

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, September 18, 1936, at 10:45 a. m.

PRESENT: Mr. Ransom, Vice Chairman  
Mr. Szymczak  
Mr. Davis

Mr. Morrill, Secretary  
Mr. Bethea, 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. Ransom presented a memorandum dated September 16, 1936, from Mr. Goldenweiser transmitting a letter dated September 15, 1936, which he (Mr. Goldenweiser) had received from Mr. Joseph H. Willits, Executive Director of the National Bureau of Economic Research, Incorporated, asking him to serve as a member of a committee with Messrs. Winfield Riefler, David Friday, Walter Lichtenstein, and John Riddle to explore the problem as to what research the Bureau could advantageously undertake in the banking field. Mr. Goldenweiser's memorandum stated that the request for such research came from the Reserve City Bankers' Association; that he believed it would be desirable for him to accept membership on the committee for the purpose of being in touch with the situation; that, if a committee is later appointed for sponsoring the undertaking, it may be that he ought not to accept membership except possibly with the clear understanding that he would act merely in a consultative capacity, and that he would not participate in any actual recommendations. At Mr. Ransom's request, Mr.

9/18/36

-2-

Morrill then read the letter addressed to Mr. Goldenweiser by Mr. Willits.

Mr. Goldenweiser stated that he considered the National Bureau of Economic Research to be the best private research organization in the country, that its published studies were always impartial and independent, and that the organization was unquestionably high grade in every respect. He added that he regarded Mr. W. C. Mitchell, the director of its research staff, who has been identified with the organization since its inception, as the best factual economist the country has produced. He stated that he thought that it would be undesirable for any member of the Board's staff to participate in any such study undertaken in the field of banking but that he felt the Board should know what studies are being planned and the proposal that he serve on an exploratory committee would enable him to obtain such information and to give direction along those lines. He added that, in his judgment, service on such a committee, which of course would be only temporary, would also have the advantage of counteracting a feeling on the part of private research organizations that the Board was being unnecessarily aloof, although the purpose might be served by his attending meetings of such committee without having any formal status.

Mr. Ransom inquired as to the policy which the Board had followed in the past in such matters and Mr. Goldenweiser stated that Mr. Thomas, Assistant Director of the Board's Division of Research and Statistics, was now serving as a member of the Social Science Research Council, and that Mr. Winfield Riefler, while he was a research

9/18/36

-3-

assistant in the Division, had also served in that capacity.

Mr. Morrill stated that he was not aware of any case in which the Board had authorized members of its staff to accept connections with other research bodies. Mr. Goldenweiser said that he could not recall whether the Board had acted on the relationship of Messrs. Riefler and Thomas, but that it was his impression that if the Board had sanctioned such connections it had been handled informally.

Mr. Ransom stated that he thought that a policy of refraining from such relations might well be continued in connection with the matter now under consideration as any other course might involve the Board in controversy. He said that he had discussed the situation briefly this morning with Mr. Riefler and that he felt the decision to be reached by the exploratory committee as to what studies should be made was the most controversial aspect of the whole matter, and that, while he recognized that such a committee would require information from the Board's research organization and that Mr. Goldenweiser's advice was particularly to be desired, he felt that it might be preferable for the Board's organization to avoid any formal connection with the committee.

Mr. Szymczak stated that he was in accord with Mr. Ransom's views but that he believed Mr. Goldenweiser should cooperate closely with the committee and make available to it any helpful information which was at the disposal of the Division of Research and Statistics.

Mr. Morrill called attention to an excerpt from the New York Times of September 16, 1936, which appeared in yesterday's newspaper

9/18/36

-4-

review of the Federal Reserve Bank of New York to the effect that Mr. Joseph E. Goodbar, President of the Society for Stability in Money and Banking, which was organized on August 8, had announced the election of several economists to the board of governors of the Society including Mr. George E. Roberts, and stating that the Society was working for a program of monetary reform which includes improvement of the American system of money and banking to increase the security of business activity and the stability of employment. Mr. Morrill pointed out that Mr. Roberts was also serving the National Bureau of Economic Research as the director appointed by the American Bankers Association.

Mr. Goldenweiser stated that, in connection with Mr. Willits' request that he serve on an exploratory committee, he desired the Board to know that Mr. Edmond E. Day, Director of Research of the Rockefeller Foundation, had been asked to serve as a member of such committee but had refused on the ground that under the rules of the Foundation he was precluded from serving as a member of committees of other research organizations although he had consented to serve informally and to attend meetings of such committee without having any formal connection.

At the conclusion of a discussion, it was the sense of the Board that there would be no objection to Mr. Goldenweiser attending meetings of the exploratory committee with the understanding that he would not accept Mr. Willits' invitation to serve as a member of the committee and that he would report to the Board such information as he might obtain through his informal contacts with the committee.

9/18/36

-5-

Mr. Szymczak referred to the fact that he had discussed informally with members of the Board on September 11, 1936, the desirability of giving early consideration to the names which had been suggested in connection with filling existing vacancies in branch directorates of the Federal reserve banks. He said that before Chairman Eccles left for the west he had asked him to assemble such information as he could obtain with respect to possible appointees as branch directors and that he would like to suggest at this time that the members of the Board review the files containing suggestions which had been made in order that they might be prepared to take some action on the matter in the near future.

Upon inquiry by Mr. Ransom as to the procedure which should be followed in this connection, Mr. Morrill stated that it was a function of the personnel committee, consisting of the Chairman, Mr. Szymczak and Mr. Broderick, to formulate and submit to the Board for consideration recommendations with respect to appointments of directors of branches to be appointed by the Board.

At the suggestion of Mr. Ransom, it was unanimously agreed that the files containing information concerning individuals suggested for consideration in filling existing vacancies in branch directorates of Federal reserve banks should be circulated to the individual members of the Board with the understanding that when such circulation had been completed the personnel committee would formulate and agree upon recommendations to be submitted for the Board's consideration.

Mr. Wyatt referred to the provisions of Section 30 of the Banking Act of 1933 which provide that whenever, in the opinion of the Comptroller of the Currency, any director or officer of a national bank shall have continued to violate any law relating to such bank or shall



9/18/36

-6-

have continued unsafe or unsound practices in conducting the business of such bank, after having been warned by the Comptroller of the Currency to discontinue such violations of law or such unsafe or unsound practices, the Comptroller of the Currency may certify the facts to the Board of Governors and that in any such case the Board may cause notice to be served upon such director or officer to appear before such Board to show cause why he should not be removed from office. He said that the Board, up to this time, had had no occasion to take any action pursuant to the provisions of Section 30 but that there was now under consideration in his office a case requiring action under such statutory provisions which had been certified to the Board by the Comptroller of the Currency in connection with The Point Pleasant National Bank, Point Pleasant, West Virginia. He also said that he was mentioning the matter at this time merely for the purpose of acquainting the members of the Board with the fact that the file on the case would be circulated today or tomorrow and that prompt action was desirable on the question whether on the basis of the facts stated in the Comptroller's certificate the Board should cause notice to be served on Mr. H. S. Johnson, President and Director of the bank, to appear before the Board to show cause why he should not be removed from office. He pointed out that the attorney in the Comptroller's office who worked on the case was desirous of being present when the Board conducts a hearing in the matter, that it is advisable to give the bank officer involved at least thirty days' notice that a hearing will be held, that the attorney in question will be engaged on another important matter beginning the week of October 26 and

9/18/36

-7-

that, therefore, it would be desirable to hold the hearing during the week of October 19 if possible.

Mr. Ransom suggested that the matter might be considered by the Board at its regular meeting on Tuesday, September 22, if that was agreeable to the other members of the Board. Mr. Wyatt said that he had thought the Board might wish to consider the matter at a special meeting next Monday but that Tuesday would be sufficiently early to permit of giving notice setting October 22, 1936, as the date for the hearing.

It was unanimously agreed that the file would be circulated to the members of the Board, and that the Board would endeavor to act on the matter not later than Tuesday, September 22, 1936.

At this point Messrs. Thurston, Wyatt and Goldenweiser left the meeting and consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

Telegrams to Messrs. Kimball and Strater, Secretaries of the Federal Reserve Banks of New York and Cleveland, respectively, Mr. Preston, First Vice President of the Federal Reserve Bank of Chicago, and Mr. Powell, Secretary of the Federal Reserve Bank of Minneapolis, stating that the Board approves the establishment without change by the New York bank on September 17, 1936, and by the Cleveland, Chicago and Minneapolis banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

9/18/36

-8-

Letter to Mr. Max Lowenthal, Counsel, Senate Committee on Interstate Commerce of the United States Senate, reading as follows:

"Your letter of September 15 in regard to Mr. Folsom has been brought to the attention of the Board. Mr. Folsom's services have been needed in certain work upon which the Board's staff is engaged and, as indicated in the Chairman's letter of July 8, if it had been possible for Mr. Folsom to be available at an earlier date the Board would have been saved some expense and would have gained the benefit of certain services which Mr. Folsom is peculiarly able to render.

"The need for and the value of Mr. Folsom's services in this connection continue to exist and the Board regrets that it would not be justified in extending the loan for an additional period. However, in order to assist his successor in carrying on the work upon which Mr. Folsom has been assigned, the Board will request him to hold himself available for consultation in so far as may be practicable during the next few days in which he will be taking up the work as a member of the Board's staff in which he is needed."

Approved unanimously.

Letter to Miss Catherine R. Coulon, Washington, D. C., reading as follows:

"In accordance with the request contained in your memorandum dated September 16, 1936, addressed to Mr. Paulger, the Board has accepted your resignation as a temporary stenographer in its Division of Examinations to be effective as of the close of business on September 19, 1936."

Approved unanimously.

Letter to the board of directors of the "Peoples State Bank", Belleville, Michigan, stating that, subject to the conditions of membership numbered 1 to 3 contained in the Board's Regulation H, and the following special conditions, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.



9/18/36

-9-

- "5. Such bank, before purchasing furniture and fixtures or the equity in banking premises now held by the Belleville Depositors' Corporation as trustee for waiving depositors, shall submit the matter to the Federal Reserve Bank of Chicago for consideration."

Approved unanimously, together with a letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Peoples State Bank', Belleville, Michigan, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of the Banking Department for the State of Michigan for his information.

"The report of examination of the bank as of August 10, 1936, indicated that the bank was carrying a balance in excess of 10% of its capital and surplus with the Commonwealth Commercial State Bank, Detroit, Michigan, a nonmember bank, and that the bank had made a loan in excess of 10% of its capital and surplus secured by stock and bond collateral. In accordance with the suggestion contained in the memorandum submitted by your bank in connection with the application for membership, it is suggested that the bank's particular attention be called to the provisions of section 19 of the Federal Reserve Act with respect to the limitations prescribed on balances which a member bank may keep on deposit with a nonmember bank and to the provisions of section 11(m) with respect to the limitations on loans by member banks secured by stock and bond collateral.

"The copies of the articles of incorporation, the certificate of authority to commence business, and the amendments to such articles which the bank has submitted with its application have not been certified to by the appropriate State official, as required by the Board's Form 83A. In the circumstances, it will be appreciated if you will obtain a certificate from the appropriate official of the State of Michigan to the effect that such documents are true copies and that the copies of the amendments evidence all of the amendments which have been made to the bank's articles of incorporation."

Telegram to Mr. Moore, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

9/18/36

-10-

"Referring your September 15 telegram, present classification of member banks for electoral purposes should be observed in forthcoming election of directors unless in your opinion a reclassification is desirable, in which case please furnish Board detailed information and recommendation for its consideration."

Approved unanimously.

Letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the following changes in the inter-district time schedule, requested in Mr. Snyder's letter of September 11, 1936, with the understanding that these changes have been agreed to by the other Federal reserve banks concerned:

	<u>From</u>	<u>To</u>
Detroit to Charlotte	3 days	2 days
Detroit to Jacksonville	3 days	2 days
Detroit to Dallas	3 days	2 days

"Relative to the proposed changes in the time schedule between the Detroit branch and States in other Federal reserve districts, your attention is directed to our letter to you dated January 21, 1936, copy of which is inclosed."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill  
Secretary.

Approved:

Frank Johnson  
Vice Chairman.