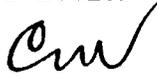


November 21, 1934.

Memorandum to Governor Eccles

From Mr. Morrill



Reference is made to the memorandum submitted to you yesterday with regard to topics on the docket for consideration at the next meeting of the Board. As you know, there is also on the docket the special matter of the appointment of Chairmen and Federal Reserve Agents at certain Federal reserve banks. An excerpt from the minutes of the meeting of the Federal Reserve Board on October 30, 1934, with regard to this question is attached.

At your request there has been placed on the docket the question whether it would be desirable to modify the Board's Regulation "Q" with regard to the payment of interest on deposits by reducing the maximum rate of interest that may be paid on time and savings deposits, and in that connection, of requesting the Federal reserve banks, through inquiry of their member banks, to ascertain the rates now being paid by the member banks on time and savings deposits and their views as to the desirability of lowering the maximum rate prescribed in the regulation.

EXCERPT FROM THE MINUTES OF THE FEDERAL RESERVE BOARD

October 30, 1934

Mr. Thomas then stated that there were two matters which he wished to take up with the Board, one, the question of further action with respect to changes in the Federal Reserve Agents at New York, Chicago and Dallas \* \* \*. In this connection Mr. Thomas said that he had invited Secretary Morgenthau to attend this meeting but that Secretary Morgenthau was unable to attend because he was engaged in another meeting, and that Mr. O'Connor, the Comptroller of the Currency, is out of the city. Mr. Thomas said that, in view of the inability of the Secretary of the Treasury to be present, he had suggested that the Secretary arrange to have Under Secretary Coolidge come to the meeting for the purpose of making any statement to the Board that the Secretary might desire to have him offer, particularly concerning the Havana situation.

Mr. Coolidge thereupon said that the Secretary hoped that the Board would postpone action upon the changes in Federal reserve agents until the new Governor of the Board is appointed, which he thought would be very soon. \*\*\*

Mr. Thomas then asked Governor Black to state his views regarding the matter as he had previously stated them to Mr. James, Mr. Hamlin and Mr. Thomas.

Thereupon, Governor Black made the following statement:

"Mr. Hamlin telephoned me at Atlanta and asked me if I could come up here as he had some matters upon which he wanted my advice. I came to Washington and the only Board members who were here were Messrs. Hamlin, James and Thomas, and we had a conference during which we discussed two subjects.\* \* \* We then took up the question as to the proposed changes in several Federal reserve agents. The Board will recall that in the early part of June we had discussed that matter very fully with the idea that it would be well to build up and strengthen the system in making changes in personnel and at that time action was taken looking to a change of Federal reserve agents at New York, Chicago and Dallas. I discussed that question that day with these three members of the Board and told them that I felt that as we had waited three months and done nothing about it and I personally doubted whether anything would be done--

"of course I did not know about the developments at Chicago-- that if nothing was to be done I thought it would be advantageous to let the present men know that nothing would be done; for two reasons, first, that they were entitled to know, and second, that if the Board were not going to make the changes the first of January I thought the good will of those men and their associates should be conserved. I think that was all that was said on the subject at that time except that Mr. James, Mr. Thomas and Mr. Hamlin, as I recall it, agreed with that conclusion and as I took it were going to urge that no change be made. I did not urge that no change be made but simply said that if no changes were going to be made advantage should be taken of the situation in the manner I suggested."

At this point Mr. Thomas said that he recalled that he got the impression that it was Governor Black's opinion that no change should be made and Mr. Thomas added that he had that opinion at that time. Governor Black replied:

"You, of course, realize that I was not trying to impress my view upon you; that I had simply been called back here for consultation and that I gave you my idea regarding the matter."

Mr. Szymczak then made the following statement:

In the case of Chicago, Mr. Stevens was reappointed last year with the definite understanding that at the end of this year he would resign as class "C" director because class "C" directors are appointed for three years and he, of course, was reappointed also as Federal Reserve Agent and Chairman of the Board only for a year. That is in the record. On June 29, 1934, his name was among the three that were being considered for changes. Immediately after that I called in Mr. Stevens and told him that he was expected to resign at the end of this year in accordance with the action of the Board on June 29 and told him that I was giving him sufficient notice in accordance with the instructions of the Board so that he could make arrangements if he saw fit so that by the end of the year he could step out very gracefully by finding himself another place instead of having it appear that he was being thrown out of the bank. I then visited several of the districts and instituted steps to find a successor for Mr. Stevens, and when I came back Stevens communicated with me again and asked whether the Board had changed its mind and I told him that it had not. I then went away for a trip of six weeks, during which I visited nearly all of the Federal reserve districts, including the seventh district, and came back on the 8th of September. In the meantime, I was looking for someone to succeed Mr. Stevens because I had no information that there was any discussion here at any time that perhaps there should be no changes made. I arrived here

"on September 8 with several names under consideration and immediately received a call from Mr. Thomas over the telephone. He stated to me that perhaps there would be no changes made in Federal reserve agents and I said that I would like to discuss it with him on Monday. On Monday, the tenth of September, I told Mr. Thomas that I had gone so far in this matter in Chicago that I thought the committee might have something to report as soon as the other member of the committee returned--Mr. Miller being then on the Pacific Coast. I brought that to the attention also of the other individual members of the Board. I think that if the Board were going to change its position it should have been done as soon as possible so that I could withdraw the consideration of anybody and notify Mr. Stevens, but from the 10th day of September until just the other day, while there have been informal discussions here and there, nothing had been done. Every once in a while Stevens has called me up and asked me whether anything had been done and I have told him there had not. I told him that it was up to him to find himself some place else to go to work and to resign in due time so that we could appoint somebody. I discussed the matter quite fully with Dr. Miller and we prepared a report recommending a name that we agreed upon. It seems to me that, in discussing the Chicago, Dallas and New York cases, the Chicago situation is entirely different from any other situation because we had proceeded as far as we had in that case. Our recommendation is now in the hands of the Secretary of the Board for the consideration of the Board. The Board can do with the recommendation whatever it sees fit to do but it seems to me that we have gone pretty far in the Chicago case and that we must do something."

\* \* \*

Mr. Miller asked Governor Black whether he had considered in the case of Chicago the disclosures in connection with the affairs of the Continental Illinois National Bank and Trust Company in which it appeared that Mr. Stevens was involved and Governor Black replied that he had not because the Board had discussed that matter very fully and decided at the time that it would not displace Mr. Stevens because of that matter. Governor Black added that the members of the Board thought that with respect to the Federal Reserve Agents at Chicago and some other places in the System the personnel was patently weak and that he was perfectly willing to take his part of the responsibility for having started the movement last June to replace certain ones with stronger men, but that at the

conference probably a month ago his thought was that nothing had been done, that he did not know that anything was going to be done and that, if nothing was going to be done, the Board should get the good effect of informing the men accordingly.

Mr. Szymozak then stated that he told the members of the Board before he left on his six weeks' trip that he had called Mr. Stevens in and told him the views of the Board and that when he returned on September 10 he stressed to the members of the Board the fact that he had found somebody to take Mr. Stevens' place so that it seemed to him that that case had gone so far now that if the Board were going to do anything else it should have done it before this time.

Mr. Miller then asked Governor Black whether he felt that action in Chicago and not elsewhere would be objectionable from the point of view of the System, and Governor Black replied that he did not feel so; that Mr. Stevens was notified a year ago that this would be his last year so that he had a year's notice; that he was patently weak; and further that, Mr. Szymozak having notified him and having found another man and being prepared to make a recommendation, he did not think a change in Chicago would do anything except to strengthen the System.

Mr. Hamlin said that he understood that the Secretary of the Treasury had asked that the matter be taken up by the full Board and it seemed to him that it could wait until November 15 when there would be a full Board.

Mr. Szymozak said that he had no objection to that course if it were the wish of the Board but he desired to point out how far the Board and its committee had gone and that the committee's recommendation was on file.

Mr. Miller indicated that he had no objection to the matter going

over in accordance with the Secretary's request.

Mr. Hamlin then moved that the report of the committee of the seventh district be laid on the table until November 15 or until the appointment of the new Governor, stating that his motion applied to the entire situation regarding changes in Federal reserve agents, as he understood that the Secretary had asked that the full Board take up the three cases.

Mr. Coolidge said that he knew that the Secretary would be pleased if the matter of the changes were postponed.

Mr. Hamlin's motion was carried unanimously.