

U. S. CONTROL OVER RESERVE BANKS LIMITED

Common Theory of Federal
'Ownership' Is Erroneous.

By N.E. Service
FORT WORTH, Texas, April 7.—A scramble of banks to get under the protecting wing of the federal reserve system directly affects every American.

Yet the system is widely misunderstood. And no wonder. It is called "federal," though Uncle Sam doesn't own its banks. It is called a "system" though each of the twelve reserve banks is an independent organization, united only by the influence and partial control of a federal board in Washington.

The idea of the federal reserve banks is simple. A federal reserve bank does for its member banks almost exactly what an ordinary bank does for its customers. John Smith, thrifty citizen, having saved up a little more cash than he needs at the moment, goes to his bank and deposits it.

It isn't much, but the surplus cash of thousands of Smiths pooled together in bank deposits, give the bank great sums to lend out to irresponsible men who want the money to serve business needs.

Pools Surplus Cash

A federal reserve bank does the same thing for its members. It receives and pools the surplus cash funds of its member banks, collecting these into reservoirs of cash and credit.

Each member must keep there from 7 to 13 per cent of its deposits. These reservoirs then may be tapped by loans, by member banks when they have need, just as John Smith might withdraw deposits or get a loan from his bank.

All national banks had to become members, and any state banks above a certain capitalization could join if they met certain requirements.

Such banks in each district formed their federal reserve bank, each bank subscribing to stock equal to from 3 to 6 per cent of their own capital stock. Thus the member banks own the reserve banks.

Pay Franchise Tax

But they do not entirely control them, nor do they get all the profits from them. They may receive 6 per cent on the federal reserve stock they hold. Profits above that are added to the reserve bank's surplus until that surplus equals its capital.

After that, a tenth of such profits are added to surplus and the remaining profit goes into Uncle Sam's treasury as a franchise tax. Uncle made \$2,000,000 that way last year.

Since the member banks own their federal reserve bank, they elect its directors; that is, they elect six out of the nine, the other three being appointed by the federal reserve board in Washington.

That is where Uncle Sam and the "federal" part come in. The twelve widely separated banks are co-ordinated by an eight-member federal reserve board in Washington.

President Names Board

The secretary of the treasury is always chairman and the comptroller of the currency is a member. The president appoints the other six "by and with the advice and consent of the senate."

It is this board and its influence on the reserve banks that makes "the federal reserve system."

The board makes no loans itself; it has no money. Its principal control is because it must approve the "rediscount rates" established by the reserve banks.

"Rediscount" is not as mysterious as it sounds. Let's say John Smith is a grocer. He wants to buy 100 barrels of flour. He hasn't the money. But he is known to his bank as an honest merchant who pays his debts.

His bank is glad to lend him the money, taking his short-time note.

Pledges Notes for Loans

But let's say the bank just at that time is having a lot of other requests for loans; so many that it hasn't the cash to grant them all.

The bank, too, must borrow.

Being a federal reserve member, it takes Smith's note and others on which it has already loaned money, to its federal reserve bank, and pledges them for a loan. If the reserve bank, on examining the notes, decides they meet the requirements of the law, it makes the loan.

That is a "rediscount," and the reserve bank charges for that loan is the "rediscount rate," uniform in each district, and applied in Washington.

Issue New Currency

But "rediscounting," or loaning to members, is not all that goes on in a federal reserve bank. You will find them issuing to member banks new currency when the business situation demands, as during the recent crisis, against reserves and legally-specified collateral.

You will find them retiring this currency, sorting, counting, destroying, or replacing it when it comes back to them from member banks, thus regulating the supply of currency.

You will find them acting for the government in selling and buying in again its bond issues and other securities. The great World war loans were floated through the reserve banks.

Influence Interest Rates

You will find whole floors devoted to fast clearance of inter-city checks for members.

You will find them buying up government bonds, bankers' acceptances and bills in the open market, not for speculation, but deliberately to affect the supply of available credit.

'LAMBURGERS' IN STYLE

Unemployed Salesman Popularizes a New Sandwich in Texas.

SAN ANTONIO, April 8.—Buddie King, once an unemployed salesman, is whipping the depression by popularizing "lamburgers," a toasted sandwich made of lamb instead of hamburger meat. Now his recipes are in demand throughout west Texas and his thriving business has the support of the "Eat More Lamb Club."

WIFE 'SQUEALS;' SAVES MATE

Husband Rescued From Penalty Meted to Rum Ring

Stories stranger than fiction reposed in the archives, and the memories, of Uncle Sam's Control. One of the most remarkable is the second of six articles on "Running in the Rum Runners."

By MORRIS GILBERT,
NEA Service Writer

WASHINGTON, April 8.—"Plant" and double-cross, fake "steer" and ambush—so runs the tangled tale of liquor enforcement.

In enforcement headquarters here they tell the story of Captain Jim Turner of the sixty-foot auxiliary ketch Marie Louise.

A girl stood at a desk in the New Orleans customs house—the prettiest who ever had entered that somber building. Her eyes were brown, and enormous, and there were tears in them, perhaps of fright.

"I want to tell about Captain Turner... he's running liquor."

"So?" Inspector Davis leaned forward. "What Captain Turner is that?"

She seemed to hesitate. Finally she said: "Jim Turner. He's the captain of the Marie Louise. He came in today from British Honduras with a thousand cases of Scotch."

"How do you know so much about it?"

"I should know," she retorted. "He's my husband."

"* * *

SOMETHING of that sort of thing happens, and it's no duty of the law to inquire too deeply into the reason for it. Usually it's money. Informers are entitled to 25 per cent of the value of seizures made through their information.

But money didn't seem to be the reason in this case. The girl appeared surprised to learn about that. Even then, it didn't particularly interest her.

Davis was puzzled. If her story was correct, it was enough to act on. Also—the Mississippi delta below New Orleans being a place where many sinister things can happen—maybe it was a "plant."

The inspector suspected something of the sort. He and his men had been targets for rum-running bullets more than once. Never, indeed, at the invitation of such a pretty girl.

"The 'frisk' revealed nothing. Jim had no gun on him."

"* * *

She told me—"Jim was speaking again in his slow southern drawl—"that she had to make good. She said you told her to, Inspector. So I told her—Well, Marie Louise, I'm going to help you. If the inspector wants you to make good, I'll do all I can to help."

It didn't seem to make sense. Even the height of southern chivalry

"I want to tell you about Captain Turner... he's running liquor."

"* * *

Then, suddenly, she screamed.

A big man in sea-faring clothes closed a steely fist around her arm. "Jim!" she gasped.

"What you been doing in there?" he demanded.

She didn't answer for a minute.

"Funny I just happened to come along, aint it?" he said. There was menace in his voice . . .

But just to show that he never can tell—where liquor traffic is concerned—fifteen minutes later Marie Louise and Captain Jim Turner stood side by side in front of Customs Inspector Davis' desk. Jim was speaking—

"You see, Inspector, I was walking down the street when I happened to run into Marie Louise. She was comin' out of here, and I says, 'What you been doin' in there?' Jim, I just informed on you!"

The inspector nodded to the official who had tiptoed quietly up behind Jim. Just as well make—

The "frisk" revealed nothing.

"* * *

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alright doesn't require a man to help his wife "make good" in betraying him to the law for smuggling. But like so many puzzles, the answer was simple—once you know it.

"You see, Inspector," Jim explained, "things were pretty bad for me this winter. I couldn't seem to get any cargoes for the Marie Louise. Couldn't seem to keep going."

So when they promised me a thousand bucks for bringing up a load from Belize, I jumped at it. And now they've run out on me.

I can't collect the money. Marie and I had a fight about it before I started—she told me I was a fool to get mixed up with liquor and she warned me no good would come of it. Well—" the young skipper nodded sagely—"she's right, I guess."

"* * *

The man looked honest enough. He had sailed his little boat in ballast down to Belize—six days—and back again loaded—eight days more. He had paid out money for his crew, for provisions, for fuel.

The sum of \$1,000 was mighty little for the voyage, particularly as he brought back a thousand cases. And now he had been double-crossed, and was burning up.

"* * *

Success in police work depends greatly in knowing whom you can trust—and when. Maybe it's instinctive. Anyhow, Inspector Davis instantly made up his mind to trust Turner.

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Next—the adventures of two federal officers "planted" aboard a rum boat off Florida.

At this point, Marie Louise steps out of the story. She had fought her fight for the honesty of her man, and won. The danger to her home, to her husband's life, was fended off.

That night Inspector Davis—that isn't his name, of course—loaned Turner a pistol, for self-defense, and a car—Davis' own car.

That night Inspector Davis was sent up while the peasant visitors looked up in delight and half in fear perhaps, thinking of the bombs which these planes might scatter. Suddenly their fears seemed justified. Some strange objects were being dropped by the bombers.

The objects were only parachutes, with weights attached. The chutes opened up gracefully and floated downward. Soon they touched the ground, some near, some far. "Air-sleets" rushed out and rescued those which strayed too far.

The peasants crowded around the parachutes. Each of them, they found, had brought to earth a great black pot tightly sealed. When the pots were opened they disclosed borsh and kasha, two of the dishes closest to a peasant's heart.

"* * *

Stalin Is Witness

The food thus dropped from the sky was eaten by the guests with great glee amidst cheers and speeches.

This was by no means the only stunt to impress the visiting collectivized farmers.

The best that the capital has to offer was mobilized for the delegates. The press gave all its space to them. Portraits of peasants by the dozen were published.

Above all, the leaders of the nation lost no opportunity to make themselves visible, audible and affable. Stalin himself attended many sessions and, yielding to demands from the audience, made a speech at the closing session.

Practically every Bolshevik leader worth his salt addressed the peasants.

SOVIET 'TREATS' RUSSIAN FOLK AT AERODROME

Favorite Peasant Food Is Showered on Crowds by Bombers.

MOSCOW, April 8.—Like the manna which descended for the children of Israel in the desert, borsh and kasha dropped recently "from the skies" into the gaping mouths of hundreds of peasants visiting the capital as delegates to an agrarian conference.

Doubtless, the miracle will be recounted to incredulous folks back home, in distant villages throughout the land, now that the meeting is over and the 1,500 collective farm shock-brigadiers have left.

The scene was not a desert, but the military aerodrome where the delegates were being shown Soviet achievements in the way of air preparedness.

High army officials were on hand to explain everything and the delegates, simple farmers all and many of them seeing an airplane for the first time, were tremendously impressed.

Attached to Parachute

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