly a unique organization. It has been tried and tested, it has been changed in a great many respects, as we went along, usually for the better, and we seem to have derived a system that works quite well if I do say it, and I am reluctant to make a change which to my mind could have a serious psychological effect unless I can see clear advantage in doing it."

Others, including persons outside the Federal Reserve, have stated that there is no "compelling reason" for eliminating member bank ownership of Reserve Bank stock.^{148/}

Dr. E. A. Goldenweiser, while agreeing that Reserve Bank stock is not financially necessary, conceded that this is an instance in which pure logic may be outweighed by tradition.^{149/} Even Mr. Patman's Subcommittee Report in 1952 concluded that, although some other "link" between the Federal Reserve System and the business community might be devised, "a newly-established link would not enjoy the sanction of tradition" enjoyed by the present stock-ownership arrangement.^{150/}

Stock reflects familiar business practice

It has frequently been argued that the organization of the Reserve Banks as corporations with capital stock and surplus follows

^{148/} See, e.g., statement by Council of Economic Advisers in 1968 Compendium, p. 81. Professor G. L. Bach stated that the stock "has now become an accepted part of the system and does no apparent harm." Id., p. 97.

^{149/} 1952 Patman Subcommittee Hearings, p. 775.

^{150/} 1952 Patman Subcommittee Report, p. 60.

a conventional and familiar business practice that tends to promote efficient operations.

For example, Chairman Martin has said: ^{151/}

"The way the banks participate in the Federal Reserve System is that we have accounting procedures that are in accord with business practice and we have participation that is in accord with business practice. . . ."

In 1960, President Hayes of the New York Reserve Bank said: ^{152/}

"We must not overlook the fact that the Federal Reserve banks were organized originally in much the same way as ordinary business corporations. Accordingly, the banks had capital accounts. The existence of capital accounts is part and parcel of the use of conventional accounting techniques which impose the discipline of the balance sheet. We believe that these procedures have contributed to the efficient and businesslike conduct of the affairs of the Reserve banks. They have also contributed to public acceptance--especially among bankers, investors, and businessmen at home and abroad--of the Federal Reserve banks as financially sound institutions capable of bearing the burdens assigned, or likely to be assigned, to them. These accounting techniques are, as I have noted, conventional, but the convention has importance to many people."

President Bryan of the Atlanta Reserve Bank, referring to the Reserve Banks' stock, stated that "there is some reason . . . to allow the Federal Reserve bank to show a conventional statement that people understand." ^{153/} Similarly, Reserve Board Governor Charles N. Shepardson observed that "there is an advantage in maintaining the semblance of the typical corporate structure" and that capital and surplus "present a picture to the public that lends confidence and strength,

^{151/} 1960 J.E.C. Hearings, p. 197.

^{152/} 1960 Hearings on Reserve Bank Stock, p. 75.

^{153/} 1957-58 Hearings by Committee on Small Business, Part I, p. 34.

and something that they are familiar with in other organizations . . . "^{154/}

In the course of 1960 hearings, President Carl Allen of the Chicago Reserve Bank, while agreeing that the Reserve Banks do not need capital stock, pointed out that they are called "banks" and observed that in some respects it is "desirable for the central bank of our country to follow business practices and business concepts."^{155/} In 1964, another Reserve Bank President said:^{156/}

"Part of the strength of the Federal Reserve banks is derived from the fact that they are structured in an understandable, a conventional, manner with capital, with balance sheets, with boards of directors, and so on. . . ."

The argument based on "familiar corporate practice" may best be summarized in the words of the 1952 Report of Mr. Patman's Subcommittee, Referring to stock ownership as an effective link between the System and private business, that Report concluded that "it would be difficult to devise one which would conform so well to the mores of the business and financial communities."^{157/}

Stock symbolizes merger of public and private interests

A major argument for continued ownership of Reserve Bank stock by member banks is that it reflects or symbolizes an "institutional concept" upon which the Federal Reserve System is based: a blending, mix, or merger of both public and private interests. As the

^{154/} Id., Part II, p. 479.

^{155/} 1960 Hearings on Reserve Bank Stock, p. 17.

^{156/} Hearings on Federal Reserve After Fifty Years, p. 691.

^{157/} 1952 Patman Subcommittee Report, p. 60.

1952 Patman Subcommittee Report stated, it "serves as a practical and well-understood link between the System and the private business community."^{158/} This argument has been reiterated on many occasions by Federal Reserve representatives.

Referring to member bank ownership of Reserve Bank stock, Chairman Martin in 1952 stated:^{159/}

"... The direct relationship between the Reserve Banks and the member banks makes possible a maximum of cooperation between commercial banks, business enterprises, and the Government in the attainment of the public objectives for which the System was created."

In 1960, Mr. Martin, after describing the Federal Reserve System as "a unique political contribution", made the following statement in reply to Representative Patman's question about ownership of Reserve Bank stock:^{160/}

"A distinguished professor in Oxford University, when I was attending some lectures there a good many years ago, said that, in his judgment, the United States had only made two real contributions in political science. One was the Northwest Ordinance. I will not go into his reasons for that. The other was the Federal Reserve Act because in the Federal Reserve Act you had a merger of public and private interest without nationalizing the bank system but bringing the currency into consonance with the public interest through the Government."

The "institutional concept" of an American central banking system based upon a "mix" of participation by private banking interests and ultimate Governmental control dates back, of course, to the original

^{158/} Ibid.

^{159/} 1952 Patman Questionnaire, p. 262.

^{160/} 1960 J.E.C. Hearings, pp. 196, 197.

Federal Reserve Act when, as has been noted, the framers of the Act referred to the Reserve Banks as "bankers' banks" and "cooperative" institutions that nevertheless would be operated for public purposes under the supervision of a Government agency. This concept has repeatedly been urged in recent years as a reason for maintaining member bank ownership of Reserve Bank stock.

In 1960, President Carl Allen of the Chicago Reserve Bank ^{161/} stated:

"The subscription to capital stock is an aspect of the institutional concept which the Congress chose to adopt in establishing the Federal Reserve System. A consideration in the mind of the Congress was, I am sure, the desirability of an institutional framework which merged public and private interests, with the Board of Governors exercising general supervision over the activities of the 12 regional banks but with each bank having its own board of directors. . . ."

In 1964, Reserve Board Governor Mills argued that retirement of Reserve Bank stock "would be a very drastic revision of the original principles and spirit of the Federal Reserve System which provided . . . a mixed representation of private and public interests acting in the public interest." ^{162/}

President Irons of the Dallas Reserve Bank felt that such stock reflects "the basic character of the Federal Reserve System, ^{163/} a combination of a quasi-public, quasi-private group of institutions."

^{161/} 1960 Hearings on Reserve Bank Stock, p. 7.

^{162/} Hearings on Federal Reserve After Fifty Years, p. 104.

^{163/} Id., p. 886.

Stock stimulates interest and support by member banks

Closely related to the concept of a blend of public and private interests is the argument that member bank ownership of Reserve Bank stock serves to stimulate member bank interest and to enhance their understanding and support of the System. Thus, in defense of such ownership, Chairman Martin once said:^{164/}

" . . . It gives to each member bank a tangible interest in, and direct connection with, the Federal Reserve Bank of its district, and this has real psychological value. It helps to create in member banks a greater interest in the affairs of the System and understanding of its purposes and operations than would be the case in the absence of such ownership."

Reflecting the same idea, Mr. Martin in 1960 observed that, while member banks have no proprietary interest in the System, ownership of stock gives them "a sense of participation in it."^{165/}

A Reserve Bank President stated the argument as follows:^{166/}

" . . . Those authors [of the Federal Reserve Act] realized that, if this country was to have a successful system of central banking within a free enterprise system in which there were thousands of private commercial banks, it would be necessary to interest large numbers of banks in supporting the central bank. What better way to obtain this support than through investment in capital stock of the Reserve banks? . . .

* * * * *

^{164/} 1952 Patman Questionnaire, p. 262. In their answers to the Questionnaire, the Reserve Bank Presidents said: "The present stock ownership arrangement stimulates among member banks a greater interest in Reserve bank affairs than would exist in the absence of such ownership." Id., p. 646.

^{165/} 1960 J.E.C. Hearings, p. 197.

^{166/} 1960 Hearings on Reserve Bank Stock, p. 190.

"... the ownership of the stock gives the member banks a real sense of being part of the System, of wanting to make it a vital part of our economic well-being; in short, this is a link to bind together, as one, the public and the private character of the System. . . ."

One Reserve Board member has expressed at least some doubt as to whether Reserve Bank stock is necessary to stimulate the interest of member banks and has suggested that Congress should "make a careful study of the entire Federal System to see whether or not that particular feature of the Federal Reserve System is worth its salt, whether or not you need stock ownership and dividends on that stock in order to encourage interest on the part of the commercial banks in the Federal Reserve System."^{167/}

Stock enables the Reserve Banks to obtain capable directors

A corollary of the argument just stated is that stock ownership by member banks serves as a vehicle for the election of Reserve Bank directors and makes it possible to obtain capable and public-spirited directors. Stated negatively, it has been contended that retirement of the stock could lead to deterioration in the quality of such directors.

Referring to Reserve Bank stock as a device for the election by member banks of 6 of the 9 directors of each Reserve Bank, Chairman Martin has stated:^{168/}

"It is a device which I think was very properly used, again in consonance with business practice, in order to give a means of getting direct participation through the directorates. It is a voting device that is used in the System, and I think very effectively and very properly."

^{167/} Governor J. L. Robertson, in 1957-58 Hearings by Committee on Small Business, Part II, p. 467.

^{168/} 1957-58 Hearings by Committee on Small Business, Part I, p. 338.

At another time, he referred to the stock as "a means for the election of class A and B directors,"^{169/} Former Reserve Board Governor Abbot L. Mills said that the stock "carries a voting right."^{170/} Representatives Patman and Multer have denied that the right to vote for directors arises from ownership of Reserve Bank stock; they have argued that the right is given by separate provisions of the Federal Reserve Act and that this right would continue unchanged if stock should be replaced by a certificate of membership or an interest-bearing deposit.^{171/}

169/ House Hearings on Financial Institutions Act, Part 1, p. 392.

170/ 1957-58 Hearings by Committee on Small Business, Part II, p. 460. President Hayes of the New York Reserve Bank has asserted that Reserve Bank stock "does carry with it a right that is very important and is in keeping with corporate custom, and that is the right to elect directors."
1960 Hearings on Reserve Bank Stock, p. 174.

171/ After stating that Reserve Bank stock "doesn't serve any purpose", Mr. Patman once again said that it "doesn't give the banks even the privilege to vote by reason of their stock." Hearings on Federal Reserve After Fifty Years, p. 71. Mr. Multer has argued that -

" . . . in the Federal Reserve Act . . . there is no provision that stock ownership gives you a right to vote. It is membership in the System that gives you the right to vote in accordance with all the standards written into the act." 1957-58 Hearings by Committee on Small Business, Part II, p. 460.

See also 1960 Hearings on Reserve Bank Stock, p. 174.

One might argue, in opposition to the stand taken by Patman and Multer, that the original Act contemplated that member bank stock would have voting rights, since it was expressly provided that stock not held by member banks (i.e., stock held by the public or the United States) "shall not be entitled to voting power." Unquestionably, however, as stated by Treasury Secretary Fowler, "if the stock were retired, means could undoubtedly be found to retain essentially the same system for electing directors as exists at present." 1958 Compendium, p. 65.

In any event, the argument against retirement of Reserve Bank stock is not so much that the stock is essential for the election of directors but rather that elimination of the stock would impair the ability of the System to obtain the services of qualified men as directors.

Thus, conceding that member banks could still elect directors if they held only "membership certificates" instead of stock, Chairman Martin has argued that this "would be changing the concept", ^{172/} while retention of the stock arrangement reinforces the System's "chances of getting good men to serve on the boards" ^{173/} Former Reserve Board Governor Mills felt that withdrawal of the stock "would so detract from their [Reserve Bank directors'] lively interests and their intent to supervise adequately the System, that the general public would stand to lose." ^{174/} Reserve Bank President Mangels in 1960 stated: ^{175/}

"Should the capital stock of the Reserve banks be retired, there could follow a period of erosion, during which the System would be unable to attract the best-qualified men as directors, and, ultimately, the quality of the staff of the Reserve banks could deteriorate. . . ."

President Hayes of the New York Reserve Bank, after referring to the fact that stock ownership stimulates interest on the part of member banks and provides "a tangible and readily understood link between the member banks and the System", ^{176/} went on to say:

^{172/} 1960 Hearings on Reserve Bank Stock, p. 234.

^{173/} Id., p. 238.

^{174/} Hearings on Federal Reserve After Fifty Years, p. 106.

^{175/} 1960 Hearings on Reserve Bank Stock, p. 190.

^{176/} Id., p. 75.

"Although H.R. 8516 [to retire Reserve Bank stock] would not literally affect the method of electing directors, nor change the role of directors of Federal Reserve banks, there exist, we believe, solid grounds for a fear that the substitution of certificates of membership for shares of stock would weaken the link and wipe out many of the advantages that the System now realizes by reason of the presence of that link."

In 1952, Mr. Patman's Subcommittee observed that "private ownership of the stock of the Federal Reserve banks . . . has been of great help in obtaining the services of able men as directors of the Federal Reserve banks."^{177/}

Stock is incentive for membership

It has sometimes been suggested, although not as a major argument, that Reserve Bank stock is an incentive for membership of banks in the Federal Reserve System because ownership of such stock guarantees an annual yield of 6 per cent and that retirement of the stock might result in withdrawals from membership.

In 1958, Representative Multer described the 6 per cent dividend on Reserve Bank stock as "a rather high return", and Reserve Board Governor Robertson agreed that it was "a very good return".^{178/}

In 1960, President Allen of the Chicago Reserve Bank described the dividend as "attractive, particularly because it is so assured"; he felt that it was "a desirable aspect of membership" and that elimination of the stock "would be more likely to result in withdrawal of members from the System than in additions to membership."^{179/}

^{177/} 1952 Patman Subcommittee Report, p. 60.

^{178/} 1957-58 Hearings by Committee on Small Business, Part II, p. 467.

^{179/} 1960 Hearings on Reserve Bank Stock, pp. 7, 8.

President Hayes of the New York Reserve Bank thought that the stock, while a marginal factor, had "some value offsetting some of the expenses which membership entails."^{180/} And Chairman Martin felt that "the opportunity to acquire and hold such stock constitutes an incentive to membership, although not a feature of major importance."^{181/}

In 1964, Chairman Martin expressed the opinion that elimination of the stock would make membership "much less attractive", since in a limited way it was "a good investment" that member banks could "count on".^{182/} Governor Robertson said that the "absolutely safe, tax-free, 6-percent return on stock issued before 1941 is probably one of the best assets in any bank in this country".^{183/} President Hickman of the Cleveland Reserve Bank stated:^{184/}

". . . The loss of an asset yielding a certain return of 6 percent would reduce the attractiveness of membership in the System, particularly for small banks. Substantial withdrawals from membership would increase the difficulty of making monetary policy effective. . . ."

President Scanlon of the Chicago Reserve Bank felt that retirement of the stock would "detract somewhat from the attractiveness of membership."^{185/} And President Irons of the Dallas Bank declared:^{186/}

^{180/} Id., p. 82.

^{181/} Id., p. 222.

^{182/} Hearings on Federal Reserve After Fifty Years, p. 52.

^{183/} Id., p. 104.

^{184/} Id., p. 137.

^{185/} Id., p. 753.

^{186/} Id., p. 847.

"The stock is an attractive investment for member banks and is one factor in holding and attracting membership in the System. I believe if the stock were retired it would be one more step in the direction of lessening interest in membership."

With the current (1969) high level of market interest rates, it may be doubted whether the 6 per cent dividend on Reserve Bank stock is an inducement to membership in the System. From a financial viewpoint, it may actually be, as proponents of retirement of the stock argue, a deterrent to membership.

Even if the rate of return on the stock is not an inducement, it may still be argued that retirement of the stock could make membership less attractive. This has been suggested by one advocate of such retirement, Professor Leo Fishman of West Virginia University, who favors "nationalization" of the System by elimination of Reserve Bank stock:

"One possibility that cannot be completely disregarded is that some State member banks might discontinue membership in the Federal Reserve System if the Federal Reserve System were nationalized. Any such defections, however, would be based largely on psychological considerations, rather than on any substantive change in the operations of the member banks or in their functional relationship with the Federal Reserve bank of their district.

"If it should appear that large-scale defections might occur, incentives of one kind or another might be offered to State banks to maintain their membership. With minor adjustments, the recently proposed plan to make Federal Reserve bank credit more readily available to commercial banks might serve this purpose. . . ."

187/ 1968 Compendium, p. 164.

Retirement of stock would be a move toward nationalization that would weaken System independence and confidence in the dollar

A major argument against retirement of Reserve Bank stock is that it would be regarded as a move toward "nationalization" of the banking system and thus tend to weaken the "independence" of the Federal Reserve and impair confidence in our currency. This, of course, is an "impression" or "psychological" argument. It is the counterpart of the argument on the other side that stock ownership gives the impression that the Federal Reserve is owned and dominated by the commercial banks of the country.

Some, like Professor Fishman, favor retirement of the stock because it would be a step toward nationalization of the Federal Reserve, a step they believe to be desirable.^{188/} To the contrary, opponents of the suggested change strongly maintain that elimination of member bank stock ownership as a "symbol" of the basic "institutional concept" upon which the System is based could have seriously adverse consequences.

The argument has been stated by President Hayes of the New York Reserve Bank as follows:^{189/}

"By describing the Reserve bank stock as a symbol of the System's status within the Government, I mean to refer to what has been called the independence of the Federal Reserve System--independence, that is, from direction by the executive branch in the exercise of its monetary authority. The retirement of the Federal Reserve bank stock could give rise to questions, both at home and abroad, as to the future status of the System, and as to its continued ability to maintain its present independence in achieving its goals.

^{188/} See, e.g., Professor Fishman's "Case for Nationalizing the Federal Reserve System", in 1968 Compendium, pp. 160-165.

^{189/} 1960 Hearings on Reserve Bank Stock, p. 75.

Confidence in the dollar is an important goal. It is our impression that, in foreign countries as well as in the financial community in this country, such confidence can be attributed, at least in part, to the existence of an independent monetary authority able to pursue its programs unhampered by political pressures. At present there would seem to be no apprehension that the Federal Reserve System, in performing its central banking function, will be diverted to a pursuit of popular, but unsound, programs. A marked change in the organizational structure of the Federal Reserve System might be viewed as a signal of a basic change in the role or status of the Federal Reserve System and could undermine public confidence in the System and the dollar."

Chairman Martin has repeatedly opposed retirement of Reserve Bank stock as a "nationalization" move that would undermine public confidence at home and abroad. In 1957, he said: ^{190/}

"... Capital and surplus facilitates the operations of the [Federal Reserve] banks and in this way is an element in the confidence factor of our currency. . . . The minute you start tampering with this type of thing, you are changing the pattern, with possible adverse effects on confidence. . . ."

In 1960, Mr. Martin elaborated on the possible psychological effect of a change in the stock arrangement: ^{191/}

"In this matter, the proposed change threatens to bring detriment rather than to promise improvement. Without laboring the point, it is sufficient to say that elimination of Federal Reserve bank stock could, in my judgment and that of the other members of the Board of Governors, be construed, both at home and abroad, as indicating a change in the structure and character of the Federal Reserve System that presaged a weakening of the resolution of the United States to maintain a stable dollar. The change would also adversely affect the extent to which the commercial banking system reinforces and renders valuable service to the functioning of the Federal Reserve System.

"Some may say that these are merely psychological factors; I can only reply that psychological factors are among the most important in dealing with the monetary and credit streams that are the lifeblood of our economy."

190/ 1957-58 Hearings by Committee on Small Business, Part I, p. 335.

191/ 1960 Hearings on Reserve Bank Stock, p. 223.

Repeating the argument in 1964, Mr. Martin said: ^{192/}

"I think we could have a \$10 membership in place of stock, but I think that people would wonder why it was changed after all the years that the System has operated this way, and some people, including some of our friends abroad, would see it as a step toward nationalization of the banking system. I do not think the change would achieve any positive benefits to balance the harm it might do."

Other Federal Reserve representatives have expressed similar views. Conceding that the Reserve Banks could operate without stock "just as our country could operate without a flag", President Mangels ^{193/} of the San Francisco Reserve Bank said:

"I cannot help believing that the retirement of the capital stock of the Federal Reserve banks would have an adverse effect on, and perhaps diminish the confidence of, not only the financial interests of this country, but the general public as well."

Similarly, President Irons of the Dallas Reserve Bank stated in 1964: ^{194/}

"It is also possible that its retirement might have a disturbing effect in the public mind; some observers might feel such a move is a step toward nationalization of the banking system, or a lessening of the regional strength of the System, or possibly a lessening of the independence of the System within Government."

And President Scanlon of the Chicago Reserve Bank felt that retirement of the stock might be looked upon, at home and abroad, as a major change that might have "some adverse effect on confidence in the soundness of the dollar." ^{195/}

^{192/} Hearings on Federal Reserve After Fifty Years, p. 94.

^{193/} 1960 Hearings on Reserve Bank Stock, p. 191.

^{194/} Hearings on Federal Reserve After Fifty Years, p. 847.

^{195/} Id., p. 753.

In 1968, the Council of Economic Advisers, while favoring the elimination of the stock, noted that "there is always the possibility that confidence in the Federal Reserve could be weakened if the action were construed to imply a fundamental change in control of the System."^{196/}

The adverse effect of retirement of the stock upon the Federal Reserve's "independence" within the Government has frequently been mentioned by Federal Reserve officials.^{197/} This is not the place for a full discussion of the broad and basic question of System independence. It is sufficient to note here that retirement of Reserve Bank stock is one of the several features of Mr. Patman's recurring legislative proposals (along with GAO audit and use of appropriated funds) that appear to be intended to curb the Federal Reserve's independence. In general, these features have been endorsed by those who feel that the System's independence should be curbed.^{198/} They have been opposed by those who believe it important that this independence be maintained; and the latter include many economists and bankers in addition to Federal Reserve officials.^{199/} In 1964, the American Bankers Association took the following

196/ 1968 Compendium, p. 81.

197/ In addition to previous quotations on this point, see Chairman Martin, 1960 Hearings on Reserve Bank Stock, p. 242; and Reserve Board Governor Mills, Hearings on Federal Reserve After Fifty Years, p. 104.

198/ See, e.g., Professor Robert L. Crouch, in 1968 Compendium, p. 126; Professor Seymour E. Harris, id., pp. 248, 249; Professor Thomas M. Havrilesky, id., p. 282; Professor Norman F. Keiser, id., pp. 348, 354; Professor Raymond P. Kent, id., p. 362; Leon H. Keyserling, id., p. 365; Professor Dudley G. Lockett, id., p. 436; Professor Jacques Melitz, id., p. 479.

199/ See, e.g., Dr. Paul W. McCracken, 1968 Compendium, p. 473; Beryl Sprenkel, id., p. 538; Dr. Charles E. Walker, id., p. 579.

200/
position:

". . . We are opposed to the retirement of Federal Reserve stock on the grounds that this step, also, would alter the quasi-private, quasi-public status of Reserve banks, lower the barrier against the encroachment of political pressures into System policies, and weaken the defenses of the System against subsequent attacks on its congressionally provided independence."

Even Mr. Patman's Subcommittee on General Credit Control and Debt Management in 1952 recognized that, while private ownership of Reserve Bank stock is an "anachronism", it "continues to be practically useful" because it symbolizes the "independence" of the System. The Subcommittee's Report stated: 201/

". . . One of its functions is to serve as a memo from Congress to itself that it has chosen to leave to the System a great deal of autonomy in its day-by-day and year-by-year operations. This is so because, as long as the private ownership continues, the System will not be amenable to the ordinary techniques of detailed Congressional control."

In brief, those who oppose retirement of Reserve Bank stock believe that substitution of a certificate of membership would amount to much more than merely a "change in the name of the piece of paper issued by the Federal Reserve bank", as it was once described by Representative Multer. 202/ They believe that it would indicate "a change in the structure and character of the Federal Reserve System" and would "involve a risk of diminishing the effectiveness of the System's operations." 203/

200/ Hearings on Federal Reserve After Fifty Years, p. 1878. Banker E. Sherman Adams opposed these features as "designed to undermine the present degree of semi-independence of the Federal Reserve within the framework of government." 1968 Compendium, p. 86.

201/ 1952 Patman Subcommittee Report, p. 60.

202/ 1960 Hearings on Reserve Bank Stock, p. 235.

203/ Chairman Martin, 1968 Compendium, p. 44.

SUMMARY

How does one, with a sincere effort to be unbiased, assess the merits of the various arguments that have been advanced for and against retirement of Reserve Bank stock? A weighing of the arguments is not easy. It is difficult for anyone familiar with the matter to be completely unbiased. Moreover, many of the arguments are nebulous and speculative and have a tendency to shade into each other.

One can at least start the weighing process with two propositions generally accepted by both proponents and opponents of proposals to eliminate Reserve Bank stock. First, such stock does not give member banks any "proprietary" interest in the Reserve Banks or enable them to control the operations and policies of the Federal Reserve System. Second, the stock is not essential to the Reserve Banks from a financial point of view; whether it is desirable for other reasons is another question - the question at issue.

Some of the arguments pro and con can be ruled out as being of minimal importance. Thus, the contention on the one hand that the stock is a financial deterrent to membership in the System and the contention on the other hand that it is a financial incentive to membership are both difficult to support. It is doubtful that the requirement for subscription to the stock as a condition of membership is a major factor in any bank's determination whether to join or to withdraw from the System. It is equally if not more doubtful that a guaranteed annual dividend of 6 per cent is today an incentive to membership. Again, the arguments that retirement of the stock would

aid the U. S. Treasury and would eliminate clerical work obviously are not substantial. On the other hand, the negative argument that the traditional arrangement for member bank stock ownership has "worked well" and should not be changed except for good reasons logically begs the question. And the fact that private business corporations are conventionally organized with capital stock does not seem inevitably to require the conclusion that the Reserve Banks, operated for public purposes, must likewise have capital stock - particularly since Reserve Bank stock does not have all of the usual attributes of stock in private corporations.

Two of the arguments against retirement of Reserve Bank stock - that the stock stimulates interest on the part of member banks and that it enables the Reserve Banks to obtain qualified directors - appear to be only particular facets - or corollaries - of the general argument that member bank stock ownership reflects a desirable combination of public and private interests. That argument in turn is simply another way of stating the final argument against retirement of the stock: that such a change in the law would imply "nationalization" of the Federal Reserve System and impair the independence and effectiveness of the System.

In net effect, we are left with one major argument on each side of the question. Both involve a psychological element, i.e., the "impression" or "image" of the Federal Reserve System in the public mind.

On the one hand, the essential contention made by Mr. Patman and others who favor retirement of Reserve Bank stock is that member bank ownership of the stock not only is unnecessary but gives rise to the impression that the Reserve Banks, although public institutions concerned with national monetary policy, are owned and dominated by private bankers. They argue that, whether true or not, this impression should be dissipated; that the Federal Reserve System should be made to appear clearly and unequivocally as a public and Federal system. Some proponents of retirement of Reserve Bank stock go further: they contend that the stock should be eliminated as one of several means of curbing the so-called "independence" of the System.

On the other hand, the essential argument made by opponents of retirement of Reserve Bank stock is that such a change in the traditional institutional concept of the System as a merger of public and private interests would give the impression that our banking system is being "nationalized" and that the independence of the Federal Reserve from political pressures is being weakened. This impression, they contend, would lead to doubts, both at home and abroad, as to the soundness of our economy and the stability of the dollar. In effect, they emphasize System rather than Federal in the term "Federal Reserve System".

Perhaps both of these "image" arguments have been overstated. It is unlikely that any member bank seriously believes, as claimed by Mr. Patman, that its ownership of Reserve Bank stock means that it "owns" its Reserve Bank or can control Federal Reserve policies; and it is doubtful that such ownership has given rise to any significant public misunderstanding as to the status and nature of the Federal

Reserve System. It seems much more likely that any appearance of member bank "control" may be created, not by stock ownership, but by the fact that member banks elect 6 of the 9 directors of each Reserve Bank; and yet those who advocate retirement of the stock have not suggested (at least since 1938) that the provisions of law regarding election of directors be changed.^{204/} On the other hand, it is questionable whether retirement of Reserve Bank stock in and of itself, without other legislative changes such as GAO audit of the System and the use of appropriated funds for its operations, would have any substantial effect upon the efficacy of System operations, Federal Reserve "independence", or confidence in the dollar.

Perhaps, as many believe, the question of Reserve Bank stock ownership is of no great importance. Nevertheless, it is possible that a symbol, like a country's flag, may have a psychological significance that goes beyond the realm of logic. If ownership of Reserve Bank stock by member banks in fact is regarded as a symbol of control of the System by private bankers, or if, on the contrary, it is in fact a symbol of a blend of private and public interests that tends to enhance the cooperation of banks in achieving the purposes of the System, or if it is actually a symbol of the Federal Reserve "independence" that is defended by some and challenged by others, then the issue is indeed one of basic and fundamental importance.

^{204/} In 1964, President Scanlon of the Chicago Reserve Bank suggested that, if there is any impression that member banks control the Reserve Banks, one way of correcting such a false "image" would be to provide for appointment by the Federal Reserve Board of a majority of the directors of each Reserve Bank. Hearings on Federal Reserve After Fifty Years, p. 756.