

A meeting of the Federal Reserve Board was held in Washington on Tuesday, October 30, 1934, at 2:45 p. m.

PRESENT: Mr. Thomas, Vice Governor
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Szymczak

Mr. Morrill, Secretary

ALSO PRESENT: Mr. Coolidge, Under Secretary of the Treasury
Mr. Black, Governor of the Federal Reserve
Bank of Atlanta.

Vice Governor Thomas reported that, pursuant to previous action of the Board, he had negotiated with Mr. J. M. Daiger in regard to employing him as an assistant to Mr. Thomas and as to the rate of compensation which would be acceptable to him, subject to the Board's approval, and that Mr. Daiger felt that he should be paid at the rate of \$750 per month, which would be on the basis of \$9,000 per annum. Mr. Thomas said that he thought that rate of compensation would be reasonable; that his understanding with Mr. Daiger was purely tentative, being expressly made subject to the approval of the Board, and that the employment was to be temporary only to continue until a new Governor of the Federal Reserve Board is appointed and then to be subject to the pleasure of the new Governor.

After discussion a motion by Mr. Hamlin that the Board approve the appointment and the salary proposed by Mr. Thomas was carried.

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, the other being the continuance of the Havana agency

10/30/34

-2-

of the Federal Reserve Bank of Atlanta. 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. As far as the Cuban agency was concerned, Mr. Coolidge said that the Secretary would be glad to see the Cuban agency continued.

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. One related to Mr. Martin, who had been my assistant when I was in Washington. Mr. Martin at that time was on his vacation, being entitled to a month's vacation after the close of my term, and he was taking that vacation. In the discussion, Mr. Thomas said that he was very anxious to have Mr. Martin back here to help him and I said that I would be very glad if he would come back and help Mr. Thomas but that I did not think that he would because he came to Washington very largely because of his friendship with me and had said that he would not return unless he could be of

10/30/34

-3-

"special help to me and I thought he would not come back to Washington. Mr. Thomas asked me if I would see if he would come to Washington and I said that I would do so. Mr. Thomas said that if he would not come back he might help me in my work at Atlanta. I agreed to discuss the matter with Mr. Martin and to let Mr. Thomas know the result. 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 change 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

10/30/34

-4-

"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

10/30/34

-5-

"Chicago case and that we must do something."

(SECRETARY'S NOTE: The recommendation referred to by Mr. Szymczak is contained in a report to the Federal Reserve Board by the Committee on District No. 7, signed by Mr. Szymczak and Mr. Miller, dated October 27, which was received in the Secretary's office on October 29 and immediately put into circulation, Messrs. Thomas, Hamlin and James being notified on the latter date that the report had been filed.)

Governor Black then referred to the fact that when he was in Washington last week the matter of the retention of Mr. Martin came up and that the Board unanimously had voted to retain Mr. Martin; that immediately upon his return to Atlanta he had talked to Mr. Martin about the situation and explained very fully what had happened; that Mr. Martin expressed his appreciation of the action of the Board and said that he felt that he should resign immediately as he did not wish to remain when there was even any question raised as to its propriety; and that Mr. Martin asked that Governor Black express to the Board his appreciation of its action. At this point the Board's Secretary said that he had received letters from both Mr. Martin and Miss Welch, Secretary of Mr. Martin, offering their resignations.

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

10/30/34

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. Szymczak 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. Szymczak 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.

10/30/34

-7-

Mr. Szymczak 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.

Vice Governor Thomas referred again to the matter of the Havana agency and said that he should like to hear from Governor Black regarding it. Governor Black said that he would make a statement for the record, which follows:

"The directors of the Atlanta Bank passed a resolution asking that the bank be allowed to discontinue the Havana agency and stated in their resolution that they did not desire to take such action precipitately or with any bad effect on relations between the two Governments or business transactions between the United States and Cuba, and I presented it to the Federal Reserve Board. It was discussed by the Board and I was instructed by the Board to do two things: first, to call a meeting of representatives of the different banks having branches in Cuba, the American and Canadian banks that were interested in the conditions in that island, and, second, to confer with the State Department to get its views as to the advisability or inadvisability of the discontinuance of the agency. I notified the different banks represented in Cuba and arranged for the meeting. I called up Mr. Phillips,

10/30/34

-8-

"the Under Secretary of State, and asked for an appointment to discuss the matter with him. Mr. Phillips said that he would prefer that I discuss it with Mr. Sumner Welles, an Assistant Secretary of State, who had been in Cuba and was handling Cuban matters. I called Mr. Welles and asked him for an appointment and he was kind enough to say that he would call upon me, which he later did. I acquainted him with the action of the Atlanta bank and its resolution and with the action of the Federal Reserve Board. Mr. Welles was very emphatic in his statement that in his opinion it would be most disadvantageous certainly at the present time to discontinue the Havana agency. He gave several reasons for that. One was that the relations between the two Governments, the American Government and the Cuban Government, had now become very firmly established and that the Cuban Government looked upon the Havana agency as a sort of a link to the United States, the Cuban agency having performed a good many functions for the Cuban Government, having on one or more occasions exchanged silver for currency with the Cuban Government as the Cuban Government did not want to pay out silver but preferred currency, and the Cuban agency on one or more occasions had taken over a quantity of gold from the Cuban Government, giving currency for the gold and holding the gold under a repurchase agreement for the Cuban Government so that they would not lose their gold, but could put it up and get currency for it and could redeem it on a monthly basis as might be suitable from the standpoint of the Cuban Government's financial operations. Mr. Welles said that the Cuban Government looked upon the Cuban agency as being most desirable to the financial operations of Cuba. Parenthetically, I might say that later we got a memorandum from Mr. Frazer, our manager in Cuba, saying that the Treasury Department in Cuba had said that they were very hopeful that there would be no change in the Havana agency. Mr. Welles said he thought the Havana agency was very necessary to the business life in Havana, furnishing as it did all of the currency in Cuba, and all of the currency that was necessary being furnished promptly for business purposes, and that he especially thought that at this time it would be bad to discontinue the agency because he expected a very large rise in the amount of Cuban business with this country by reason of the abrogation of the Platt Amendment and the new treaty with Cuba which should greatly accelerate business between Cuba and the United States. For these reasons he hoped very much that we would not withdraw the agency. I told Mr. Welles at that time that before any positive steps were taken to discontinue the Havana agency he would be communicated with again. My best recollection is that I reported that conversation to the members of the Board, probably in one of our executive sessions or in some of our individual discussions. We afterwards had a meeting with the banks which was called for a very full discussion of the point of view of

10/30/34

-9-

"the banks and they all gave their views as to the reasons for not discontinuing the agency which reasons were along the same line as those advanced by Mr. Welles, except the Governmental reasons."

Mr. Thomas then stated that at a recent meeting there was a discussion as to how the situation should be handled; that he asked the legal department for an opinion which was obtained; that Governor Black prepared a letter which was to be transmitted to the Federal reserve banks to ascertain whether they would cooperate in having the Havana agency continued as a System matter and that the matter has come before the Board on the basis of that letter; that the question was whether the letter should be sent to the Federal reserve banks; but that he understood that Mr. Miller had some objection because of the absence of any formal statement of the position of the State Department.

Mr. Miller then stated that that aspect of the matter had all been cleared up as he understood, from what Governor Black said, that Mr. Phillips had asked him to talk to Mr. Welles and that Mr. Welles was talking, presumably with Mr. Phillips' approval, for the State Department.

Thereupon, Mr. Hamlin moved that the proposed letter to the Federal reserve banks be sent out and Mr. Hamlin's motion was carried unanimously. The letter as approved reads as follows:

"On June 8, 1934, following the approval by the United States and Cuba of a treaty abrogating the so-called Platt amendment, the board of directors of the Federal Reserve Bank of Atlanta adopted a resolution directing the officers of the bank to apply to the Federal Reserve Board for permission to discontinue the agency operated by the bank at Havana, Cuba. A copy of the resolution referred to is attached.

"The Federal Reserve Board was advised of the action taken by the board of directors of the Atlanta bank, and after giving consideration to the matter, decided to arrange for a meeting in Washington of representatives of the American and

10/30/34

-10-

"Canadian banks operating offices in Cuba for the purpose of discussing with them the question of the discontinuance of the Havana Agency.

"Such a meeting was held in Washington on July 13, 1934, at which representatives of the National City Bank of New York, the Chase National Bank of New York, the First National Bank of Boston, the Royal Bank of Canada, the Canadian Bank of Commerce and the Bank of Nova Scotia were present, and the resolution adopted by the board of directors of the Atlanta bank and the following telegram received under date of July 12, 1934, from Acting Governor Johns of the Federal Reserve Bank of Atlanta, were brought to their attention:

'The following cable has been received from Manager of our Havana Agency:

"Late yesterday the Cuban Secretary of Treasury called me to his office and advised that he had information that a conference between Federal Reserve Board and representatives of foreign banks operating in Cuba would be held July 13th to discuss the Cuba situation. He states that both he and the President feared that this conference might result in the withdrawal of the Havana Agency and due to the valuable service rendered considered the withdrawal of it would prove very detrimental to Cuban interests and would like to see any such decision avoided if possible. Secretary of Treasury requested that I advise you that on July 13th he will recommend to cabinet repeal of all legislation relative to withdrawal of money from Cuba enacted since May 22nd and that in all probability immediate adopting in this connection will be taken. Secretary of Treasury and the President request that this information be transmitted to you with the request that you transmit same to Federal Reserve Board."

"Governor Black advised the representatives of the banks that the functions of the Havana Agency since its establishment had consisted largely of the furnishing of new currency to banks in Cuba, the exchanging of fit currency for mutilated, dirty and unfit notes, and the handling of cable transfers between the United States and Cuba. He said that the agency had been operated at a loss and that such operating losses had always been accepted and had not affected the continuance of the agency by the Federal Reserve Bank of Atlanta, but that the directors of the Atlanta bank had been concerned about conditions in Cuba and felt that the full responsibility of the agency should not be upon the Atlanta bank and that this was especially true because the agency served the commercial and exchange needs of all parts of the United States and was in reality operating for system purposes; that for a considerable period the Havana Agency kept on hand approximately \$25,000,000 in currency and in

10/30/34

-11-

"emergencies a great deal more; that the amount had been reduced to between \$10,000,000 and \$12,000,000 after conferring with banks in Cuba; and that the reduced amount had been found to be a sufficient supply to keep on hand at the agency except in cases of emergency. (In this connection it may be noted that under date of September 17, 1934, the Board was advised by the Atlanta bank that its directors had authorized the reduction of the amount of currency at the agency to \$5,000,000). He stated also that the Havana Agency was established for the purpose of carrying on the operations of a money depot in Cuba at a time when transportation facilities were slow and unsatisfactory as compared with those of today; that the Federal Reserve Bank of Atlanta has a branch in Jacksonville, Florida, where it keeps on hand both issued and unissued currency which can be transported by airplane from Jacksonville to Havana in a few hours; that currency also can be sent by rail to Key West, Florida, and from there could be transferred by plane to Havana in a few hours; and that in the circumstances it would seem that the transportation problem as between this country and Cuba has been solved. He added that he was of the opinion that the directors of the Federal Reserve Bank of Atlanta were not concerned greatly over the possibility of actual loss of funds inasmuch as it was felt that the revolutions in Cuba were merely political uprisings, but he felt that the primary considerations prompting the action of the directors of the Atlanta bank in adopting a resolution to discontinue the Havana Agency were (1) the fact that the transportation problem has now been solved, (2) that the directors desire to eliminate the risk of the political unrest in the island, and (3) the recent abrogation of the so-called Platt Amendment.

"All of the bank representatives present at the meeting expressed the opinion that the agency should be continued and they were requested to address letters to the Board setting forth their reasons for their opinion. Copies of the letters received by the Federal Reserve Board in response to this request are attached for your confidential information.

"At a meeting of the board of directors of the Federal Reserve Bank of Atlanta held in Atlanta on August 10, 1934, at which Governor Black was in attendance, he reviewed the consideration given by the Federal Reserve Board to the resolution adopted by the Atlanta bank relative to the discontinuance of the Havana Agency and stated that he had considered the possibility of the agency continuing as a system agency which would be operated by the Federal Reserve Bank of Atlanta for the twelve Federal reserve banks. At that meeting the directors of the bank voted that the Federal Reserve Board be advised that the Atlanta bank would cooperate in a system operation of the agency and that, in their opinion, such an arrangement would be a proper solution of the problem.

10/30/34

-12-

"As you know, Governor Black resumed his duties as Governor of the Federal Reserve Bank of Atlanta on August 16, 1934, and under date of September 27, 1934, he addressed another letter to the Board with regard to the operation of the agency on a system basis, and a copy of that letter is also attached.

"Under the law the Federal Reserve Board has the power to require a reserve bank to operate a foreign agency but the Board feels that to require system action would be undesirable and at the present time unnecessary since the Board endorses the suggestion of the Atlanta bank that the agency be operated by that bank for the account of the twelve reserve banks, and has under consideration the necessary details for that purpose. Accordingly, it will be appreciated if you will present the matter to the board of directors of your bank at its next meeting and advise the Board as soon as possible as to the attitude of your bank towards participation with the other Federal reserve banks on a system basis in the operation of the agency by the Atlanta bank. Upon acceptance of such participation by all banks, the details of the arrangement will be determined promptly and submitted to your directors for approval."

Thereupon reference was made to a memorandum which the Board's Secretary had submitted to the Board regarding the loan of the services of Mr. Riefler of the Division of Research and Statistics for service as Chairman of the Central Statistical Board and Economic Adviser to The Executive Council.

A motion by Mr. Szymczak that the Vice Governor be empowered to discuss the matter with Mr. Walker or Mr. Richberg of The Executive Council and report the results to the Board was carried, Messrs. Hamlin, Miller, James and Szymczak voting for the motion and Mr. Thomas voting against it.

The Board's Secretary then brought to the attention of the Board the resignations dated October 26 which had been received from Mr. Martin as Assistant to the Governor and Miss Welch as Secretary to Mr. Martin, and the Board requested its Secretary to advise them of the Board's acceptance of their resignations with regret and its appreciation of their services.

10/30/34

Thereupon the meeting adjourned.

Chester Merrill
Secretary.

Approved:

J. J. Thomas
Vice Governor.