

APPENDIX No. 1

Federal Reserve Banks, each to operate in one of the twelve Federal Reserve Districts into which the contry was divided. In determining the boundaries of these districts, regard was had to the convenience and customary course of the business of the country. Each district was made large enough to provide for the operation of a bank with a minimum capital of \$4,000,000. Under the scheme all National banks were required to become members of the System, and State Banks and Trust Companies, which complied with certain provisions laid down by the law, were encouraged to join. Member banks were required to subscribe to the capital stock of the Federal Reserve Bank in their district to an amount equal to 6 per cent of the member bank's capital and surplus.

Only a portion of this has yet been called up, but on November 21st, 1923, the total capital paid into these banks amounted to \$110,103,000.

Less than a quarter of the banks of the United States have become members of the Federal Reserve System, but this represents approximately 50 per cent of the total capitalization of the banks of the United States.

Each of the twelve Federal Reserve Banks is managed by a Board of Directors elected from the member banks by a special method devised to be equitable, and are, therefore, democratic in their management.

Above these twelve banks is a central board at Washington known as "The Federal Reserve Board." This Board consists of seven members, including the Secretary of the Treasury, the Comptroller of Currency and five appointed by the President of the United States with the advice and consent of the Senate. In addition, there is a Federal Advisory Council consisting of twelve members appointed by the Board of Directors of the twelve Federal Reserve Banks. The Federal Reserve Board appoints three of the nine directors of each of the Federal Reserve Banks, while in turn each Federal Reserve Bank appoints a member of the Federal Advisory Council, the object being to give complete inter-communication of ideas within the whole system.

Every bank, or banking association, belonging to the Federal Reserve System is required to maintain its entire legal reserve in the form of a deposit in the Federal Reserve Bank of its district. The Federal Reserve Law recognizes only one form of legal reserve, that is, a member bank's deposit in its Federal Reserve Bank. They may keep balances in other banks, but their legal reserve, the reserve which the Government looks upon as the minimum below which the public interest demands that banks should not go, must all be kept on deposit in the Federal Reserve Banks, which thus become the reservoir of the reserve money of the nation. The great purpose to be served by this is that the reserves are so mobilized in the centre of great districts that they are available at points in the country where the demand is greatest for them, the Federal Reserve Banks being permitted to re-discount for one another and for all the member banks of the system.

Much discussion has taken place with regard to the relation of the Federal Reserve to agricultural credit. It is sufficient for our purpose to say that the Federal Reserve Bank, as the other general institutions described in this report, does not do business either directly with individual farmers or with individuals in any other walk of life. The Federal Reserve scheme presupposes that the farmer or other person borrows through his local bank, which, if they are members of the Federal Reserve system, may, in turn, rediscount with the Federal Reserve Bank, the paper received from customers. The Federal Reserve Act places certain limitations on the character of the paper to be discounted, but in reality, as amended in 1919 and 1923, special provision is made for its banks providing a short term credit for agricultural purpose. For example, any Federal Reserve Bank may discount "notes, drafts and bills of exchange issued or drawn for agricultural, industrial or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes." The law does not permit the