

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, August 20, 1937, at 2:30 p.m.

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

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary

Consideration was 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 August 19, 1937, were approved unanimously.

Telegrams to Mr. Sanford, Assistant Secretary of the Federal Reserve Bank of New York, Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, and Mr. Taylor, Cashier of the Federal Reserve Bank of Cleveland, stating that the Board approves the establishment without change by the New York bank on August 19, 1937, and by the Philadelphia and Cleveland banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

There was presented a telegram dated August 20, 1937, from Mr. Newton, President of the Federal Reserve Bank of Atlanta, stating that, for the reasons set forth in the telegram, the executive committee of the bank, under authority of the board of directors, had

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voted to establish a rate of  $1\frac{1}{2}$  percent on rediscounts of eligible paper for member banks and advances to member banks under the provisions of Sections 13 and 13a of the Federal Reserve Act and a rate of 2 percent on advances under Section 10(b) of the Federal Reserve Act, effective upon approval by the Board of Governors.

The rates fixed by the executive committee of the Federal Reserve Bank of Atlanta were approved unanimously, effective August 21, 1937.

There was also presented a telegram dated August 20, 1937, from Mr. Young, Vice President of the Federal Reserve Bank of Chicago, stating that, for the reasons set forth in the telegram, the executive committee of the bank, under authority of the board of directors, had voted to establish a rate of  $1\frac{1}{2}$  percent on rediscounts of eligible paper for member banks and advances to member banks under the provisions of Sections 13 and 13a of the Federal Reserve Act, effective the first business day following that on which approved by the Board of Governors.

The rate fixed by the executive committee of the Federal Reserve Bank of Chicago was approved unanimously, effective August 21, 1937.

In connection with the above, the following statement for the press, setting forth the reasons for the Board's actions, was approved unanimously:

"The Board of Governors today approved the action of the directors of the Federal Reserve Banks at Atlanta and Chicago in reducing the discount rate from 2% to  $1\frac{1}{2}$ %, effective in the 6th and 7th Federal Reserve Districts, respectively, on August 21, 1937.

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"The Board's approval was based upon the view that the reduction of discount rates at this time would assist in carrying out the System's policy of monetary ease and make Federal Reserve bank credit readily available to member banks for the accommodation of commerce, business and agriculture, without encouraging member banks to borrow outside of their districts or to liquidate their portfolios in order to be in a position to meet the needs of present or prospective borrowers.

"The reduction in discount rates, which have had little or no practical effect during the period when excess reserves were abnormally large and widely distributed throughout the System, brings the rates into closer relation with the interest rate structure generally prevailing, and affords to member banks the benefit of rates, on advances made by the Federal Reserve bank, which are in line with those available in the money market. During the extended period when excess reserves of the banking system were between two and three billions of dollars, the occasion did not arise except in rare instances for member banks to borrow from the Federal Reserve banks, and the discount rates were accordingly inoperative as a practical matter.

"As a result of the continued progress of the recovery movement, demands of agriculture, industry and commerce for bank accommodation have steadily increased and at the present time are augmented by seasonal requirements, particularly with relation to crop movements. While excess reserves, following the action of the Board in increasing reserve requirements, remain at an unusually high level of approximately \$750,000,000 at present for the System as a whole, they are distributed preponderantly among the country banks and not in the money centers. The reduction of the discount rates in the two large agricultural districts of Atlanta and Chicago should serve to assist the member banks to utilize credit directly available in these districts in order to meet banking requirements in connection with crop movements and business needs.

"It is the Board's view, therefore, that at this time the Federal Reserve System can best discharge its public responsibility and promote the continuance of recovery by making it possible for member banks to obtain accommodation from Federal Reserve banks at rates which will encourage them to employ their funds to meet the needs of agriculture, industry and commerce."

Chairman Eccles stated that if, during his absence from Washington, any of the remaining Federal reserve banks, which now have in effect a rate of 2% on rediscounts of eligible paper for member banks and advances to member banks under the provisions of sections 13 and 13a of the Federal Reserve Act, voted to reduce such rate to 1½%, he would be in favor of approval by the Board of the reduced rate.

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Memorandum dated August 13, 1937, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, recommending that Miss Nora V. Elder, Chief Draftsman in the Division, be granted an additional leave of absence with pay on account of illness for a period of thirty days.

Approved unanimously.

There was submitted a recommendation from Messrs. Spurney and Koppang that Miss Maple T. Young, who had been selected in accordance with the authority granted by the Board on July 12, 1937, and who had passed a satisfactory physical examination, be appointed as a charwoman in the Board's new building, with salary at the rate of 50¢ per hour, effective as of August 20, 1937.

Approved unanimously.

Letter to Honorable A. Harry Moore, United States Senate, reading as follows:

"Reference is made to your letter of July 31, and to the inclosed copy of a letter dated July 29, 1937, from Mr. George E. Brunner, Mayor of Camden, New Jersey, regarding the candidacy of Mr. Herbert McAdams, an employee of the Federal Reserve Bank of Philadelphia, for the position of Mayor of the Borough of Clementon, New Jersey.

"Soon after the Federal Reserve System was established, the Board adopted a resolution which provided that persons holding political or public office in the service of the United States, or of any State, territory, county, district, political subdivision, or municipality thereof, or acting as members of political party committees, could not consistently with the spirit and underlying principles of the Federal Reserve Act serve as directors or officers of Federal reserve banks. In 1935 the Board advised the Federal Reserve Bank of Philadelphia in connection with another case that while the resolution related specifically to directors and officers it felt that the principle applied also to employees of the Federal reserve banks.

"The Board is of the opinion that officers and employees of Federal reserve banks should feel free to render such public service of a nonpolitical character as they may be in a position to perform without interference with their duties at

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"the bank, but the Board has consistently ruled that whenever a position, or the appointment or election thereto, was not free from party politics or involved political activity in order to obtain or retain the position, an officer, director or employee of a Federal reserve bank should not occupy the position while retaining his connection with the bank.

"It appears that the position of Mayor of the Borough of Clementon is clearly of a type which is within both the spirit and the letter of the Board's resolution and that the approval of exceptions to the general rule in cases such as the present one would inevitably lead to the practical nullification of the resolution."

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

"Reference is made to your letter of August 3, 1937, addressed to Chairman Eccles, with respect to the candidacy of Mr. Herbert McAdams, an employee of your bank, for reelection as Mayor of the Borough of Clementon, New Jersey.

"Mr. Brunner, Mayor of Camden, New Jersey, addressed a letter to Senator Moore which was similar to that written by him under date of July 29, 1937, to Senator Smathers, and under date of July 31 Senator Moore forwarded to the Board a copy of Mr. Brunner's letter to him and asked that favorable consideration be given to the request that Mr. McAdams be permitted to stand for reelection as Mayor of Clementon. There is attached a copy of the letter being sent today to Senator Moore in reply to his communication, and, if you should wish to do so, the Board would interpose no objection to your sending a copy thereof to Senator Smathers with your reply to the letter which he addressed to your bank under date of July 30, 1937."

Telegram to Mr. Thomas B. McCabe, President, Scott Paper Company, Chester, Pennsylvania, reading as follows:

"Board of Governors has appointed you class 'C' director of Federal Reserve Bank of Philadelphia for unexpired portion of term ending December 31, 1939. Please wire formal acceptance collect."

Approved unanimously.

Telegram to Mr. Clarence Roberts, Editor, The Farmer Stockman,

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Oklahoma City, Oklahoma, reading as follows:

"Board of Governors has appointed you director of Oklahoma City branch of Federal Reserve Bank of Kansas City for unexpired portion of term ending December 31, 1938. Please wire acceptance collect."

Approved unanimously.

Letter to Mr. McLarin, Vice President of the Federal Reserve Bank of Atlanta, stating that the Board approves the changes in the personnel classification plans of the Birmingham, Jacksonville, Nashville and New Orleans branches, and the Havana Agency, of the Federal Reserve Bank of Atlanta, as requested in his letter of August 14, 1937, to provide for increases in the maximum salaries of a total of twelve positions.

Approved unanimously.

Letter to Mr. Burke, Chairman of the Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors of the Federal Reserve System decided some time ago that surveys should be made of the Bank Examination and Auditing Departments at all of the Federal Reserve Banks. There is attached a copy of a report of the survey of the Audit Department of the Federal Reserve Bank of Cleveland recently conducted by the Board's Examiners Jones and Cagle. An additional copy of the report is inclosed for President Fleming.

"While the survey indicates that the auditing function at the Federal Reserve Bank of Cleveland in general is being performed adequately and in substantial conformity with the standards recommended by the Conference of Auditors of the Federal Reserve Banks held in Washington last fall, it indicates several exceptions to the frequency and scope of audits which merit consideration.

"It will be appreciated if you and the auditing committee of your board of directors and President Fleming will review this report of survey and give the Board the benefit of your reactions to the exceptions referred to

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"above and any other statements or conclusions concerning which you would like to express your views.

"The footnote of the letter transmitting the recommendations of the Conference of Auditors to Mr. George L. Harrison, Chairman of the Conference of Presidents of the Federal Reserve Banks, called attention to the confidential nature of the material contained in that report and other information relative to the auditing activities at the Federal Reserve Banks. As the inclosed report refers frequently to the Auditors' recommendations and also contains other information of a confidential nature concerning the activities of the Audit Department of your bank, it will be appreciated if the report itself is not made available to the bank's employees and the officers directly in charge of the operating departments. Of course, the Board sees no objection to the report, or parts thereof, being submitted to, or discussed with, your directors and such of the bank's officers as you and President Fleming deem advisable."

Approved unanimously.

Letter to Mr. Sproul, First Vice President of the Federal Reserve Bank of New York, reading as follows:

"Receipt is acknowledged of your letter of August 13, 1937, suggesting that since the revised agreements with foreign central banks will not become effective immediately and since you will want to continue to make such purchases for the account of foreign correspondents under existing agreements pending the time when the revised agreements shall become effective, the wording of the authority granted in the Board's letter of August 9, 1937 be changed to include operations during the interim period. In response, you are advised that, in accordance with your suggestion, the authority granted in the Board's letter of August 9, 1937 is extended to include the period during which the revised agreements are being made effective.

"In this connection, it will be appreciated if you will furnish the Board with copies of the new form of agreement as, if and when each foreign central bank concerned signifies its acceptance of the changed terms and conditions governing its accounts with your bank, together with copies of the correspondence pertaining thereto."

Approved unanimously.

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Memorandum dated August 17, 1937, from Mr. Morrill recommending the publication in the September issue of the Federal Reserve Bulletin, under the following title and subtitle, of the summary submitted with the memorandum of the report of the Federal reserve committee on acceptance practice submitted by Mr. Burgess, Vice President of the Federal Reserve Bank of New York:

"ACCEPTANCE PRACTICE"

"The material published below summarizes a report of the Federal Reserve committee on acceptance practice made to the Board of Governors of the Federal Reserve System and to the Conference of Presidents of Federal Reserve Banks."

Approved unanimously.

Memorandum dated August 19, 1937, from Mr. Owens, Assistant Counsel, recommending that there be published in the September issue of the Federal Reserve Bulletin a statement in the form submitted with the memorandum containing the text of Regulation M, Foreign Branches of National Banks and of Corporations Organized under the Provisions of Section 25(a) of the Federal Reserve Act, which was adopted by the Board on August 14, 1937.

Approved unanimously.

Mr. Morrill submitted a recommendation, which had been approved by the Personnel Committee, that the Board authorize the purchase of certain filing equipment, sprinkler heads, hose, pails, brushes, service trucks, steel wool, and the moving of boxes of stored publications now located in the Treasury Building and the Auditors' Building to the



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Board's new building, as listed in purchase orders Nos. 1906, 1907, 1919, 1934, 1936, 1937, 1946, 1948, 1949, 1950 and 1951, at a total cost of \$886.68.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

W. Steeles  
Chairman.