The Board of Governors

The Board of Governors of the Federal Reserve System, with headquarters at Washington, D.C., consists of seven members, who are appointed to their posts by the President of the United States, subject to confirmation by the Senate. Appointments to the Board are for terms of fourteen years, with one term expiring every two years. Regional representation is assured by the provision that no Federal Reserve District may have more than one member. Operating expenses of the Board are defrayed from assessments levied upon the Federal Reserve Banks.

Quite literally, the Board of Governors represents the essential link between Government and our private enterprise banking system. In adjusting the country’s money supply toward the goal of stable economic progress, the Board of Governors plays the primary role through its authority over changes in member bank reserve requirements, its participation in open market operations, and its approval of changes in discount rates at the Federal Reserve Banks.

The Board issues regulations, passes on budgets of the Federal Reserve Banks, coordinates System research and publications, supervises Reserve Bank accounting procedures, and directs bank examination procedures. In System matters that involve relations with executive departments or with congressional committees, the Board serves as representative of the System.

Federal Open Market Committee

Of great importance in the Federal Reserve structure is the Federal Open Market Committee. It consists of the members of the Board of Governors and the Presidents of five Reserve Banks. Federal Reserve open market operations, for which the Committee is solely responsible, represent the most important single instrument of credit control. Purchases of Government securities directly increase commercial bank reserves, making it possible for the banks to lend more money. Sales of Government securities by the System have directly the opposite effect. Such purchases and sales are authorized by the Committee with sole regard to the business and credit needs of the country.

above that amount required to maintain a surplus equal to their paid-in capital. In 1966, the Banks paid the Treasury more than $1,649 million out of their total earnings. These varied arrangements for regional representation, election of directors, and distribution of profits emphasize the unique character of the Federal Reserve Banks as organizations occupying a position that is partly private enterprise and partly Government.

This condensed account of the Federal Reserve structure may be supplemented in any complete work on the subject. The Federal Reserve System—Purposes and Functions, published by the Board of Governors of the Federal Reserve System, copies of that publication are available at any Federal Reserve Bank or Branch.

April 1967
The Federal Reserve System

On December 23, 1913, President Woodrow Wilson signed the Federal Reserve Act establishing the Federal Reserve System. It was, according to the preamble, "An Act to provide for the establishment of Federal Reserve Banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes." Section 4 of the new statute charged the Federal Reserve Banks with making "such discounts, advances, and accommodations as may be safely and reasonably made with due regard to the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture."

The Federal Reserve System marked a new era in American banking. Periodic money panics, habituated by the Panic of 1907, had plagued the country for many years. In 1908, a National Monetary Commission, appointed by Congress, had begun the formal studies that laid the groundwork for the passage of the new Act. It was designed to end extreme variations in the money supply and thus contribute to economic stability.

By the end of 1914, twelve Federal Reserve Banks had been established under the supervision of a central body designated as the Federal Reserve Board (now the Board of Governors of the Federal Reserve System), with headquarters at Washington, D.C. The System has weathered the impact of two world wars and a great depression. Now, in 1966, it has some 6,150 member banks, representing every section of the nation. Its operations have their impact at every level—local, national, and international.

A distinguishing feature of the Federal Reserve System is its structure, which is an effective combination of public and private interests designed to promote the national welfare. At the base of the structure are the member banks, which are privately owned and operated under either national or state charters. Next are the twelve Federal Reserve Banks and their twenty-four branches. They are partly owned by member banks and are placed under the general supervision of the Board of Governors of the Federal Reserve System. There is also the Board of Governors of the Federal Open Market Committee.

The Member Banks

All national banks in the United States are required to be members of the System, while state banks are admitted to membership upon application and after certain requirements. On December 28, 1966, there were 13,770 commercial banks in the country, of which 6,150 were member banks. Although the member banks accounted for only 45 percent of the total number of commercial banks, they held approximately 83 percent of total commercial bank deposits.

Member banks assume certain obligations. They become subject to numerous safeguarding provisions of the Federal Reserve Act, among which are those pertaining to affiliations with securities and investment companies, interlocking directorates, removal of directors and officers because of unsafe or unsound practices, payment of interest on deposits, and branch bank relations. State bank members are subject to examination and supervision by the Federal Reserve System.

Another obligation of member banks is to keep on deposit with the Federal Reserve Bank of their district a stipulated proportion of their deposits. They are also required to subscribe to the capital of the Federal Reserve Bank of their district in an amount equal to one-fourth of their capital and surplus. At the close of 1966, the required reserves of members, including their own vault currency and coin, were in excess of $234,438 million, while the total paid-in capital of the Federal Reserve Banks was about $570 million.

Numerous advantages from the membership are enjoyed by member banks. Among such advantages is the privilege of borrowing from the Federal Reserve Banks when needed. They need additional funds. The individual member bank thus does not stand alone; it has recourse to the money lending powers of the Federal Reserve Banks.

The Federal Reserve System provides nationwide facilities for collecting checks, settling clearings, and disbursing governmental and personal credits. Member banks also look to the Federal Reserve Banks for their supplies of currency and coin.

Issuance of currency is a function of most central banks. The Federal Reserve Banks issue Federal Reserve notes, which account for about 90 percent of the United States money in circulation. Membership in the Federal Reserve System entitles member banks to receive a cumulative dividend of 6 percent on their paid-in capital and surplus in the Federal Reserve Banks. In 1966, such dividends totaled about $34 million. Stock ownership also enables member banks to elect the nine directors of the Federal Reserve Bank of their district.

The Federal Reserve Banks

The Federal Reserve Act stipulated that there should not be less than eight and not more than twelve Reserve Banks. The maximum number was determined upon, and twelve regional banks were established. They are located in the cities of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco. Branches of Federal Reserve Banks have been established in twenty-two other cities. The Federal Reserve Bank of Atlanta, as an example, has branches in Birmingham, Jacksonville, Nashville, and New Orleans. Each Reserve Bank is a corporation of the federal government, having as its own Board of Directors. Directors of a Reserve Bank are nine in number, divided into three classes of three each, designated as Classes A, B, and C. Class A directors are elected by the stockholding banks and represent such banks. Class B directors are also elected by the member banks but in the time of their election must be actively engaged in their district in commerce, agriculture, or some industrial pursuit; no Class B director may be an officer, director, or employee of any bank. The Board of Governors of the Federal Reserve System appoints the Class C directors, one of whom is designated as Chairman and another as Deputy Chairman. No Class

SOURCES AND DISTRIBUTION OF EARNINGS OF FEDERAL RESERVE BANKS

<table>
<thead>
<tr>
<th>Year</th>
<th>Earnings from Current Operations</th>
<th>Total Current Earnings</th>
<th>Profits on Foreign Exchange Transactions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>$1,212,115,218</td>
<td>$1,212,115,218</td>
<td>$1,212,115,218</td>
<td>1000</td>
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</tbody>
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Distribution

Federal Treasury
Prepaid Interest (Included in Profit Notes) $1,649,155,164
Interest from Notes on Federal Securities 207,401,127
Total Investments 1,856,556,291
Less Earnings, Losses, Surtaxes, and Dividends 2,476,204
Subtotal 1,854,079,927
Total Other 1,254,449
Total Dividends 1,099,406,182
Total Transferred to Surplus $1,212,115,218

Note: Details may not add to totals because of rounding.