WILEY

Is the Federal Reserve System Really Necessary?
Author(s): Deane Carson
Source: *The Journal of Finance*, Dec., 1964, Vol. 19, No. 4 (Dec., 1964), pp. 652-661
Published by: Wiley for the American Finance Association
Stable URL: https://www.jstor.org/stable/2977118

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at https://about.jstor.org/terms

and *Wiley* are collaborating with JSTOR to digitize, preserve and extend access to *The Journal of Finance*

This content downloaded from
149.10.125.20 on Thu, 24 Mar 2022 00:25:05 UTC
All use subject to https://about.jstor.org/terms

IS THE FEDERAL RESERVE SYSTEM REALLY NECESSARY?

DEANE CARSON*

SINCE 1964 MARKS THE GOLDEN ANNIVERSARY of the Federal Reserve System, the title of this essay may appear somewhat uncharitable to those who have come to think of the Federal Reserve in terms only slightly less affectionate than those accorded to the Old Lady of Threadneedle Street.[1] I hasten to assure the reader that my heresy, if that is what it is, involves principally the word *System*; that is to say, I shall examine the need for a Federal Reserve *System* as it is presently constituted, quite apart from the generally acknowledged need for central bank monetary policy. While this task might be thought properly to lie within the province of the political scientist, I shall show that, on the contrary, there are many important economic aspects involved in such an inquiry.[2]

Central to the analysis which follows is the proposition that the success of the essential function of the central bank, monetary management, is independent of the structural arrangements that characterize its organization. This is to say, central bank policies can be executed within a variety of organizational structures, both internal as well as external vis à vis the commercial banking system. The Federal Reserve System *qua System* is but one of a number of such structural arrangements within which a monetary policy can be carried on.

Unfortunately, this fact is little appreciated. A fair sampling of money and banking textbooks, while explicitly silent on the point, leave one to infer that in some unique sense the existing system is a necessary adjunct to the pursuit of successful monetary management. After a chapter or two on the structure of the Federal Reserve System, the student is successively introduced to *functions* and to *policy*.

Out of this, or perhaps independent from this, have developed a mythology and a basic fallacy. The mythology has many aspects: it is generally believed that "member banks" are necessary to the conduct of monetary policy; it is

* Senior Economist, Office of the Comptroller of the Currency, and Associate Professor of Economics (on leave), Brown University. Views expressed in this paper are those of the author and do not necessarily reflect those of the Office of the Comptroller of the Currency.

1. If the timing of this critique seems somewhat uncharitable, I must fall back on an amusing precedent: Allan Sproul, one of the more astute central bankers in recent times, advocated abolition of the Office of the Comptroller of the Currency in his contribution to a book of essays sponsored by the Comptroller to mark the Centennial of the National Banking System. See his "The Federal Reserve System—Working Partner of the National Banking System for Half a Century" in Deane Carson (ed.), *Banking and Monetary Studies: In Commemoration of the Centennial of the National Banking System,* (Homewood, Ill.: Richard D. Irwin Inc., 1963), p. 77.

2. This has been recognized by Representative Wright Patman who has marked the Federal Reserve's fiftieth milestone in his own inimitable fashion; namely, by a thoroughgoing investigation of the structure of the Federal Reserve System, with an overriding emphasis upon its "independence" and mix of public and private powers.

This content downloaded from
149.10.125.20 on Thu, 24 Mar 2022 00:25:05 UTC
All use subject to https://about.jstor.org/terms

generally believed not only that legal reserve requirements are necessary to the conduct of monetary policy but also that these reserves have to be held at the central bank; it is widely if certainly not universally believed that the Federal Reserve Banks serve many useful functions that could not and are not performed by private institutions, such as discounting, clearing of checks, and provision of vaults for the safekeeping of securities; and, without exhausting the mythology, a rather substantial sentiment exists to the effect that the whole pyramid of varying *authority*—the two hundred and sixty-one Directors of Federal Reserve Banks and their branches, the twelve-man Open Market Committee, the seven-man Board, and the twelve-man Federal Advisory Council—somehow formulates a monetary policy superior to that which could be conjured up by a single Governor of the calibre of Montague Norman or Benjamin Strong.

The fallacy that all this has fostered is simply this: monetary policy, being an extremely complex matter, requires a very complex *System* to make it operative, and the resources that we now allocate to monetary management are required to maintain a viable central banking function in relation to the goals we have assigned to the Federal Reserve.[3] In opposition to this I would advance the proposition that a simple central banking structure is most conducive to successful monetary management, other things equal, and that we can reduce both its internal and its external costs by adopting certain basic reforms.[4]

Basically, my proposals involve two such reforms which, while perhaps not interdependent at first glance, are closely related in fact. I propose, first, that membership in the Federal Reserve be placed on a completely voluntary basis; and, second, that compulsory legal reserve requirements be abolished. These, together with their corollary structural changes, are discussed in turn below.

I. The Case for Voluntary Membership

At the present time, state-chartered banks may elect to become members of the Federal Reserve System; banks chartered by Federal authority must become members as a matter of law. This distinction between banks according to the source of charter was initially imposed on the grounds that the purposes of the Federal Reserve Act could only be carried out if a substantial fraction of the cash reserves of commercial banks were mobilized in the Federal Reserve District Banks, and if a substantial number of banks had access to the discounting privileges afforded by these regional arms of the Federal Reserve System. Fears that compulsory membership for all commercial banks would compromise the rights of the several states, together with the easy expediency

3. The recent Patman inquiry (Hearings *op. cit.*), dwelt at some length on this matter although, unfortunately, its shots were so scattered that the essential allocation problem was submerged.

4. Lack of space prohibits discussion of all such reforms. One in particular deserves separate treatment and cannot be included in this paper; namely, the need to transfer the supervisory functions now performed by the Federal Reserve to some other agency. This has been suggested by at least one present member of the Board, J. L. Robertson, and is reportedly looked upon with favor by others. In any case, the complexity of monetary management would seem to argue for single-minded attention of the Board.

This content downloaded from
149.10.125.20 on Thu, 24 Mar 2022 00:25:05 UTC
All use subject to https://about.jstor.org/terms

of subjecting Federally chartered banks (which were already subject to Federal control) to captive membership in the System, were responsible for the distinction between banks as written into the Federal Reserve Act.

I shall demonstrate in this section that voluntary membership (1) would not, as some have alleged, destroy the effectiveness of monetary management, and (2) would reduce the discrimination against (particularly) smaller Federally-chartered banks that are now captive members. Initially, we assume that the second part of the suggested reform is not adopted, that is to say, member banks continue to be subject to compulsory legal reserve requirements which must be held with the District Banks. This assumption is dropped in Section II of the paper.

Our initial task is to estimate the probable results of legislation providing for voluntary membership in the Federal Reserve. Such an estimate is based upon the assumption that National banks of any given size would elect to remain in the System in the same proportion that State-chartered banks of that size are presently members. Since we have data at hand on the assets of member National banks, and member State banks in various size groups, estimates can easily be generated. Tables 1 and 2 provide the basic data for these estimates. By summing the totals for various classes of banks in Table 1, we observe that insured bank assets totaled $310.8 billions at the end of December, 1963. Next, summing the totals of column 7 in each Table, we find that if all insured commercial banks were accorded the right to forgo System membership, something like $98.1 billion of commercial bank assets would be "outside" the Federal Reserve. This represents 31.5 percent of total assets.

The effectiveness of monetary policy depends to some extent on the pervasiveness of its impact and possibly but not clearly upon the percentage of banking institutions that have access to the discount window.[5] Any correlation

TABLE 1
NUMBER AND ASSETS OF INSURED COMMERCIAL BANKS, BY SIZE, DECEMBER 1963
(dollar amounts in millions)

1	2	3	4	5	6	7
Deposit Size	National		State-Member		Insured Nonmember	
(millions of dollars)	No. Banks	Assets	No. Banks	Assets	No. Banks	Assets
Less than 1.0	132	$ 123	24	$ 22	630	$ 535
1.0 to 1.9	388	702	131	224	1,665	2,766
2.0 to 4.9	1,316	5,100	465	1,758	2,563	9,228
5.0 to 9.9	1,145	9,082	328	2,530	1,282	9,760
10.0 to 24.9	935	16,037	277	4,647	688	11,314
25.0 to 49.9	329	12,739	104	4,068	144	5,434
50.0 to 99.9	167	13,257	68	5,459	48	3,573
100.0 to 499.9	164	41,052	64	15,170	30	6,102
500 and over	39	72,143	27	57,337	1	677
Total	4,615	$170,233	1,488	$91,215	7,051	$49,390

5. Under present law the Federal Reserve banks can technically make advances to non-member banks under 12 U.S.C. 347c.

This content downloaded from
149.10.125.20 on Thu, 24 Mar 2022 00:25:05 UTC
All use subject to https://about.jstor.org/terms

TABLE 2
ESTIMATE OF ASSETS OF NONMEMBER NATIONAL BANKS IF MEMBERSHIP WERE OPTIONAL
(dollar amounts in millions)

1	2	3	4	5	6	7
	Assets of					
Deposit Size (millions of dollars)	Insured State Banks	Insured Non-member Banks	Assets of Insured Non-member Banks as Percent of Insured State Banks	Assets of National Banks	Assets of National Banks that would would be nonmembers (column 3 times column 4)	Cumulative Nonmember Assets
Less than 1	$ 557	$ 535	96.1	$ 123	$ 118	$ 118
1.0 to 1.9	2,990	2,766	92.5	702	649	767
2.0 to 4.9	10,986	9,228	84.0	5,100	4,284	5,051
5.0 to 9.9	12,290	9,760	79.4	9,082	7,212	12,263
10.0 to 24.9	15,961	11,314	70.9	16,037	11,368	23,531
25.0 to 49.9	9,502	5,433	57.2	12,739	7,285	30,816
50.0 to 99.9	9,032	3,573	39.6	13,257	5,244	36,060
100.0 to 499.9	21,272	6,102	28.7	41,052	11,776	47,836
500 and over	58,014	677	1.2	72,143	842	48,678

between policy effectiveness and *number* of member banks, however, must certainly be weak, since the impact of scarce or ample funds would not appear to depend upon the presence of Federal Reserve stock in the portfolio of any particular bank. Furthermore, our highly developed system of correspondent banking relationships insures that monetary policy changes will be transmitted to the entire banking structure. I would certainly argue, in any case, that the effectiveness of monetary policy with 68.5 percent of commercial bank assets covered will be no less than when 90 or 100 percent coverage obtains.[6] Since the reasons for this are covered in the following section, they need not be considered here.

An alternative to the voluntary membership proposal discussed above would provide for compulsory membership of all insured commercial banks above a given size. The cutoff asset size that has been occasionally mentioned is $10,000,000. Under this proposal, obviously, larger non-member State banks would be required to join, while all National banks under the cutoff size would be afforded the choice now open to State-chartered banks. For the latest available data (end of 1963) I have calculated that this cut-off point would reduce "covered" assets by only approximately $6.2 billion under the extreme assumption that all National banks with less than $10 million total assets elect to forgo Federal Reserve membership. At the same time, voluntary membership would be extended to approximately 77 percent of all insured commercial banks, from the present 66 percent.[7]

6. As a matter of fact, the middle 1920's are often considered years of effective monetary policy; at that time approximately 69 percent of commercial bank assets were covered.

7. Table 1.

This content downloaded from
149.10.125.20 on Thu, 24 Mar 2022 00:25:05 UTC
All use subject to https://about.jstor.org/terms

On its face, this proposal would seem to be a superior alternative to completely voluntary membership. And indeed, it probably is a more satisfactory basis for discrimination than that found in the present law. On the other hand, its superiority to complete voluntarism can only be defended on the grounds that effective monetary policy requires that a large proportion of the reserves of the commercial banks be held in the form of compulsory balances at the Reserve Banks. More precisely, it requires the finding of a positive correlation between effectiveness of monetary policy and the percent of total bank reserves held within the System. Again this is properly a matter for consideration in Section II and is therefore postponed for the moment.

There are, however, clear advantages to the completely voluntary membership proposal. Certainly the most important of these is that it would enable all insured banks to choose between public and private suppliers of banking services to banks. In this connection it is worthy of note that large private banks, as correspondents, now provide a very wide range of such services on terms that are clearly superior to similar services provided by the Federal Reserve Banks. Among the more important of the latter are check-clearing arrangements, temporary loan accommodation, credit and operations analysis, and provision of economic information. Small National banks find it convenient to utilize these privately supplied services, against which they must carry correspondent balances, in spite of the fact that they must also carry legal reserves with the District Banks. In effect, compulsory membership imposes a discriminatory burden on these banks in the form of double cash balances.

Table 3 demonstrates the extent to which Federal Reserve membership leads to this result.

It indicates a consistent pattern of higher cash holdings to total assets for member banks than for nonmember banks. This is not due to lower reserve requirements for State-chartered banks; indeed, of the selected states, nine have substantially higher reserve requirements than those currently imposed by the Federal Reserve,[8] six states impose legal reserve requirements that are substantially the same as System requirements,[9] and only two states[10] have reserve requirements that are substantially less than the Federal Reserve's 12.5 percent and 4 percent requirements against demand deposits and time deposits respectively.

The clear implication of these comparisons is that membership in the Federal Reserve leads banks to hold a higher proportion of their assets in cash than is considered necessary by banks that are not in the System. From this we deduce that compulsory membership of National banks, where it is

8. Wyoming (20 and 10 DD and TD); Alaska (20 and 8); Idaho (15 percent of all deposits); Kansas (12½-20 and 5); West Virginia (15 and 5); South Dakota (12-20 depending on size but one-third may be held in bonds); New Hampshire (15 and 15); Vermont (30 and 8); and Mississippi (15-25 and 7-10).

9. New Mexico and New Jersey (12 and 4); Hawaii, Connecticut and Maine (12 and 5); and District of Columbia (12½ and 4).

10. North Dakota (10 and 5); and South Carolina (7 and 3).

This content downloaded from
149.10.125.20 on Thu, 24 Mar 2022 00:25:05 UTC
All use subject to https://about.jstor.org/terms

TABLE 3
CASH AND BALANCES WITH BANKS AS A PERCENTAGE OF TOTAL ASSETS OF NATIONAL, STATE MEMBER, AND STATE NON-MEMBER BANKS IN SELECTED AREAS[(a)]
JUNE 29, 1963*

State or Area	National Banks	State-chartered Member Banks	State-chartered non-Member Banks
United States	17.6	18.4	12.5
Alaska	12.9	—	13.0
Connecticut	17.5	18.3	10.4
District of Columbia	18.3	16.4	14.5
Hawaii	17.1	—	12.4
Idaho	11.8	12.4	11.7
Kansas	18.6	17.9	14.1
Maine	13.8	12.9	9.2
Mississippi	18.6	18.5	16.7
New Hampshire	17.6	—	6.2[(1)]
New Jersey	12.9	12.5	10.5
New Mexico	17.7	18.5	15.0
North Dakota	12.6	—	9.4[(2)]
South Carolina	20.3	16.4	15.2
South Dakota	13.4	13.6	11.3
Vermont	11.4	—	6.8
West Virginia	17.2	19.2	12.7
Wyoming	15.2	17.2	14.0

* Source: FDIC *Assets, Liabilities and Capital Accounts of Commercial and Mutual Savings Banks March 18 and June 29, 1963.*

(a) States were selected to exclude all those in which banks subject to Reserve City legal reserve requirements were in operation.

(1) Includes 20 banks, 1 of which was a member bank.

(2) Includes 115 banks, 2 of which were member banks.

due to a "locked-in" effect,[11] discriminates without economic justification against banks holding Federal charters. In effect, captive banks, particularly the smaller National banks, maintain sterile cash reserves required by law for which they receive few compensating benefits; in order to carry on their business, they also must carry correspondent balances which do bear a return in the form of needed services. Non-member banks, which may and almost invariably do make their legal reserves serve double-duty as service-generating correspondent balances, are placed in a position of competitive advantage.

While the inequity of present membership requirements would be somewhat modified if compulsory membership were adopted, discrimination would not be eliminated. Indeed, while discrimination by charter would be avoided, total inequity might well increase. Under compulsory membership all banks that find privately produced bank services to banks superior to those provided by the Federal Reserve would be deprived of the choice now accorded to State

11. All National banks, of course, could escape the burdens of membership by changing to State charters. The costs of this, however, are quite high in many cases. When a bank changes its charter it must also change its name, entailing considerable out-of-pocket expenses and loss of "good will". It is not reasonable to impose this cost in order to reduce other costs that have no economic justification, and where a reasonable alternative remedy is at hand.

This content downloaded from
149.10.125.20 on Thu, 24 Mar 2022 00:25:05 UTC
All use subject to https://about.jstor.org/terms

banks. Since it is principally the larger banks that find Federal Reserve membership attractive, such a plan would tend to discriminate against small banks in general rather than against a particular segment of this group.

II. The Need for Reserve Requirements and Reserve Balances at the Federal Reserve Banks

Desired cash holdings of the banking system limit the marginal expansion of bank deposits and, to the extent that they are influenced by legal reserve requirements, it can be said that the latter serve as a fulcrum for credit control. More precisely, however, the monetary control mechanism operates *via* changes in the level of total reserves relative to desired cash holdings of the banking system. I shall contend in this section that the necessity for legal reserve requirements and minimum cash balances at Federal Reserve banks is a function of the particular objectives of Federal Reserve policy; I shall further argue that the locus of the banking system's cash reserves is of little significance with respect to either the structure of the Federal Reserve System, or its effectiveness as a central bank.

A. *The Functions of Reserve Requirements and A Proposal.* Reserve requirement changes are a substitute for open market operations.[12] An initial justification for the existence of legal reserve requirements is, therefore, that their levels can be changed, and with them monetary and credit expansion potentials. It is not within the scope of this discussion to weigh the merits of changes in reserve requirements *versus* changes in the open market portfolio of the central bank. In a zero percent reserve requirement banking system, however, it must be recognized that the substitute, imperfect as it now is from the standpoint of effectuating monetary control, would no longer exist.

It can be argued, therefore, that some future situation might arise that would call for the raising of reserve requirements, even though the Federal Reserve Board has not seen a need to do so since February 1951, thirteen years and several business expansions ago.[13] I recognize this possibility as a defect in the plan, but a defect which could be easily remedied through congressional action, given the compelling circumstances that would give rise to the need.

Quite apart from the above, a great deal of emphasis has been given to the *level* of legal reserve requirements as a base which limits the potential expansion of money and credit. Arithmetical exercises in standard textbooks "prove" that the height of reserve requirements determines the maximum expansion potential of any given amount of excess reserves, subject to assumptions that are usually specified.[14] It is not at all clear that this fact is relevant to the functionality of legal reserve requirements. In the first place, banks

12. Cf. Joseph Aschheim, *Techniques of Monetary Control* (Baltimore: The Johns Hopkins Press, 1961), Chapter II.

13. On November 26, 1960, the Board raised country bank reserve requirements from 11 to 12 percent, while simultaneously permitting the calculation of vault cash in the reserve base. This increase was a technical adjustment to the inclusion of vault cash and therefore does not count as a monetary policy action.

14. Zero desired excess reserves, and no change in cash in circulation.

This content downloaded from 149.10.125.20 on Thu, 24 Mar 2022 00:25:05 UTC
All use subject to https://about.jstor.org/terms

individually and in the aggregate would hold some level of desired cash reserves against deposits in the absence of legal requirements,[15] thus providing the "base" for monetary and credit expansion (or contraction).

In the second place, since the levels of reserve requirements have been progressively lowered (with few reversals) in the postwar period without appreciably affecting the performance of monetary policy, the question can be raised as to why they are at all necessary in the present context—that is, as a limitation on the potential expansion of money and credit.

Cash reserves can be controlled by open market operations, and the tone of the market observed by the simple device of central bank hypothication of the market's desired level of bank cash reserves. Given continuation of reporting requirements, the device of "shadow reserve requirements"[16] suggested here would enable the central bank to observe "excess reserves," "free reserves" and "net borrowed reserves" as indicators of money market conditions without the necessity of formal requirements.

The plan would work in the following way: suppose the Federal Reserve Board were to announce that it considered X percent of deposits (details aside) an appropriate level of cash reserves for the commercial banks (or some segment of the banking system).[17] Periodic reports to the Federal Reserve on actual cash holdings and deposits would give the monetary authorities precisely the same "feel of the market" that they now require to conduct defensive open market operations to offset very short-term disturbances in the money market.

It is of course a debatable question whether offsetting these changes is an appropriate objective of monetary control in the pursuit of longer range goals of full employment, price level stability, and economic expansion. Many would argue that day-to-day fluctuations in cash reserves need not interfere with the achievement of an appropriate level of change in the money supply which, after all, is the most important means of realizing the goals. Beyond this, it has been argued persuasively that free reserves are a misleading guide for monetary management.[18]

B. *Slippage Effects of the Zero Reserve Requirement Proposal.* The proposal set out in skeleton form above[19] raises a very obvious question: will the abolition of reserve requirements increase the slippage that now exists between policy actions and policy results? Contrary to one's first inclination to answer affirmatively, it is not at all certain that this should be the case.

15. For example, state chartered banks in Illinois are not subject to reserve requirements, yet they keep something in the order of 12 percent of their deposits in cash.

16. I am indebted to Sherman Shapiro for coining this phrase to describe the mechanism.

17. It is not necessary to make such an announcement to generate the statistical indicators. However, an announced level of appropriate reserves would benefit portfolio managers and managers of reserve positions in that it would remove one source of uncertainty as to central bank policy that would exist if the announcement were not made.

18. Cf. A. James Meigs, *Free Reserves and The Money Supply,* (Chicago: The University of Chicago Press, 1962).

19. Rather than extend this essay unduly by discussing the details of the proposal (transition problems, the eligibility of various cash assets for reserve computation, and other technicalities), I choose to leave these to future discussion.

This content downloaded from
149.10.125.20 on Thu, 24 Mar 2022 00:25:05 UTC
All use subject to https://about.jstor.org/terms

We are not concerned with slippages in general, but rather with one segment of the total lag between policy actions and their ultimate effects upon income and prices. This segment is the initial one, that which spans the sequence between a change in total cash reserves of the commercial banks and the employment of these reserves in loans and investments.

While this is basically an empirical question, intuition leads to the belief that if banks individually and collectively are in equilibrium (in the sense that their cash to deposit ratios are at the desired level), changes in cash reserves occasioned by open market operations will elicit responses quickly and in the right direction. If the Federal Reserve purchases securities (presumably, but not necessarily with Federal Reserve notes), the banks will find actual cash in excess of desired cash, and will take steps (loans, investments) to return to equilibrium.

On the other hand, sales of securities by the central bank will push the banks into equilibrium in the opposite direction. If the Federal Reserve retains its discount window, the deficit banks could choose between "borrowing" from themselves and borrowing from the Federal Reserve Bank. As Sprinkel has pointed out, the discount window is itself an institutionally sanctioned source of slippage[20]; I would suggest that its usefulness would depart with the demise of legal reserve requirements.

In effect each bank would have its own discount window; but we know that banks eschew borrowing as sin, and there is no reason to believe that this attitude would change just because the lender was the bank itself. I suspect that loan and investment officers would keep an even sharper eye on the actual cash ratio than they now do on the free reserve position. Temporary departures from desired equilibrium would occasion furrowed brows in the Board room and charges to the operating officers to "get the cash ratio back where it is supposed to be."

Over the monetary cycle the banks might well change their levels of desired cash reserves relative to deposits in a way that would counteract monetary policy. But this is hardly a peculiar defect of the zero reserve requirement proposal, since in effect precisely the same thing occurs with existing legal reserve requirements.

III. Conclusions

I have presented the case for voluntary membership in the Federal Reserve and a system of zero required cash reserves. The Federal Reserve System has evolved in the past half century into a vast and cumbersome machine; a quasi-private organization, its regional staffs have grown far out of proportion to their importance in conducting monetary policy. The tourist business in Maine may indeed be an important area of economic inquiry, but it is difficult to see its connection with the goals of monetary control. The district Federal Reserve Banks engage in such irrelevancies simply because of the archaic notion of membership in the Federal Reserve System. Catering to the banks to induce them to retain membership diverts a good deal of the attention of our

20. Beryl Sprinkel "Monetary Growth as An Economic Predictor, *Journal of Finance*, September 1959, p. 342.

This content downloaded from
149.10.125.20 on Thu, 24 Mar 2022 00:25:05 UTC
All use subject to https://about.jstor.org/terms

monetary authorities from the main business at hand. Voluntary membership would go far toward a solution to this problem.

Reserve requirements are unnecessary to the effective conduct of monetary policy. They impose a tax on member banks that might well be levied in another way, if the revenue is needed or a need exists for penalizing this particular industry. Since they serve no liquidity purpose, it is extremely difficult to justify their existence.

This content downloaded from
149.10.125.20 on Thu, 24 Mar 2022 00:25:05 UTC
All use subject to https://about.jstor.org/terms