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 Tuesday, June 8, 1937, at 10:15 a. m.

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

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. Parry, Chief of the Division of Security Loans
Mr. Dreibelbis, Assistant General Counsel
Mr. Vest, Assistant General Counsel
Mr. Wingfield, Assistant General Counsel

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

Mr. Strater, Secretary of the Presidents' Conference
Mr. Burgess, Vice President of the Federal Reserve Bank of New York
Mr. Williams, Associate Economist of the Federal Open Market Committee

President Harrison stated that the Presidents' Conference had completed the consideration of the matters on its program yesterday afternoon and that the minutes of the conference would be sent to the Board in due course.

He referred to the report submitted by Messrs. Smead and Burgess under date of June 4, 1937, pursuant to the action taken at the meeting of the Federal Open Market Committee on May 4, 1937, with respect to the formula used for the quarterly readjustment of the participations of the Federal reserve banks in the Government securities held in the System open market account and stated that the conference had recommended that, provided there is no substantial amount of depreciation in the account as of July 1, 1937, the participations of the Federal reserve banks in the account be readjusted as of that date on the same basis as that used in the readjustment on April 1, 1937. The conference also recommended, President Harrison said, that Messrs. Smead and Burgess continue their studies of the question whether a more satisfactory formula for such adjustments could be devised.

President Harrison also said that the conference had discussed at length means by which greater interest might be created in the market for Treasury bills and that it was understood that the Presidents would study the problem in their respective districts.

Chairman Eccles called upon Mr. Goldenweiser, Economist for the Federal Open Market Committee, to make a statement on the present business and credit situation.

Mr. Goldenweiser distributed a memorandum on business and credit conditions which had been prepared in the Division of Research and Statistics under date of June 4, 1937, a copy of which has been placed in the Board's files, and discussed briefly the most important points covered by the memorandum. In connection with the distribution of maturities of Government securities in the System open market account he suggested that with approximately $700,000,000 of long-term bonds, $1,100,000,000 of maturities within one year, and the balance of the maturities between one and five years, the portfolio was in a fairly satisfactory condition. He felt that, in view of prospective developments in the reserve position of member banks during the remainder of the year, the short-term securities now in the account would be adequate to make effective a policy of reducing reserves by allowing maturities to run off if such a policy should become desirable.

On the subject of the continued inflow of gold into the United States, he expressed the opinion that, because of the large volume of gold imports, the Treasury would eventually abandon its present policy of sterilizing such imports and the Federal Reserve System would be under the necessity of taking action to counteract their effects upon the money market. He said that for that reason it was important that the Federal Reserve System be in a position to absorb gold imports in some manner and assist in discouraging further additions to the gold supply and that additional powers were necessary for that purpose. He suggested that study should be given to a plan for putting an upper limit on the amount of reserve balances that could be counted as reserves. He added that it was becoming more and more apparent that unless the banking system in the United States is unified and the Federal Reserve

System is granted additional authority it will not be able to discharge properly the responsibilities now resting upon it.

Mr. Williams was then asked for his views. He stated that he was impressed by the rapidity with which things had changed. Two or three months ago, he said, the System was disturbed by the speed with which the recovery movement was progressing and prices were advancing, whereas the indications of undue expansion, including the accumulation of inventories in anticipation of higher prices, had now largely disappeared. He felt that the large increase in the price of building materials which had taken place might have an adverse effect upon the volume of construction, and that the continuation of serious labor troubles would undoubtedly have a similar effect upon the progress of business recovery.

He expressed the opinion that the much talked of recession in business had not materialized to any substantial extent and that, while some economists had concluded that there would be a recession of business in the third quarter of the year, there was little evidence at the present time of such a recession, and that it was the general expectation that in any event recovery would be resumed by fall. He added that the slowing down of the rate of business activity was salutary in effect and had decreased substantially the possibility of any major disorders in the progress of business recovery, and that, in his opinion, the continued inflow of gold and the possible effects of that movement upon credit conditions constituted the most important problem before the Federal Reserve System at the present time.

Chairman Eccles stated that, because of the prohibition against the payment of interest on demand deposits including bank deposits, there was little incentive at the present time for interior banks to keep their excess funds on deposit in the money centers; that, as a result, excess reserves of such banks were being held in their own vaults or with correspondents, and that, therefore, the effect of these idle funds was not fully reflected in the money market. As a means of making these excess reserves effective in furthering the easy money policy of the Federal Reserve System, Chairman Eccles said, the members of the Board had discussed informally a suggestion that the Federal Open Market Committee direct the Federal reserve banks to purchase Treasury bills, when offered to them, at rates slightly higher than the going market quotations on such bills. Such a policy, he said, would give liquidity to Treasury bills which are one of the principal mediums for short-term investment at the present time and would enable banks with excess reserves to invest their idle funds in bills with the assurance that they could be disposed of whenever the banks were in need of the funds for other purposes, thereby broadening the market for Treasury bills and at the same time enabling excess reserves of member banks to exert their influence upon the money market. He suggested that the matter be discussed at this meeting for the purpose of getting the benefit of the views of the Presidents prior to its consideration at the meeting of the Federal Open Market Committee. Various phases of the suggested arrangement were discussed as well as possible effects upon the money market and the reserve position of member banks.

The meeting recessed at 12:55 p. m. and reconvened at 2:30 p. m. with the same attendance as at the morning session and, in addition, Mr. Leonard, Assistant Chief of the Division of Examinations.

Mr. McKee suggested that consideration be given by the Federal reserve banks to the desirability of reviewing the situation with respect to any State member banks in their respective districts which, because of inferior management or for other reasons, will probably be unable to survive, and, with a view of preventing loss to the depositors and the Federal Deposit Insurance Corporation and salvaging as much as possible for the shareholders of such banks, obtaining corrections of criticized conditions or assisting in effecting mergers or consolidations of the banks or in bringing about voluntary liquidation. Mr. Leonard discussed briefly the desirability of the Federal reserve banks taking affirmative action in carrying out Mr. McKee's suggestion and referred to certain typical cases which illustrated the need for such action.

It was understood that the Board would address a letter to the Federal reserve banks requesting that surveys be made in their respective districts with a view to ascertaining the possibilities as to banks of the kinds referred to by Mr. McKee, and that after the results of the survey had been ascertained it would be determined whether a meeting should be held in Washington of the officers of the Federal reserve banks having charge of the examination functions of the banks for a discussion of the procedure to be followed.

Mr. Broderick urged that the Presidents give consideration as promptly as possible to the situation as to employees at their respective banks with salaries of less than $2,100 per annum, and particularly those receiving less than $1,500, for the purpose of determining the advisability, in view of living costs, of granting reasonable increases in salaries. The reason for this suggestion, he said, was that he felt the Federal Reserve System could not afford to be in a position of not paying what could be regarded as a fair and living wage and that regardless of the wage scale in effect in other banking institutions in Federal reserve bank or branch cities the Federal reserve banks should adjust salaries wherever it appeared that such action would be justified. He also suggested that whenever it is necessary to reduce the personnel at a Federal reserve bank the bank effect such reduction whenever possible by the release of younger employees in point of service, retaining older employees such as those who have been with the bank for ten years or more with records of satisfactory service. He felt, he said, that if an employee had been with the bank for longer than ten years he should not be dismissed unless it was necessary from the standpoint of economical operation of the bank and that if an employee with a long service record could be retained by placing him in another position even at a reduced salary such action should be taken.

President Harrison stated that during the luncheon interval several of the Presidents had discussed the suggestion presented by Chairman Eccles at the morning session regarding the adoption of a plan for purchases by the Federal reserve banks of Treasury bills and that it was the consensus that if there were no pressing need for an immediate decision on the proposal the Presidents would prefer to have further time in which to study it before expressing an opinion, particularly in view of the possible effects of the proposal on the money market and the position of the Federal reserve banks in that market. It had also been felt, President Harrison said, that greater liquidity in the bill market might be largely achieved by the Treasury issuing only ninety day bills.

Further discussion of the proposal ensued during which the Presidents indicated that they would like to have additional time to consider the matter before expressing an opinion. The discussion related to whether the proposal would be effective in developing the market for Treasury bills, its effect on short-term money rates and particularly the rates for Treasury bills, the objective of the proposal, alternative plans which might be adopted with the same objective, and the various forms which might be given to the plan. During the discussion Chairman Eccles stated that, while it was not necessary that a conclusion be reached immediately, he felt it would be helpful to the Treasury in formulating its program with regard to Treasury bills, which will be determined upon in the course of the next two weeks, if a decision on the matter could be reached before that time.

At the conclusion of the discussion the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.