A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, July 29, 1937, at 10:30 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. Paulger, Chief of the Division of Examinations
Mr. Parry, Chief of the Division of Security Loans
Mr. Dreibelbis, Assistant General Counsel
Mr. Leonard, Assistant Chief of the Division of Examinations
Mr. Baumann, Assistant Counsel
Mr. Solomon, Assistant Counsel
Mr. Dembitz, Research Assistant in the Division of Security Loans

There was presented a memorandum dated July 29, 1937, prepared by the Division of Examinations in accordance with the action taken at the meeting of the Board on July 27, 1937, with respect to the proposed plan of the Union Trust Company of Maryland, Baltimore, Maryland, for the dissolution of the City Certificates Corporation.

Thereupon Messrs. Bethea, Carpenter, Clayton, Thurston, Wyatt, Parry, Dreibelbis, Baumann, Solomon and Dembitz left the room and the Board proceeded with a discussion of the proposed plan. During the discussion Chairman Eccles suggested that the Board consider action along the lines set forth in the following resolution and that he
wished to be recorded as favoring such a resolution:

"That the Federal Reserve Bank of Richmond be requested to advise the Union Trust Company of Maryland that the Board of Governors, without having approved the proposed transfer of stock under the revised plan submitted by the trust company, will give consideration to a request for a waiver of the requirement as to consent to such transfer of stock contained in Condition of Membership No. 27, if and when

1. The plan has been submitted in writing to the holders of the certificates of beneficial interest issued by the City Certificates Corporation and to the stockholders of the Corporation, in terms clearly and simply setting forth the details of the plan and stating specifically not only what the certificate holders would receive under the proposed plan but also what they would give up;

2. Such plan has been approved in writing by not less than two-thirds of the holders, who hold not less than three-fourths in amount, of the certificates of beneficial interest outstanding, exclusive of the certificates upon which cash payments would be made in full; and

3. Such plan has been approved in writing by the stockholders owning at least two-thirds of the outstanding stock of the City Certificates Corporation."

At 11:50 a.m. the Chairman left the meeting for the purpose of attending a conference which had been arranged previously.

The discussion continued until 1:00 p.m. when the meeting recessed. The meeting was reconvened at 2:50 p.m. with the same attendance as at the opening of the morning session except that Chairman Eccles was not present.

There was presented a letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"This refers to Mr. Wallace's letter of May 26, 1937, and his subsequent correspondence with the Board's General Counsel, concerning security for trust funds deposited by State member banks in their own banking departments.

In its letter of September 27, 1935, to Mr. Hoxton, the Board waived compliance by State member banks in the State of Maryland with the condition of membership to the
effect that if a State member bank deposits trust funds in its own banking department, it must deposit securities in its trust department to secure the payment of the trust funds. However, the Board expressly reserved the right to require full compliance with such condition by the State member banks subject thereto if, at any time, it felt that such trust funds were not otherwise adequately protected.

"As you know, the Board's action in waiving compliance with such condition was based upon the understanding that in the State of Maryland all such trust funds were protected by a preference accorded by certain provisions of the State statutes. It now appears that, in the case of Corbett v. Hospelhorn, 191 Atl. 691, the Court of Appeals of Maryland recently held that the preference accorded by the Maryland statutes applies only to liabilities incurred by a trust company when acting under appointment by a court as executor, administrator, guardian, trustee, receiver, committee, or depository. Parenthetically it may be noted that it is understood that trust companies are the only banking institutions permitted to exercise fiduciary powers in Maryland.

"The Board does not feel that it is justified in continuing to waive compliance with the above-mentioned condition of membership in connection with trust funds which are not protected by the preference accorded by the Maryland statutes as interpreted by the Court of Appeals of that State. Therefore, the Board withdraws its waiver of compliance with such condition by State member banks in Maryland which are subject to the condition, except as to funds which such banks hold when acting under appointment by a court as executor, administrator, guardian, trustee, receiver, committee, or depository. Please advise each such State member bank accordingly, forwarding to the Board for its records a copy of the advice you furnish each bank.

"It is noted that while the question has never been considered by the Maryland Court of Appeals, the Attorney General of that State has ruled that a trust company does not have authority to pledge securities to secure trust funds deposited by it in its banking department and that your counsel concurs in that opinion. As you know, the condition of membership in question contemplates that if a State member bank subject to such condition deposits trust funds in its own banking department there shall be a valid pledge of securities to secure such funds.

"It is realized that the withdrawal of the Board's waiver of compliance with the condition as above described may, in view of all the circumstances involved, present some difficulties to the banks subject to the condition
"in making the necessary adjustments for the handling of trust funds affected by the withdrawal of the waiver. It is suggested, therefore, that you contact the State member banks subject to the condition with a view to giving such assistance to them as you may in working out, within a reasonable time, the problem of making such adjustments as may be necessary."

Mr. Ransom stated that he had requested that the letter be circulated among the members of the Board before its consideration at a meeting for the reason that, while he felt the position taken in the letter was correct under present circumstances and that the letter should be approved, he also felt that consideration would have to be given by the Board to some means of solving the problem confronted by State member banks in Maryland and other States which are not permitted by law to pledge security for trust funds deposited in their banking departments.

Thereupon Mr. Ransom moved that the letter to Mr. Leach be approved.

Carried unanimously.

Mr. Baumann left the meeting at this point.

There was presented a memorandum from Mr. Parry, which had been prepared by him under date of July 28, pursuant to the request made at the meeting of the Board on July 27, and which submitted a draft of an amendment to Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, which would make the provisions of the regulation applicable to so-called old loans, i.e., loans made prior to May 1, 1936, the date upon which the regulation became effective. The reasons for the proposed amendment as outlined in Mr. Parry's memorandum were elaborated upon.
by him and, in response to an inquiry whether it would be desirable to defer the amendment until the revision of Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, becomes effective, or whether it should be made effective before that date, Mr. Parry expressed the opinion that the latter course should be followed for the principal reason that under the present regulation, in the event of appreciation in the market price of the securities held as collateral raising the margin in the account above the amount of margin required by the lending bank, the borrower would be able to withdraw the excess margin or obtain additional credit, that this privilege would be lessened if the regulation were applied to old loans, and that it was believed to be desirable that the amendment be made effective before any further substantial increase in security prices takes place.

After a discussion, Mr. Szymczak moved the adoption of the following resolution:

RESOLVED, That effective September 1, 1937, the Board approve and adopt the following amendment to Regulation U:

Regulation U, as amended, is hereby further amended in the following respects:

1. Section 1 of said regulation is amended by inserting the words "or at any previous time," in the second paragraph of said section after the words "incurred on or after May 1, 1936,"; and by substituting the words "While a bank maintains any such loan, whenever made, the" for the words "After any such loan has been made, a" in the third paragraph of said section; so that said section 1 as thus amended will read as follows:

"SECTION 1. GENERAL RULE
On and after May 1, 1936, no bank shall make any
"loan secured directly or indirectly by any stock for
the purpose of purchasing or carrying any stock regis-
tered on a national securities exchange in an amount
exceeding the maximum loan value of the collateral,
as prescribed from time to time for stocks in the sup-
plement to this regulation and as determined by the
bank in good faith for any collateral other than
stocks.

For the purpose of this regulation, the entire
indebtedness of any borrower to any bank incurred on
or after May 1, 1936, or at any previous time, for
the purpose of purchasing or carrying stocks regis-
tered on a national securities exchange shall be con-
sidered a single loan; and all the collateral secur-
ing such indebtedness shall be considered in deter-
mining whether or not the loan complies with this
regulation.

While a bank maintains any such loan, whenever
made, the bank shall not at any time permit withdrawals
or substitutions of collateral that would cause the
maximum loan value of the collateral at such time to
be less than the amount of the loan. In case such
maximum loan value has become less than the amount
of the loan, a bank shall not permit withdrawals or
substitutions that would increase the deficiency;
but the amount of the loan may be increased if there
is provided additional collateral having maximum loan
value at least equal to the amount of the increase."

2. Section 2 of said regulation is amended by substituting
the word "may" for the word "thereafter" in the unlettered
portion of said section so that the unlettered portion of
said section as thus amended will read as follows:

"SECTION 2. EXCEPTIONS TO GENERAL RULE

Notwithstanding the foregoing, a bank may make and
may maintain any loan for the purpose specified above,
without regard to the limitations prescribed above, if
the loan comes within any of the following descriptions:"

Carried unanimously, with the under-
standing that the regulation would be re-
printed and that the first paragraph of
the foreword would be changed to read as
follows:

"This regulation is issued
pursuant to the provisions of sec-
tion 7 of the Securities Exchange
Act of 1934."
Mr. Ransom stated that pursuant to the plan informally agreed upon when the request from Senator Smith for a report on S. 1990 (Thomas bill) was received, he (Mr. Ransom) had submitted to Mr. Upham, Assistant to the Secretary of the Treasury, for the purpose of obtaining such comments as the Treasury might care to offer, drafts of the statement prepared by Mr. Goldenweiser pursuant to the action taken by the Board at the meeting on July 26, 1937, on the subject "Objectives of Monetary Policy" and that he had been advised by Mr. Upham over the telephone today that he and Assistant Secretary Taylor had no suggestions to make.

Thereupon Mr. Ransom submitted a draft of letter to Senator Smith which was approved unanimously as follows:

"In response to your letter of July 2, with reference to S. 1990, I am transmitting to you herewith a statement which reflects the views of the Board of Governors with respect to the important questions raised by this legislation. The opportunity afforded the Board to express its views to your committee is very much appreciated."

The statement referred to in the letter read as follows:

"From time to time the Board of Governors of the Federal Reserve System is asked for its opinion of bills pending in Congress that would establish a central monetary authority and direct it, as a primary objective, to achieve and maintain a specified domestic price level. In these bills it is generally assumed that the stated objective may be attained exclusively through monetary control, and responsibility for accomplishing the end sought is, therefore, placed upon the monetary authority.

"The Board assumes that, while price stabilization is stated as the objective of such proposals, the authors regard stability of prices merely as a means toward a more important end, namely, the lessening of booms and depressions and the increase in the national output and well-being, in the belief that through the maintenance of a stable price..."
"level the broader objective will be achieved.

"The Board is in full agreement with the ultimate ob-
jective of the proposals to promote economic stability, which
means the maintenance of as full employment of labor and of
the productive capacity of the country as can be continuously
sustained. The Board, with the broader powers conferred
upon it by the Banking Act of 1935, performs essential func-
tions necessary to the achievement of this objective.

"As to the adequacy and efficacy of the means provided
by the proposals to achieve this objective, the conclusions
reached by the Board are briefly stated in the following
discussion.

"Price stabilization not an adequate objective. That
wide fluctuations in the price level are disastrous is beyond
question and determined efforts should be made to prevent
such fluctuations as would endanger economic stability. The
Board is convinced, however, that the broader objective of
maximum sustainable utilization of the nation's resources
cannot be achieved by attempting to maintain a fixed level
of prices, and that, therefore, price stability should not
be the sole or principal objective of monetary policy.

"Stabilization of individual prices by monetary means
is not proposed, nor would it be feasible. Proposals for
price stability necessarily refer to some index or average
of prices. There is no general agreement on the question
of what constitutes a satisfactory price index for this
purpose, although the general wholesale commodity price
index is often suggested.

"No matter what price index may be adopted as a guide,
unstable economic conditions may develop, as they did in
the 1920's, while the price level remains stable; business
activity can change in one direction or the other and ac-
quire considerable momentum before the changes are reflected
in the index of prices. There are situations in which
changes in the price level would work toward maintenance
of stability; declining prices resulting from technological
improvements, for example, may contribute to stability by
increasing consumption. There are other situations when
the restoration and maintenance of relatively full employ-
ment may be possible only with an advance in prices. Cor-
respondence between price stability and economic stability
is not sufficiently close, therefore, to make it desirable
to restrict the objective of monetary policy to price sta-
bility.

"The inadequacy of price stability as a guide to policy
may be illustrated by a situation when the index rises owing
to an advance in agricultural prices. Such a rise might result from a crop failure in the United States, or from a short world crop while the harvest in this country was bountiful and full employment prevailed. If the maintenance of a fixed price level were the sole guide to monetary policy, a restraining policy would be indicated in both cases, although in the former case such a policy might result in a general business decline, while in the latter case it might or might not be justified depending on other circumstances.

"Inasmuch as the management of the country's monetary system is not an exact science, since it involves forecasting and dealing with many uncertainties, it is essential in determining an objective to leave scope for judgment and discretion.

"Monetary contribution to economic stability. Monetary authorities may contribute to economic stability by exerting an influence to maintain a flow of funds conducive to as full a use of the country's productive resources as can be continuously sustained and to keep the banking machinery of the country in sound condition. The Board recognizes that even an adequate supply of money will not perform its functions adequately, if the banking structure through which it must operate is in an unsound condition, and that a sound banking structure cannot be sustained if the supply of money is insufficient, and a deflation is under way. The Federal Reserve System, therefore, must work toward economic stability through its influence both on the flow of money and on the soundness of banking conditions. The Board is aware of the limitations on the effectiveness of this influence which arise from the multiplicity of laws and jurisdictions as well as from the divided responsibility for supervision under which the banks of this country function.

"Monetary control alone cannot accomplish economic stability. An attempt to make either price stability or the broader objective of economic stability the particular concern of the Federal Reserve System, without recognizing the fact that the attainment of the objective would require the cooperation of other agencies of the Government is impractical.

"The Federal Reserve System can regulate within limits the supply of money, but there are other factors affecting prices and business activity fully as powerful as the money supply. Many of these factors are non-monetary and cannot be controlled by monetary action. Their effect on business activity may express itself in an increased or decreased rate of use, or turnover, of the existing supply of money as well as in a change in the supply itself. The influence that the Federal Reserve System can exercise over the interest rate
"has an important bearing on business activity, but it may be entirely offset by other factors."

"It is essential to recognize the limitations on the effectiveness of monetary policy. Monetary factors are only one of the groups of forces affecting business activity."

"Conclusion. To sum up, the Board believes that economic stability rather than price stability should be the general objective of public policy. It is convinced that this objective cannot be attained through monetary policy alone. The policies of the Government with reference to banking, prices, agriculture, tariffs, security markets, labor, relief, spending, taxation, borrowing, and in many other directions, have an effect on business activity.

"It should be the declared objective of the Government of the United States to maintain economic stability, and it should be the recognized duty of the Board of Governors of the Federal Reserve System to use all its powers to contribute to a concerted effort by all agencies of the Government toward the attainment of this objective."

Question was raised as to whether the statement should be released to the press, and it was agreed that it should not be released by the Board unless it was given to the press by Senator Smith or representatives of the press were advised by other means of its transmission, in which event Mr. Thurston would be authorized to hand copies of the statement to the press.

Thereupon Messrs. Bethea, Carpenter, Clayton, Thurston, Wyatt, Parry, Dreiblebis, Solomon and Dembitz left the room and consideration of the plan submitted by the Union Trust Company of Maryland, Baltimore, Maryland, for the dissolution of the City Certificates Corporation was resumed.

At the conclusion of the discussion, the resolution suggested by Chairman Eccles at the morning session was adopted, Mr. McKee voting "no".

Reference was made to a draft of letter to the board of directors
of the "Commerce Union Bank", Nashville, Tennessee, stating that, sub-
ject to the conditions of membership numbered 1 to 6 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 Atlanta:

"7. Such bank shall make adequate provision for depre-
ciation in its banking houses and furniture and
fixtures.

"8. As soon as practicable such bank shall dispose of
any shares of its own stock held as collateral to
its loans.

"9. Within 6 months from date of notice by the Board of
Governors requiring such action, such bank shall dis-
pose of the ownership of all stock held in the Broad-
way National Bank of Nashville, in which bank it now
holds a controlling stock interest, or convert such
national bank into a branch of the Commerce Union
Bank."

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

"The Board of Governors of the Federal Reserve System
approves the application of the 'Commerce Union Bank', Nash-
ville, Tennessee, for membership in the Federal Reserve Sys-
tem, 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 Superint-
dent of Banks for the State of Tennessee for his infor-
mation.

"With reference to the accounts listed on pages 21-b
and 21-c of the report of examination for membership as being
improperly carried as savings accounts, and to the loans
listed on page 21-a of the report as not being margined as
required by the provisions of Regulation U, it is assumed
that if the bank completes its membership you will follow
to a conclusion the correction of these matters. It is also assumed that you will follow to a conclusion the matter of the bank taking the necessary steps to provide adequate supervision of the operating details and accounting systems of the main office and branches. The report, both in the open section and in the confidential section, contains considerable comment in this connection and it has been noted that at the suggestion of the examiner the management has agreed to employ an auditor as soon as the services of a suitable and competent person can be obtained.

"In view of the fact that the examiner has reported that the estimated losses shown in the report of examination were charged off during the examination, the usual condition of membership regarding the elimination of estimated losses has not been prescribed."

At this point Messrs. Paulger and Leonard 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 July 28, 1937, were approved unanimously.

Memorandum dated July 24, 1937, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the appointment on a temporary basis for a period of three months of Miss Gertrude Elizabeth Ford as a clerk in the Division, with salary at the rate of $135 per month, effective as of the date upon which she enters upon the performance of her duties.

Approved unanimously.

Memorandum dated July 27, 1937, from Mr. Morrill recommending the appointment of Mr. Herbert W. Young as first engineer at the Board's new building, with salary at the rate of $2,400 per annum,
Memorandum dated July 28, 1937, from Mr. Morrill, recommending the appointment of Mr. Clair M. Aldrich as a guard at the Board’s new building, with salary at the rate of $1,500 per annum, effective as of the date his services may be required, after having passed satisfactorily the usual physical examination.

Approved unanimously.

Letter to Mr. Hamilton, President of the Federal Reserve Bank of Kansas City, prepared in accordance with the action taken at the meeting of the Board on July 20, 1937, and reading as follows:

"The members of the Board have read with interest your letter of July 13, 1937, to Mr. Ransom with respect to the composition and functions of the executive committee and administrative committee at your bank. Your letter was received after the Board had sent its letter of July 14 to Chairman Thomas on this subject, a copy of which is attached hereto for your information.

"The Board has given careful consideration to the statement in your letter of the reasons which prompted your directors to provide for the two committees as now constituted but does not feel they justify a change in the views set forth in the Board's letter to Chairman Thomas.

"The Board concurs in the position that the directors of a Federal reserve bank should be representative of the district served by the bank and is of the opinion that reasonable expenses incurred in connection with attendance by out-of-town directors at meetings of the board of directors or necessary meetings of the executive committee are justified and should be continued. However, a large part of the aggregate fees and expenses of directors at your bank during the year 1936 consisted of fees and expenses incurred in connection with attendance of directors at almost daily meetings of the executive committee and, for
"the reasons stated in the letter to Chairman Thomas, the Board is unable to see the necessity for such frequent meetings of the executive committee or of the recently created administrative committee, either from the standpoint of familiarity of the directors with the bank's affairs or the proper conduct of its business.

"The third paragraph on page 2 of your letter refers to certain 'almost daily transactions' taken over by the operating departments of the bank in connection with the transfer of the non-statutory duties of the Federal Reserve Agent's department 'such as the issuing of Federal reserve bank stock, issuing of Federal reserve notes, etc., concerning which there is some question as to whether or not our directors could delegate the authority except to the Executive Committee or to a committee a majority of which was made up of directors.' Inasmuch as Article VI of your by-laws authorizes certain officers of the bank to sign certificates of stock issued by the bank, and the Board's Regulation I, Increase or Decrease of Capital Stock of Federal Reserve Banks and Cancellation of Old and Issue of New Stock Certificates, states the circumstances under which Federal reserve bank stock shall be issued and retired, the Board is unable to understand how questions could arise frequently which would require the attention of your directors. Inasmuch as the issuance and retirement of Federal reserve notes is a statutory function of the Federal Reserve Agent as the local representative of the Board and was not transferred to the bank, questions arising in that connection should be disposed of by the Federal Reserve Agent, or in his absence by an Assistant Federal Reserve Agent, unless they are of such a nature that they should be referred to the Board of Governors for action.

"You also state that if the Chairman of the board were made chairman of the executive committee he could not delegate any other director to serve in his stead and there would be times when there would be only two members of the executive committee available. As stated in the letter to Chairman Thomas, the Board is of the opinion that in the interest of sound procedure the Chairman of the board of directors of a Federal reserve bank, and, in his absence or disability the Deputy Chairman, and, in the absence or disability of both, the third Class C director should serve as chairman of the executive committee of the bank. Such an arrangement should obviate the difficulty referred to in your letter.

"In this connection, reference is made again to the fact that the executive committee of the bank meets on call and infrequent meetings are held, whereas the adminis-
"trative committee meets almost daily. As stated in its letter to Chairman Thomas, the Board feels that this arrangement is not consonant with the principles which should be observed in distinguishing between the responsibilities of directors and officers, respectively, and that the creation of an administrative committee to exercise between meetings of the executive committee powers conferred upon the latter is not consistent with the purposes for which an executive committee is provided. In this connection, it is assumed that your directors are familiar with the discount committees at other Federal reserve banks, such as St. Louis and Dallas, which are composed entirely of officers of the respective banks.

"It will be noted that the Board requested Chairman Thomas to bring to the attention of the other directors of the bank the views of the Board of Governors as expressed in the letter to him, and the Board will also appreciate it if you will present this letter to your directors at their next meeting. A copy of this letter is being sent to Chairman Thomas with the request that he advise the Board of the action taken."

Approved unanimously.

Letter to Mr. Rolf Nugent, Director, Department of Remedial
Loans, Russell Sage Foundation, New York, New York, reading as follows:

"Receipt is acknowledged of your letter of July 22, 1937, commenting further with respect to personal loan departments of national banks, and we are glad to have this further expression of your views on this subject. As indicated in our previous letter, the matter is one which falls primarily within the jurisdiction of the Comptroller of the Currency."

Approved unanimously.

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

"Receipt is acknowledged of your letter of July 24, 1937, requesting approval of the employment of the firm of Mayer, Meyer, Austrian & Platt and Mr. Adalbert Brown, as special counsel for the purpose of contesting the illegal part of the assessment on the building of the Federal Reserve Bank of Chicago."

Approved unanimously.
"Reserve Bank of Chicago for the year 1936. The Board has already approved their employment for the same purpose in connection with the assessment upon your building for the years 1934 and 1935 and approves their employment in connection with the taxes for the year 1936, upon a contingent fee basis of not less than 5% nor more than 10% of the savings on the taxes, exclusive of court costs, with the understanding that the total fee will depend upon the work involved and the number of parties who are joined in the action."

Approved unanimously.

Thereupon the meeting adjourned.

Chairman.

Approved: [Signature]

Secretary.