

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, November 20, 1935, at 11:10 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Thomas, Vice Chairman
Mr. Hamlin
Mr. Miller
Mr. Szymczak

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

Mr. Hamlin stated that Mr. A. P. Giannini, Chairman of Transamerica Corporation, San Francisco, California, had informed him that he would be perfectly willing to have the hearing arranged in connection with the voting permit application of Transamerica Corporation confined to the committee of the Board handling voting permits. Mr. Hamlin also said that he had been advised by Mr. Charles W. Collins, attorney for Transamerica Corporation, that Mr. Giannini did not wish to be heard on the seven standard conditions proposed to be prescribed by the Board in granting general voting permits, but would confine his statement at the hearing to the special condition proposed in connection with the issuance of a permit to the Transamerica Corporation. Mr. Hamlin then inquired whether it was the wish of the Board that the hearing be conducted by him, as the Board's committee, with the members of the staff who had worked on the application, or whether it was desired that Mr. Giannini appear before the Board.

Mr. Miller said that it was his feeling that the committee of the Board appointed to hear Mr. Giannini should be composed of Messrs. Hamlin, Thomas and Szymczak and the members of the staff who had worked on the

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application.

There followed a discussion of Mr. Miller's suggestion, and Mr. Szymczak moved that Mr. Hamlin be requested to conduct the hearing, with the necessary members of the Board's staff present; it being understood that any other members of the Board who could arrange to do so would attend the hearing.

In connection with a suggestion made during the discussion that Mr. Giannini should be advised of the reasons for the proposed condition No. 8 which relates particularly to Transamerica Corporation, Mr. Eccles suggested that Mr. Paulger, Chief of the Division of Examinations, and Mr. Wyatt, General Counsel, might prepare a statement setting forth the reasons which could be read to Mr. Giannini at the hearing if the occasion for doing so should arise.

At the conclusion of the discussion, Mr. Szymczak's motion was carried unanimously, and it was agreed that Messrs. Paulger and Wyatt should be requested to prepare a memorandum in accordance with Mr. Eccles' suggestion, copies of which would be furnished to the members of the Board before the hearing.

Mr. Szymczak called attention to the expiration on December 31, 1935, of the appointments of certain Class C directors and of certain directors of branches of Federal reserve banks who were appointed by the Board, and suggested that a conclusion should be reached as soon as possible as to the procedure to be followed in connection with appointments to be made by the Board for terms beginning January 1, 1936.

It was agreed that this matter should be made the special order of business for a meeting to be held next week.

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In this connection, the Chairman stated that some of the regulations which have been revised by the staff on the basis of the comments and suggestions received from the Federal reserve banks were ready for consideration by the Board, and suggested that the Board should act on the regulations next week.

Mr. Szymczak raised the question as to the procedure to be followed this year in connection with the determination of a budget covering the Board's expenses for the year 1936, and the Chairman stated that he felt that, notwithstanding the fact that the Board is to be re-organized as of February 1, 1936, the budget should be prepared and acted upon by the present Board in the usual way.

It was agreed that the Executive Committee should prepare and submit a proposed budget to the Board for consideration.

In accordance with the request made at the meeting of the Board on November 8, 1935, Mr. Miller presented a draft of letter to the Chairman of the Federal Open Market Committee with regard to the action taken by the Committee at its meeting held in Washington on October 22-24, 1935. The proposed draft was discussed and certain amendments were suggested.

At the conclusion of the discussion, it was unanimously agreed that the letter should be revised in accordance with the suggestions and circulated among the members of the Board for initials, with the understanding that if the letter were approved by the members who are in Washington it would be transmitted immediately.

In this connection, it was pointed out that Mr. James would not return to Washington until

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next week and it was agreed that he should be given an opportunity to record in the minutes any position that he may desire to take with regard to the letter.

The Chairman then presented a letter received under date of November 15, 1935, from the Chairman of the Federal Reserve Bank of Chicago, reading as follows:

"At a meeting of the executive committee of this bank today, the appended statement was adopted and ordered spread on the records, and the Chairman of the Board was requested to forward a copy thereof to the Board of Governors at Washington. This statement has been concurred in by every member of our board of directors excepting one member, whose opinion is definitely that action should be taken toward a decrease in the amount of holdings of Government securities by the Federal Reserve banks, either by sale or by maturity without replacement, rather than an action providing for an increase in the reserve requirements of member banks.

"In accordance with the instructions of our committee, therefore, I am quoting the statement which has been adopted as an expression of the opinion of the board of directors of this bank, as follows:

'After a careful review of the report of the meeting of the Federal Open Market Committee held in Washington, D. C., October 22 to October 24, 1935, inclusive, and presented to us by our member of that committee, the Board of Directors of the Federal Reserve Bank of Chicago expresses concurrence in the conclusions reached at said meeting and especially as set out in the resolution prepared and delivered to the Board of Governors.

'This Board fully realizes that the application of any of the methods of credit control suggested lie within the power of the Treasury Department and the Board of Governors, to be used when, in their judgment, it is necessary. However, in a spirit of cooperation with both of these agencies we desire to call their attention to a feeling of growing uneasiness in the minds of the public as to possible credit inflation, caused by repeated reference to this danger by our press and public speakers.

'We cannot help but feel that for the moment our greatest potential danger is from our excessively large bank reserves, caused by a rapid rise in bank deposits,

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"through gold imports and governmental financing, the control of which might well be considered our first objective.

'We, therefore, as a Board, desire to respectfully suggest for earnest consideration by the Board of Governors of the Federal Reserve System, an increase in required reserves against bank deposits in Central Reserve and Reserve City banks to possibly twenty-five per cent of the increase now permitted by law, thereby not only fortifying our banking structure to this extent, but giving assurance to business and the public that the levers of control are operative and in the hands of authorities who are ready to use them. We believe that such action accompanied by a proper statement of its objectives would be favorably interpreted by the financial and business interests rather than otherwise.

'We recognize that in addition to the measure referred to, that of an increase in required reserves, consideration may properly be given to another effective power in the control of inflationary tendencies, under which credit may be withdrawn from the market either by the sale or by the maturity without replacement of Government securities held in the Federal Reserve System. However, because it is considered that the application of such a measure might be reflected in the market for Government bonds at this particular time, we are disposed to suggest the primary consideration of an increase in reserve requirements.'

The Secretary was requested to prepare a reply to the letter in which would be quoted the pertinent paragraphs of the letter to the Chairman of the Federal Open Market Committee referred to above.

It was reported that the Federal Advisory Council was holding its regular meeting in Washington today and that the Council would meet with the Board tomorrow morning. In this connection, it was stated incidentally that, in accordance with the usual custom, Mr. Goldenweiser, Director of the Division of Research and Statistics, met with the Council at its session this morning and Mr. Miller raised the question as to whether Mr.

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Goldenweiser should continue to attend the meetings of the Council held prior to the joint meeting of the Council and the Board. The Chairman said that the purpose of Mr. Goldenweiser's appearance before the Council was to supply the Council with statistical information on credit and business conditions compiled by the Division of Research and Statistics.

During the brief discussion which followed, it was indicated as the consensus of the members present that no change should be made in the procedure now being followed in this regard.

The Chairman stated that the Secretary of the Treasury had expressed the feeling that it would be desirable for the banks which have preferred stock or capital notes or debentures outstanding to the Reconstruction Finance Corporation, to retire such stock, notes, or debentures as rapidly as such action could be taken with safety to the individual banks, and that, in accordance with a request made by the Secretary of the Treasury in this connection, he (Mr. Eccles) had requested the Division of Examinations to make a review of the condition of State member banks in which the Reconstruction Finance Corporation had a capital investment, in order to determine which of such banks were in a position to retire all or a portion of their preferred stock or capital notes or debentures held by the Corporation. This matter was discussed, Mr. Eccles said, at a meeting which he attended yesterday of representatives of the Treasury, the Reconstruction Finance Corporation, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency, when it was agreed that, generally speaking, banks were inclined to retire

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the capital investments of the Reconstruction Finance Corporation too rapidly and that, therefore, no action should be taken at this time to further hasten such retirement, but that when a bank requested the privilege of retiring such stock, capital notes, or debentures, and its remaining capital would afford adequate protection to depositors, it should be allowed to effect the retirement.

Mr. Eccles then suggested that Mr. Paulger, Chief of the Division of Examinations, be requested to prepare a letter to all Federal reserve agents pointing out the appreciation in bank assets which had resulted from general business recovery and the fact that the conditions which brought about impairment of capital of banks were rapidly being corrected, and stating that, as conditions improve to a point where it is unnecessary for a member bank to continue to have outstanding all of the preferred stock, capital notes or debentures issued to the Reconstruction Finance Corporation, such bank, upon making inquiry, should be advised that the retirement of part or all, as conditions justify, of such capital stock, notes, or debentures, might be effected. It should be pointed out in the letter, Chairman Eccles stated, that the Board's position in this matter did not mean that it would look with favor upon the retirement of the capital investment of the Reconstruction Finance Corporation in all member banks, but only to the extent that the condition of a member bank demonstrated that the capital investment of the Reconstruction Finance Corporation was no longer necessary for the protection of the depositors. Mr. Eccles added that he had stated to the

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Secretary that he would suggest to the Board that such a letter be sent.

Mr. Eccles' suggestion that such a letter be prepared by Mr. Paulger was unanimously approved.

There was then presented a memorandum dated November 18, 1935, from Mr. Morrill referring to the action taken by the Board in July of this year, in response to a request from the Chairman of the Special Senate Committee Investigating the Munitions Industry, in accordance with which certain records of the Board covering the years 1915 to 1918, inclusive, were made available to an investigator for the committee and the investigator afforded an opportunity to make copies of certain of the records with the understanding that none of the material copied would be given out by the committee, or any member thereof, or made public in any way without the prior written approval of the Board. The memorandum listed the principal matters covered by the material copied by the committee's investigator and stated that a request had now been received from the Senate Committee that the Board release certain of the material for publication by the committee with the understanding that if the material were made public it would be published with pertinent documents obtained from other government departments or agencies. The memorandum added that inasmuch as the records of the Board are subject to subpoena by the Congress, there did not appear to be any reason why the Board should not grant the committee's request, and there was attached to the memorandum, for the Board's consideration, a draft of letter to the Chairman of the Senate Committee advising him accordingly.

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The memorandum had been placed in circulation and Mr. Clayton, Assistant to the Chairman, and Mr. Thurston, Special Assistant to the Chairman, had attached a memorandum to the file stating that in view of the fact that most of the letters covered by the request of the Senate Committee were highly confidential it would seem that a publication by the committee with the approval of the Board might arouse considerable criticism which would be directed at the Board rather than at the Senate committee, whereas if the committee should subpoena the documents no just criticism could be leveled at the Board and that, therefore, it was felt that the question of consenting to the publication of the material should be discussed at a meeting of the Board.

After a brief discussion, it was agreed that the file should be circulated to the members of the Board for consideration at a subsequent meeting of the Board.

Mr. Miller stated that provision was being made in the Board's new building for the parking of 46 cars in the basement, that additional space for parking could be made available on the lot owned by the Board immediately north of the proposed new building, and that, therefore, he would suggest that a request be made of the Director of Vehicles and Traffic for the prohibition of parking of automobiles on 20th and 21st Streets between Constitution Avenue and C Street. He also stated that, while he realized that it would be approximately eighteen months before the new building would be ready for occupancy, he felt it would be desirable to have the prohibition made effective as soon as possible.

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Mr. Hamlin moved that the request suggested by Mr. Miller be made.

Approved unanimously.

Mr. Miller then reported that advice had been received from the National Park Service that it would be feasible to place the proposed tunnel just below the street level and above the Easby Point sewer between the Board's new building and the north side of C Street, which would result in an installation materially less expensive than that originally contemplated, and that the National Park Service felt that there would be no objection to this plan by the District Commissioners or the electric and gas companies, as the Board would pay the expense of any changes in the mains made necessary by the construction of the tunnel just under the street level.

Mr. Miller also outlined for the information of the members present certain other matters which were being given consideration in connection with the new building.

The Board then acted upon the following matters:

Memorandum dated November 18, 1935, from Mr. Morrill recommending that Miss Lucy E. Fulwiler be appointed as a permanent stenographer in the Secretary's office, with salary at the rate of \$1,560 per annum, effective at the expiration of her temporary appointment on December 2, 1935, subject to her passing satisfactorily the usual physical examination.

Approved unanimously.

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Memorandum dated November 14, 1935, from Mr. Smead, Chief of the Division of Bank Operations, referring to the leave of absence on account of illness previously granted to Mrs. Emma L. Chapin, a statistical clerk in the Division, and recommending that Retirement System Form 46 be executed and forwarded to the Retirement Committee stating the facts in the case and suggesting that Mrs. Chapin be retired as of January 1, 1936. The memorandum also recommended that Mrs. Chapin be continued on sick leave with pay pending action of the Retirement Committee, and until December 31, 1935, in case her application for retirement is approved by the Retirement Committee.

Approved unanimously.

Letter to Mr. Fletcher, Acting Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"Reference is made to your letter of October 9, 1935, and to subsequent communications relative to the proposed acquisition of certain assets and liabilities of The First and Merchants National Bank of Middletown by The American Trust & Savings Bank of Middletown, both of Middletown, Ohio; the recapitalization of the State member bank, and a change in its title to The First-American Bank & Trust Company.

"In recommending approval of the proposed transaction, you have advised that it will not result in any change in the general character of the assets of the State bank nor affect its corporate existence; that the transaction has been approved by the State banking department, and that your counsel has approved the legal aspects of the case.

"The Board has reviewed the information submitted, from which it appears that the transaction will not result in any change in the corporate existence of the State member bank which would affect its status as a member bank, or in any material change in the general character of its assets or broadening in the scope of the functions exercised by it within the meaning of the general condition

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"under which it was admitted to membership. The Board will, therefore, interpose no objection to the transaction, but it feels that the stock which The American Trust & Savings Bank of Middletown will acquire by reason of the transaction should be disposed of as soon as it is practicable to do so. In this connection, it is understood that you have been given assurances by the bank that it will dispose of this stock as soon as possible without too great a loss.

"It is assumed that you will furnish the Board with copies of the agreements involved in the transaction which were not executed at the time of the transmission of your letter of October 9, 1935, together with a copy of any amendment which may be made to the bank's charter in connection with the transaction."

Approved unanimously.

Letter dated November 19, 1935, approved by six members of the Board, to the Secretary of State, reading as follows:

"There is inclosed for your information a copy of a letter dated November 6 addressed to the Chairman of the Board of Governors by Mr. George L. Harrison, Governor of the Federal Reserve Bank of New York, in regard to a question submitted by an officer of the National City Bank of New York with respect to the propriety of financing shipments of cotton to Italy for regular customers. The Board feels that it would be desirable, before a reply is made to Governor Harrison, to obtain an expression of your views concerning the position taken by Governor Harrison as set forth in his letter to the Board. Therefore the Board has requested me to submit the matter to you and to say that it will appreciate your consideration of this question."

Approved unanimously.

Letter to Mr. Sproul, Assistant to the Governor of the Federal Reserve Bank of New York, reading as follows:

"Receipt is acknowledged of your letter of November 7, 1935, and inclosures, with regard to payments due on October 18, 1935, on the second syndicate credit to the National Bank of Hungary.

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"It is noted that on October 18, 1935, your bank received the proceeds of the 11,418.47 gold dollars representing interest at the rate of 1% on the second syndicate credit; that the payment amounted to \$19,332.90 at the current rate of exchange, of which amount \$11,418.47 was credited as interest and the remaining \$7,914.43 was credited as a partial repayment of the principal of the credit.

"It is also noted from your letter of November 6 to the Bank for International Settlements that you have suggested that the bank endeavor to obtain a more comprehensive and detailed statement of the foreign exchange position of Hungary and of the causes of the inability of the Hungarian National Bank to transfer the partial repayments of 2% of the principal due under the second syndicate credit. It will be appreciated if you will forward to the Board any information received by you in response to this suggestion."

Approved unanimously.

Thereupon the meeting adjourned.

Chas. Mowice

Secretary.

Approved:

W. C. C. C.

Chairman.