A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, October 16, 1936, at 11:00 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee

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

There was presented a letter received under date of October 15, 1936, from Mr. Sproul, First Vice President of the Federal Reserve Bank of New York, reading as follows. Copies of the letter and the communications referred to therein had been furnished to all members of the Board:

"Our directors today reconsidered their position with respect to the renewal of the participation of the Federal reserve banks in the central bank credits to the National Bank of Hungary, which mature October 18, 1936, in the light of the cable (No. 93, dated October 14, 1936) received yesterday from the Bank for International Settlements, copy of which was sent to you last night. They also had before them the cables (No. 195, dated October 14, 1936, and No. 95, dated October 15, 1936) exchanged between this bank and the Bank for International Settlements, copies of which are enclosed. As it appeared to our directors, the situation which now confronts us with respect to these credits is as follows:

"(a) The National Bank of Hungary continues to insist that it is not possible for it, at this time, to transfer into foreign exchange the blocked gold pengo payments already or about to be made on the principal of the credits, as proposed by us in our letter of August 25, 1936;

"(b) None of the other participants in the credits has supported our proposal and, according to the statement of the Bank for International Settlements in its cable No. 93, dated October 14, 1936, none of the other creditors has offered any comments upon our proposal which would assist us in our further consideration of the matter. All of the other participants have, in fact, voted to renew the credits for a period of nine months from October 18, 1936, on the terms suggested by the National Bank of Hungary, as contained in a letter addressed to the Bank for International Settlements by the National Bank of Hungary, under date of July 4, 1936, and as modified by the proposal of the governors of the participating central banks represented on the board of the Bank for International Settlements, referred to in its letter of July 16, 1936, which proposal was accepted by the National Bank of Hungary according to the letter received by us from the Bank for International Settlements under date of July 20, 1936; and

"(c) The reason suggested by us for a renewal of the credits for one month as against a renewal for nine months from October 18, 1936, therefore, no longer applies.

"In the circumstances, and on the ground that agreement with other creditors is desirable and because lack of such agreement may diminish the possibility of ultimate repayment, and in the absence of any practicable method of enforcing our claims upon the National Bank of Hungary if we refused to renew our participation, our directors today voted, subject to the approval of the Board of Governors of the Federal Reserve System, to agree to a renewal of the Consolidated Credit Agreement covering the credits to the National Bank of Hungary for a period of nine months from October 18, 1936, on the modified terms accepted by the National Bank of Hungary and by all of the other participants in the credits.

"Our directors took this action with the understanding that in advising the Bank for International Settlements of our decision to agree to a renewal of the credits for a period of nine months from October 18, 1936, we would indicate that we were doing so reluctantly and would ask the Bank for International Settlements to make it clear to the National Bank of Hungary (1) that we expected some transfer of payments due on the principal of the credits at the expiration of this renewal, and (2) that we do not expect any agree-

"ments to be made with other Hungarian creditors, during the term of the present renewal, which will in effect prevent transfer of payments upon the principal of the central bank credits. This latter point has special reference to the paragraph contained in the letter addressed by the National Bank of Hungary to the Bank for International Settlements, under date of September 14, 1936, which, beginning at the bottom of page 2 reads as follows:

> 'Moreover, the resumption of capital repayments in foreign exchange on the Central Bank credits would widen the existing preference between those and other types of credits. In the summer of this year, on the basis of evidence furnished by us, arrangements for three important categories of Hungary's foreign debts (the League Loan, Treasury Bills and Standstill debts) were renewed for one year on the understanding that, during the currency of these renewals, the relative status of the various groups of creditors should not be altered. The Federal Reserve Bank will no doubt appreciate the moral implications of this proviso.'

"This question of a renewal for nine months of the Hungarian central bank credits, as we have already informed you, was submitted to the other Federal reserve banks, by wire, yesterday, and we shall advise you of their assent as soon as received. At that time we should appreciate receiving the Board's approval of the action of our directors set forth herein."

Upon motion by Mr. Szymczak and by unanimous vote, the Secretary was authorized, upon receipt of advice from the Federal Reserve Bank of New York that all of the other Federal reserve banks had agreed to the proposed renewal of the credits for a period of nine months, to send the following telegram to the Federal Reserve Bank of New York:

"Relet October 15. In view of all circumstances and on understanding that you have received advice from other Federal reserve banks of their assent to the proposal, Board

"approves action taken by board of directors your bank on that date in voting to agree to a renewal of the Consolidated Credit Agreement covering the credits to the National Bank of Hungary for a period of nine months from October 18, 1936, on modified terms accepted by National Bank of Hungary and by all other participants in the credits. Board understands such terms call for prolongation of consolidated credits until July 18, 1937, at present rate of interest, i.e., 1% per annum, with the addition that (a) from October 18, 1936, first syndicate credit shall also participate in an interest payment of 1% per annum, and (b) that the equivalent of a capital repayment of 2% on the second syndicate credit shall be credited on October 18, 1936, to the gold pengo blocked accounts in the names of the participating creditor banks on the books of the Hungarian National Bank.

"Board notes with approval that your directors took such action with the understanding that, in advising Bank for International Settlements of their decision to agree to a nine months renewal of the credits, your bank would indicate that the action had been taken with reluctance and would ask Bank for International Settlements to make it clear to National Bank of Hungary: (1) that your bank expected some transfer of payments due on the principal of the credits at the expiration of this renewal, and (2) that your bank does not expect any agreements to be made with other Hungarian creditors, during the term of the present renewal, which will in effect prevent transfer of payments upon the principal of the central bank credits.

"Board also approves participation by the other Federal reserve banks in renewal of Hungarian central bank credits, and is advising them today by letter accordingly."

Chairman Eccles referred to the recent discussions with respect to an arrangement between the Treasury Department and the Board of Governors for the exchange of such information as might be practicable and necessary to enable the Board and the Treasury Department to meet their respective responsibilities, and stated that under date of August 13, 1935, in anticipation of the approval of the Banking Act of 1935,

and realizing the necessity for cooperation between the Treasury Department and the Board in discharging their respective responsibilities, he had written a memorandum on that subject with a view to preparing himself for discussion of the matter with the Secretary of the Treasury whenever the occasion for doing so might arise; that as a result of his frequent personal contacts with the Secretary of the Treasury no particular necessity had appeared for taking the question up prior to the recent developments during his western trip; and that, therefore he had retained the memorandum in his files up to this time for reference purposes. He then read the memorandum and stated that he had desired to bring it to the attention of the members of the Board merely as a statement of his thoughts at the time the memorandum was prepared and for such assistance as it might provide in connection with current discussions of the arrangement now being worked out with the Treasury Department. The memorandum referred to by Chairman Eccles read as follows:

"THE FEDERAL RESERVE BOARD AND THE TREASURY

"By the Banking Act of 1935 Congress placed upon the Federal Reserve System, and more particularly upon its Governing Board, responsibility for the regulation of the country's supply of money and credit, and instructed it to use its powers to contribute to the restoration of prosperity and the subsequent maintenance of economic stability. The great powers entrusted to the Board carry with them a correspondingly great responsibility.

Monetary powers of the Treasury

"The Board's ability to exercise its powers effectively, however, is restricted by the fact that it is not the only

"agency of the Government that has monetary powers. The Secretary of the Treasury and the President also have vast powers over the supply of money and credit. These powers include: (1) issuance of $3,000,000,000 of greenbacks under the Thomas amendment; (2) disbursement of the stabilization fund, amounting to $2,000,000,000; (3) issuance of silver certificates, of which $250,000,000 can be paid out on the basis of the silver now held by the Treasury, and additional amounts will be available as more silver is acquired; (4) further reduction of the gold content of the dollar from 59 to 50 percent of its old weight, which would result in further additions to the gold resources of the Treasury. In the aggregate, the Treasury has the power to increase member bank reserves, which are now $2,500,000,000 in excess of legal requirements, by an additional $5,000,000,000 or more.

"It is clear that in these circumstances the Federal Reserve System is not in a position to discharge its responsibilities, unless its policies be in close coordination with those pursued by the Treasury. On the other hand, the Treasury, in the exercise of its monetary powers, might be hindered by conflicting actions of the Reserve administration. It is, therefore, imperative in the public interest that a definite understanding be established with the Treasury that neither of the two monetary authorities will undertake an important move in the exercise of its powers without consultation with the other.

"A phase of this problem is the operation of the Exchange Stabilization Fund. In the operation of the fund the Treasury works through its fiscal agent, the New York Federal Reserve Bank. That bank, being located in the money center, is best equipped for doing the work. An incidental result of this, however, is that the New York Reserve Bank, which is represented on the Open Market Committee, always has in its possession information, not available to the Federal Reserve Board, that has a bearing on monetary problems. An arrangement by which the Board, or at least representatives of the Board, would be kept advised of the operations through the fund would assist the Board in its consideration of open-market policies. Since the Board under the law must assume responsibility for the policies adopted, it should have at its command all the available information that has a bearing on the problems involved.

"The emphasis laid on this point is not occasioned by a lack of a spirit of cooperation between the Reserve System and the Treasury; on the contrary, such a spirit has always been

"manifest. A somewhat more formal understanding between the two agencies, sanctioned by the President, however, would give the essential cooperation a firmer basis than personal relationships. The fact that the Secretary of the Treasury is no longer a member of the Board and that the Board is no longer housed in the Treasury Building makes such a basis for cooperation more than ever desirable.

Influence of other powers of the Treasury

"In addition to its monetary powers, many of the fiscal operations of the Treasury exert an influence on banking conditions, money rates, and the investment market. The volume of Treasury security issues, the rates at which they are put out, the distribution of its deposits between its own vaults, the different Federal Reserve banks, and the depositary institutions, sales and purchases of securities on account of trust funds, all have an important bearing on banking and money market developments.

"A close cooperation between the Governing Board of the Federal Reserve System and the Treasury in these matters is as essential as their cooperation in monetary matters. In this case also the fact that information about Treasury problems is available to some of the Reserve banks in their capacity as fiscal agents is not sufficient to give the Board the information essential for formulating open-market policies.

"From the broadest point of view, monetary policies should be coordinated also with the Government's budgetary and taxation policies. In order to be able to carry the necessary weight at policy-making conferences, the Governing Board of the Federal Reserve System must, therefore, be familiar with current fiscal problems and developments. For this purpose, also, it must be in close touch with Treasury plans and considerations.

"In view of all these interrelationships it would be desirable to have an understanding between the Treasury and the Federal Reserve Board that would embrace not only the exercise of monetary powers by either agency, but also the general field of Government financing and fiscal operations, which are, and are likely to remain for a long time, the dominant factors in the money market and in the banking situation."

There was then presented a letter dated October 13, 1936, from

President Fleming of the Federal Reserve Bank of Cleveland, transmitting a copy of a letter received by him under date of October 5, from Mr. H. E. Cook, President of The Second National Bank, Bucyrus, Ohio, quoting a resolution adopted by the National Bank Division of the American Bankers Association at its recent convention in San Francisco to the effect that the Federal reserve banks should discontinue the practice of handling certain classes of non-cash collection items, that a special committee be appointed to give further study to the matter, and if, in its judgment, it were found desirable to do so it should present the results of its study to the Board of Governors of the Federal Reserve System and the Presidents of the various Federal reserve banks looking toward a solution of the problem. Mr. Cook's letter requested that President Fleming obtain and forward to him a detailed description of every kind of non-cash collection item handled through the Federal Reserve Bank of Cleveland and its Pittsburgh and Cincinnati branches. President Fleming's letter stated that he had advised Mr. Cook that inasmuch as this matter seemed to be one of nation-wide importance his request should be directed to the Board of Governors of the Federal Reserve System.

In connection with this matter Mr. Ransom referred to the statement made by him at the meeting of the Board on August 11, 1936, with respect to his conversation with Mr. C. W. Allendoerfer, President of

the National Bank Division of the American Bankers Association, on the subject of the discontinuance of the handling of non-cash collection items by Federal reserve banks and stated that as the subject was one phase of the field under consideration by the Presidents' Conference committee on free services to member banks, of which President Young of the Federal Reserve Bank of Boston is Chairman he had discussed the matter with President Young over the telephone this morning and, while it was Mr. Young's first reaction that each Federal reserve bank should respond to the inquiry directly, he later agreed that as the subject was a matter of system interest it should be taken up through one channel and, as his committee was considering the matter at the present time, it would be proper for Mr. Cook to obtain from President Young's committee the information desired by the committee of the American Bankers Association for the system as a whole.

> The matter was discussed and it was the consensus of the members present that because of the special assignment of this subject to the committee on free services of the Presidents' Conference it would be desirable for the committee of the American Bankers Association to take the matter up directly with Mr. Young and that the accumulation of such information as may be necessary should be handled through that channel. The Secretary was requested to advise Presidents Young and Fleming of the Board's position with the understanding that President Fleming would inform Mr. Cook accordingly.

At this point Messrs. Thurston and Wyatt 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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on October 15, 1936, were approved unanimously.

Telegrams to Messrs. Kimball, Strater and Young, Secretaries of the Federal Reserve Banks of New York, Cleveland and Chicago, respectively, stating that the Board approves the establishment without change by the New York bank on October 15, 1936, and by the Cleveland and Chicago banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated October 15, 1936, from Mr. Morrill recommending that Miss Dorothy M. Parkhill, a temporary stenographer in the Secretary's office, be appointed on a permanent basis, with salary at the rate of $1,320 per annum, subject to her passing satisfactorily the usual physical examination, and assigned to the office of Mr. Daiger, Special Assistant to the Chairman, for the duration of his employment, and that thereafter she be assigned to the Secretary's office.

Approved unanimously.

Letter to Mr. Delano, Chairman of the Federal Reserve Bank of Richmond, reading as follows:

"Receipt is acknowledged of your letter of October 8,

"1936, stating that, subject to the approval of the Board of Governors of the Federal Reserve System, the board of directors of your bank on that date appointed Mr. John S. Walden, Jr., as First Vice President of your bank for the unexpired portion of the term of five years ending February 28, 1941, with salary at the rate of $14,000 per annum for the remainder of this calendar year.

"The Board approves the appointment of Mr. Walden as First Vice President of the Federal Reserve Bank of Richmond for the unexpired portion of the term of five years ending February 28, 1941, and also approves his compensation at the rate of $14,000 per annum for the period October 8 to December 31, 1936, inclusive."

Approved unanimously.

Letter to the presidents of all Federal reserve banks, prepared in accordance with the action taken at the meeting of the Board on September 22, 1936, and reading as follows:

"Occasionally in particular communications directed to Federal reserve banks the Board has asked specifically that such communications be brought to the attention of the directors because the nature of the subject matter was such that it was thought especially desirable that the directors be fully informed as to the Board's action or viewpoint.

"However, the Board has assumed that all of its communications which might be of interest to the directors are brought to their attention even though they do not contain a specific request that this be done. Nevertheless, the thought has occurred to the Board during recent discussions that it might be well to advise you of its views in this respect. Accordingly, the Board has asked me to say to you that it desires that all of its communications with respect to actions taken by it on recommendations of your board of directors or which relate to questions of general policy or to other matters that are customarily passed upon by your directors be submitted to them at their regular meetings, or, in lieu thereof when it seems desirable to do so, that copies be supplied to them between meetings, for their information and such consideration as may be appropriate.

"It is not intended, of course, that the directors should be burdened with the necessity of giving attention to ordinary routine correspondence between the Board and Federal reserve banks but only that matters of which the directors should be officially informed or correspondence which contains information necessary to a full understanding and cooperation between the Board of Governors and the directors of the Federal reserve banks in formulating and administering the policies of the system should be brought to their attention."

Approved unanimously.

Memorandum dated October 7, 1936, from Mr. Vest, Assistant General Counsel, stating that the forms of oaths of office taken by the directors of the Federal reserve banks and branches and the Federal reserve agents when they enter upon their duties as such were prepared in mimeograph form by the Board and sent out to the Federal reserve banks some years ago, and that it now seemed desirable to make certain changes in the language of the forms, and to have the revised forms printed for the use of the Federal reserve banks. The memorandum recommended accordingly, that there be printed and sent to each Federal reserve bank a reasonable supply of the five forms of oaths of office, copies of which were attached to the memorandum, for use by (1) Class A directors of Federal reserve banks, (2) Class B directors, (3) Class C directors, (4) directors of branches of Federal reserve banks, and (5) Federal reserve agents, assistant Federal reserve agents, acting assistant Federal reserve agents, and alternate assistant Federal reserve agents.

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Receipt is acknowledged of your letter of October 1, 1936, together with its inclosure, relative to your action in making available to both member and non-member banks of the Ninth Federal Reserve District the financial library of the Federal Reserve Bank of Minneapolis.

"The Board has read your letter of October 1, as well as the copy of your letter to the executive officers of banks in your district, with much interest, and is today forwarding copies of them to the other Federal reserve banks for their information."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.