A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal reserve banks was held in Washington on Monday, March 16, 1936, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Morrison

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Smead, Chief of the Division of Bank Operations
Mr. Paulger, Chief of the Division of Examinations

Messrs. Young, Harrison, Sinclair, Fleming, Leach, Newton, Schaller, Martin, Peyton, Hamilton, and McKinney, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas, respectively.

Mr. Day, First Vice President of the Federal Reserve Bank of San Francisco.

After welcoming the presidents of the Federal reserve banks, Chairman Eccles discussed the changed position of the Federal Reserve System and the increased responsibility of the Board of Governors and the Federal reserve banks resulting from recent legislation, and stressed the necessity in the discharge of this responsibility for close cooperation and mutual understanding between the Board and the presidents as the chief executive officers of the Federal reserve banks.
He then outlined briefly the proposed transfer to the operating side of the Federal reserve banks of the non-statutory functions now performed by the Chairmen and Federal reserve agents and stated that, in complying with the request which would be made by the Board that a survey of the organizations of the Federal reserve banks be instituted, it was the responsibility of the presidents to approach the problem as far as practicable from the standpoint of the organization of a new bank to handle the activities now being conducted by the Federal reserve banks and to meet the problems rising in the actual reorganization of the functions of the banks with that thought in mind.

He also stated that, while the functions of the Federal reserve banks should be conducted primarily on the basis of efficient public service and not from the standpoint of profit, it was the feeling of the Board that careful consideration should be given to the expenses of the banks, particularly because of the present earning position of the banks, the fact that the major part of the earnings of the banks is derived at present from the System's holdings of Government securities, and the possibility that in the course of the next three or four years there may be a substantial reduction in such holdings without replacement by other earning assets. He also expressed as the feeling of the Board that economies at the banks should not be effected through reductions in the salaries or dismissal of minor employees only but that necessary adjustments should be made all along
the line; that one means of effecting economies was the retirement of employees who have already reached the age of 65 years; and that there might be cases where people who are near the retirement age might be retired and a sufficient contribution made to the Retirement System to permit their retirement with the allowance to which they would be entitled if they were 65 years of age.

He then discussed briefly some of the problems confronted by the Board in passing upon salaries fixed by the directors of the Federal reserve banks for officers and stated that the suggestion had been made that this situation be met in the future by the adoption of a classification plan covering officers of Federal reserve banks similar to the classification plan now applied to employees of the banks. He also referred to certain other questions at the Federal reserve banks to which consideration should be given with a view to securing a greater uniformity, such as traveling expenses of officers and employees, sick and annual leave of officers and employees and arrangements with counsel for the respective banks. In connection with the matter last referred to, he suggested that it would be desirable for each Federal reserve bank to engage counsel who would give his full time to the bank and be free from other connections; that in most of the banks such counsel could be at the same time an executive officer of the bank and could be assigned other important administrative work, as has already been done at one or two of the banks; and that he saw no reason for
such counsel being particularly eminent or high salaried, as a consider-
able portion of the work of such counsel consists of interpreting the
statutes and the regulations of the Board of Governors and in such work
the legal department of the Board of Governors is available for
assistance. The employment of full time counsel, Mr. Eccles said,
would do away with some complaints made heretofore that outside counsel
for the reserve banks have had conflicting interests. He added that
such an arrangement, however, would not prevent the reserve banks from
employing special outside counsel to assist in important matters.

Chairman Eccles read, for the information of the presidents,
the statement of policy adopted by the Board at its meeting on February
23, 1936, with regard to the approval of presidents and first vice
presidents of the Federal reserve banks, the transfer of functions from
the chairmen and Federal reserve agents' departments and the approval
of salaries of officers for the remainder of the current year. He
pointed out that it was not the purpose of the Board to centralize in
Washington any of the functions of the Federal Reserve System which are
regional in character, but that the Board felt that it was primarily
responsible for the proper functioning of the System in connection with
matters having a national rather than a regional application.

He also stated that, while it was the feeling of the Board that
the conduct, under supervision of the presidents of the banks, of the
non-statutory functions now performed by the Chairman and Federal re-
serve agent would prove entirely satisfactory, the alternative open to the Board, in the event such was not the case, would be to reestablish the office of Chairman and Federal reserve agent on a full time basis and conduct these functions through that office. In this connection, he said that, if the examining function were transferred to the operating side of the bank the Board would still be charged with the responsibility under the law of passing upon the appointments of examiners and would issue instructions which would provide that the information developed by examinations of member banks should be made available only to the officers of the Federal reserve banks.

Mr. Eccles also referred to the cost of conducting the research and statistical activities of the Federal reserve banks and expressed the view that the survey to be made by the banks should include a careful survey of this function with a view to eliminating all duplication in activities conducted by the banks and the Board's Division of Research and Statistics. He added that in view of the new responsibilities placed on the Board by the Banking Act of 1935, it would be necessary to enlarge the activities of the Board's Division of Research and Statistics.

Chairman Eccles then said that the principal matters handled by the Board had been assigned to individual members for primary consideration and he invited the other members of the Board to make such statements as
they might wish in the light of such assignments.

Mr. Broderick called attention to the fact that the Banking Act of 1935 recognizes for the first time the chief executive officers of the Federal reserve banks, and that provision was made in that Act for the appointment of such officers for terms of five years, thereby giving them a position of independence and responsibility in carrying on the work of the banks. He expressed the opinion that desirable changes looking toward the improvement of the banking system of the United States would come largely through the efforts of the Federal Reserve System, and that, therefore, the officers in charge of Federal reserve banks should be outstanding leaders of constructive banking thought. He stated that the Board and the presidents of the Federal reserve banks have a definite responsibility for close cooperation and team work and a sympathetic approach by each to the problems of the System, and emphasized the necessity at all times for the frank exchange of views between the presidents and the Board. Mr. Broderick stated that the subjects of the personnel classification plans and salaries of officers and employees of the Federal reserve banks had been assigned to him for primary consideration and that it was his plan, upon receipt of the reorganization surveys of the Federal reserve banks to visit the banks and review the surveys with the executive officers of the respective banks.

Mr. Ransom stated that he was particularly interested in determining what steps might be taken to decrease the activity of the Federal
Government in the lending field and restore that activity to the commercial banks. He said that he was of the opinion that the various Government lending agencies at the present time were holding a large number of loans which are proper bank loans and should be taken over by the banks, and that a large number of applications were being made to such agencies which should be acceptable to banking institutions. He stated further that he was interested in improving the earning position of member banks; and that he had reached the conclusion that such improvement should not at this time be brought about by increases in interest rates, but that earnings could be supplemented through the proper use of service charges and other means of revenue open to member banks. He added that he would like to have the presidents study these subjects and give him the benefit of their suggestions with regard thereto.

Mr. Szymczak stressed the necessity for cooperation between the Board of Governors and the Federal reserve banks and also for improving the relations between the Federal reserve banks and the public with particular reference to the removal of the prejudices against the System born of ignorance of its fundamental purposes and functions. He then made brief reference to the following matters which he asked the presidents to consider preparatory to discussing them with him at the time of his next visit to the respective banks:

1. Uniform policy with regard to absorption of costs of examinations of State member banks.

2. Press releases by the Federal reserve banks.
Preparation by the banks of articles for periodicals.

Radio addresses.

Relations with schools, colleges, libraries, etc.

Education of the approximately 12,000 Federal reserve bank employees on the purposes and functions of the Federal Reserve System.

Visits to member banks by officers of the Federal reserve banks.

Attendance of officers of Federal reserve banks at bankers' conventions and group meetings.

Arrangement for courses on the Federal Reserve System by the American Institute of Banking.

Relationships with State banking authorities.

Review of monthly summaries of business conditions and other publications of the Federal reserve banks.

Proposed State banking legislation.

Visits to nonmember banks by officers of the Federal reserve banks.

Mr. McKee pointed out the fact that there were relatively few State banks which were members of the Federal Reserve System, and expressed the opinion that because of the rehabilitation of the capital structure of State banks they are in a better position to accept membership in the Federal Reserve System at the present time than they have been at any time during the past ten years. He stated that, in view of this situation, he felt that efforts should be made to bring all eligible State member banks into the System, and that he would appreciate it if the presidents would give consideration to how this might be done. He also requested that while the presidents are in Washington they call on him for the pur-
pose of going over with him and Mr. Paulger the examining functions of
the Federal reserve banks.

In this connection, Mr. McKee referred briefly to unfavorable
comments with regard to the Federal Reserve System which had come to him
as Chief of the Examining Division of the Reconstruction Finance Corpora-
tion, and stated that he felt that it was important that the Board and the
banks give active consideration to the steps that might be taken to over-
come the unfavorable attitude toward the System on the part of certain
banks.

Mr. Morrison suggested that the most effective means of in-
fluencing nonmember banks to appreciate membership in the Federal Reserve
System would be for the Board and the Federal reserve banks to first
develop in the member banks a cooperative attitude toward, and an appreci-
ation of, the Federal Reserve System, and he expressed the opinion that
the System would not be taking full advantage of its opportunities until
it achieved that result.

Mr. Morrison then referred to the consideration which was being
given by the Board to the issuance of Regulation "U", Loans by Banks for
the Purpose of Purchasing or Carrying Equity Securities Registered on a
National Securities Exchange, and stated that it had been his feeling that
regulations on any subject should not be issued by the Board unless there
was an absolute necessity therefor, and that he questioned the advisa-
bility of issuing Regulation "U" at this time.

Chairman Eccles suggested that the presidents might wish to hold
a separate meeting for the purpose of organizing a Presidents' Conference
IUD-the old Governors' Conference and he expressed the hope that
the presidents would feel free to discuss with the Board with utmost
frankness while they were in Washington any matters that they felt should
be brought up for consideration. It was understood that the presidents
would convene in separate session at 2:30 p.m. and that they would meet
again with the Board tomorrow morning at 10 o'clock.

Thereupon the meeting adjourned.

Secretary.

Approved:

Chairman.