

A meeting of the Board of Governors of the Federal Reserve System with Chairmen and Deputy Chairmen of the Federal Reserve Banks was held in Washington on Monday, January 30, 1939, at 2:00 p.m.

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

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. Smead, Chief of the Division of Bank
Operations
Mr. Parry, Chief of the Division of
Security Loans

Mr. F. H. Curtiss, Chairman, Boston
Mr. Beardsley Ruml, Deputy Chairman, New York
Mr. T. B. McCabe, Chairman, Philadelphia
Mr. R. E. Klages, Deputy Chairman, Cleveland
Mr. Robert Lassiter, Chairman, Richmond
Mr. F. H. Neely, Chairman, Atlanta
Mr. Wm. T. Nardin, Chairman, St. Louis
Mr. W. C. Coffey, Deputy Chairman, Minneapolis
Mr. J. J. Thomas, Deputy Chairman, Kansas City
Mr. J. H. Merritt, Chairman, Dallas
Mr. St. George Holden, Deputy Chairman,
San Francisco

Mr. Ruml stated that the Chairmen and Deputy Chairmen of Federal reserve banks, at their separate meeting this morning, had discussed the matters on the agenda, and were generally of the opinion that the

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crucial question that must be decided before definite answers could be formulated was whether the System was composed of twelve regional banks with some degree of independent authority or whether all parts of the System were to be regarded as a unit. He said the Chairmen felt that the services they rendered as directors of Federal reserve banks were not equal to the prestige which accompanied the position in the respective communities and that something should be done to increase the responsibility of the directors of the banks. The Chairmen were of the opinion, he said, that the education of the directors in the principles of central banking was deficient and that, while the problem was a technical one and each director should use his own judgment as to how far he would go in studying it, adequate information in this field should be made available to the directors; that the board of directors of a Federal reserve bank should see that the bank was adequately staffed and that the executive officers were capable of properly carrying on the operations of the bank; and that unnecessary and detailed regulation of the activities of the Federal reserve banks by the Board of Governors was dangerous to the banks' prestige and was harmful from the standpoint of the attitude of the directors toward their service as directors. He added that they discussed the question of the extent to which the Chairmen should take the initiative with respect to increasing the range of activities of the Federal reserve banks and, while it was impossible for them to define that responsibility precisely until the question of the

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position of the Federal reserve banks in the System was determined, it was agreed that the responsibility was not a negative one of merely filling the position of Chairman but one in which the Chairman should feel that he could initiate action.

Mr. Ruml concluded with the statement that a memorandum of the suggestions made at the meeting this morning would be sent to the Board of Governors in due course.

Chairman Eccles suggested that the other Chairmen make any comments that they might desire to offer with respect to the matters discussed during the morning session.

Mr. Curtiss said that if the Chairmen could be furnished with a list of the services that each Federal reserve bank performs at the present time it would be helpful. He felt that the problem of rendering additional services to member banks was an important one and that one way in which it might be furthered was through inviting small groups of representatives of member banks of similar sizes to the Federal reserve banks for discussions of their common problems. In connection with the problem of rendering service and helping banks to understand the Federal Reserve System he said more attention should be given to the small country bank.

Mr. McCabe said that the Federal Reserve System and the Federal reserve banks have an enormous prestige, but that he had found that the directors did not discuss interesting problems to the extent that he had thought they would; that it seemed to him that they spent a good deal

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of time on bank matters and not enough on the real problems of the System. He added, however, that in Philadelphia they had worked hard to correct that condition by bringing in the economist of the bank and some of the department heads to educate the board on some of these problems. He referred in this connection to an interesting suggestion by Mr. Ruml that the Federal reserve banks might exchange their economists from time to time for the purpose of discussing business and credit conditions with the boards of directors of the respective banks. He also suggested that economists from the Board's staff should visit the Federal reserve banks from time to time for the purpose of talking to the directors. He raised again the question discussed by the Chairmen as to how far they should go in initiating with the Presidents the extension of the services of the Federal reserve banks in an effort to get the banks to fulfill what the Chairmen felt is the banks' true responsibility. He felt that the member banks in many cases were considerably out of date in their accounting methods and that the Federal reserve banks could offer help in this and related fields.

Mr. Klages expressed the opinion that there was not enough contact between the Federal reserve banks and the member banks in a way which would make the member banks feel that they were on an equal footing with representatives of the Federal reserve banks and that the personnel of the Federal reserve banks, through the Chairmen and the board of directors, should have the idea uppermost in their minds that

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the Federal reserve banks are primarily for the purpose of serving member banks so that the member banks will turn to the Federal reserve bank for help when confronted with problems. He said that he believed that condition does not exist today and that the boards of directors of the banks could do a great deal to bring such a situation about.

Mr. Lassiter suggested that once each year the Board invite the Federal reserve bank directors to meet with the Board in Washington, that, as a meeting of all directors at one time would probably be too large, the Class A directors might meet at one time, the Class B directors at another, and the Class C directors at another.

Mr. Neely stated that it appeared that in the past the officers of some of the Federal reserve banks were satisfied to have the board of directors of the banks assume as little responsibility for the activities of the banks as possible. He said that he was of the opinion that all new directors should have presented to them material which would enable them to become familiar with the functions of the Federal Reserve System, the operations of the Federal reserve banks, and the services that the Federal reserve banks are in a position to render to their member banks, and that the Board of Governors should take the initiative in preparing the material to be given to the directors for this purpose. He also felt that there should be affirmative encouragement to the boards of directors of the Federal reserve banks from the Board of Governors to take more active part in the affairs of the banks.

Mr. Nardin said that a chief problem of the Board of Governors

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was to point out how the interest of the directors of Federal reserve banks could be maintained. He said that the officers of the Federal reserve banks do not appear to be very interested in giving the directors information and that in addition when the directors consider action they are met by restrictions imposed by regulations issued by the Board of Governors. He expressed the opinion that the primary function of the board of directors is to see that the banks are properly organized and properly performing their functions and that the interest of the directors would be increased by the Board of Governors undertaking to encourage a feeling of responsibility on the part of the Chairmen and directors of the bank.

Mr. Coffey referred to the existence of a feeling of a lack of definite responsibility on the part of the directors and expressed the opinion that if there were responsibilities which should be met by the directors they should be made apparent. He felt he could be much more helpful if he could be informed as to the current problems that confront the Federal Reserve System and that unless the System can be of service to member banks it is in danger of not functioning properly and ultimately of failing in its purpose. He was of the opinion that much could be gained by the Federal Reserve System by broadening its services to member banks and thereby gaining the good-will of the banks to the extent that is essential for effective operation of the Federal reserve banks.

Mr. Thomas referred to the fact that one of the directors of

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the Federal Reserve Bank of Kansas City recently resigned to accept appointment to the Federal Advisory Council and gave as his reason for resigning that he did not think attendance at the meetings of the board of directors of the bank was worth while. Directors of Federal reserve banks, Mr. Thomas said, do not understand the problems of central banking and it would be helpful to them in understanding the criticisms made of the Federal Reserve System if they could be informed on the functions of the System in this field. He said that the directors should be given greater responsibility and to that end suggested that more of the administrative work of the System be placed on the board of directors instead of being performed by the Board in Washington. It would be helpful, he said, if the directors could be informed, after action has been taken by the Federal Open Market Committee, of the reasons which prompted the policies adopted and the circumstances in which the action was taken and if the Presidents of all Federal reserve banks could be invited to attend the meetings of the Federal Open Market Committee even though they do not have a vote on the action taken. He said that the visits of members of the Board to the Federal reserve banks had been very helpful and should be continued. He stated further that some banks are critical of the Board of Governors and its actions because they do not understand what it is doing.

Mr. Merritt suggested that the members of the Board of Governors visit the Federal reserve banks frequently as a means of improving relations with member banks and said that means should be devised of improving the contacts of the Federal reserve banks with banks in the

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respective districts. He also proposed that the name of the board of directors of a branch Federal reserve bank be changed to advisory committee to the branch.

Mr. Holden suggested that the Board prepare a manual on the Federal Reserve System which could be read in a short time by each Federal reserve bank and branch director. On the question whether directors of the Federal reserve banks should visit the branches of the banks, he said that the directors of the Federal Reserve Bank of San Francisco had questioned the advisability of adopting such a policy in the absence of a definite program that could be discussed with the directors of the branches. He also said that there was a question in the minds of the directors whether the Board of Governors would feel that the expense involved would be justified.

During the comments of the Chairmen and Deputy Chairmen Mr. Goldenweiser, Director of the Division of Research and Statistics, joined the meeting.

Chairman Eccles suggested that the members of the Board make comments as they desired.

Mr. Szymczak stated that he would like to have a discussion of the broad question raised by Mr. Ruml to be followed by a more general discussion.

Mr. Davis said, in response to the question raised by Mr. Holden, that the expense involved in connection with visits by the directors of a Federal reserve bank to the branches of the bank would be

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inconsequential when considered in the light of the good that would be accomplished by the visits, particularly since the branch directors can be as effective in creating good-will for the Federal Reserve System as anyone connected with the System.

In connection with the question raised by Mr. Ruml as to whether the Federal reserve banks should be regarded as twelve regional banks with some degree of independent responsibility or whether they should be considered as a unit, Mr. Davis suggested that the word "Federal" in the name of the System indicated the nature of the position of the Federal reserve banks, that they were not twelve independent banks, and at the same time were not a single unit, but comprised twelve units with a relation to the Board of Governors somewhat in the nature of the relation between the States and the Federal government. Mr. Ruml suggested that it was important that some meaning be given to that relationship since there was danger of misunderstanding because of the boards of directors of the Federal reserve banks not knowing what their responsibilities are and the failure of the Board of Governors to create a feeling of responsibility on the part of the individual directors.

Mr. Draper pointed to the division of banks in the United States into member and nonmember banks as creating a difficult problem which he felt might be studied by the boards of directors of the Federal reserve banks, with a view to seeing what could be done to bring about a change in the situation. He expressed the opinion that the present condition could not be allowed to continue unchanged if the Federal Reserve

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System were to maintain in the future the prestige that it now possesses.

Mr. McKee suggested that the Federal reserve banks should avoid adopting a superior attitude in their dealings with member banks, that the Federal reserve banks should have qualified personnel, and that they should have more frequent and effective contact with member banks in the district. He added that he hoped that the Board would be able to find some way of making its communications with the Federal reserve banks and the regulations issued by it less technical and more easily understood.

Mr. Ransom expressed the opinion that after twenty-five years it was not possible to say definitely what the Federal Reserve System really is and that one of the principal difficulties in achieving the objectives of the System is the complexity of the banking structure and of the supervisory authority over banks. In this connection he presented a chart which illustrated the four classes of commercial banks in the United States and the confusion and conflict existing in the supervisory responsibilities of the Federal and State supervisory agencies over the different classes. He said that the chart demonstrated the fact that there is not vested in any one agency anything approaching a final authority over banks; that, while the public is under the impression that the Federal Reserve System has a definite authority and responsibility, the System does not have the power necessary to discharge that responsibility; and that, until that problem is solved, many of the problems discussed by the Chairmen at their meeting this morning will remain largely unanswered. The Board of Governors

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and the Federal reserve banks could do a great deal, he said, if they could make the System so essential that nonmember banks would seek admission to membership in the System. He doubted the wisdom of attempting to force banks to become members but he could see no reason why through improvement in the services of the System to its member banks membership in the System could not be increased. If the barriers to membership could be removed, he said, so that banks could become members then the task of selling the System would rest largely on the boards of directors of the Federal reserve banks and their branches. He expressed the opinion that during the interim the Federal reserve banks could be very effective in disseminating information with respect to the Federal Reserve System and its objectives. He stated further that until the time arrives when the powers of the Board of Governors can be defined and the Board authorized to decentralize authority over administrative functions the Board and the Federal reserve banks should work to meet the problems of the System as they exist today.

Chairman Eccles referred to the important changes which have occurred in monetary and economic conditions in the world in the twenty-five years during which the Federal Reserve System has been in existence. He said that while there was nothing that could be done about the past it was essential that the System profit from mistakes that had been made in the past and try to correct them. He observed that the Federal Reserve System as it was originally created was designed to meet conditions entirely different from those existing today

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and that these changed conditions must be recognized and dealt with in considering the problems of central banking in relation to government and the economic situation as a whole. He expressed the opinion that the existing complex system that has grown up under the system of laws and regulations which have the effect of law is such that it is doubtful whether anyone understands it fully and that, therefore, it is impossible for banks and supervisory agencies to comply fully with all of the requirements of that system. He stated that the Board had been as cooperative as it possibly could be in trying to understand the problems and to deal with those problems in connection with the discharge of its responsibilities and that as a result of this meeting and the cooperative attitude of the Chairmen the System should be able to proceed with the educational work that the Board of Governors and the boards of directors of the Federal reserve banks and their branches have to do in removing the difficulty created by the almost complete lack of understanding on the part not only of banks but also of business men and the public generally of the major problems with which the System is faced. He added that the System cannot expect the business and financial leaders in the communities in which the Federal reserve banks and their branches operate to take the initiative in proposing ways and means of dealing with the problems with which the System is confronted and that unless the System is willing to develop an intelligent program of education its objectives will not be understood. He would like to see the System used as a means of educating the public

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with respect to the functions of money and central banking and the relation that they have to the economy as a whole and he said that this important task is one that is fundamental and necessary if confidence is to be maintained in our private banking institutions.

As a means, he said, of attempting to bring some of these matters clearly before the public the Board was today sending to Congress its annual report for the year 1938 which contains a discussion of the major problems in the banking field, that the purpose of the report was to present these important questions without attempting to state how the questions could be answered, that the report had been approved by all of the members of the Board, and that he would like to have the summary of the report read at this time for the reason that it had a fundamental bearing on all of the questions which had been discussed by the Chairmen today.

Chairman Eccles stated further that the Board of Governors would give consideration to the suggestions of the Chairmen with a view to working out a procedure which would put into effect a broad educational program with respect to the System and its objectives so that the System will be able to bring about an understanding of its purposes which will be helpful when major banking legislation is under consideration.

Mr. Davis stated that members of the Board and its staff were working on a manual dealing with the Federal Reserve System which it was hoped would supply a need of directors of the Federal reserve banks

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and others for information relating to the Federal Reserve System and the purposes which it is expected to accomplish.

Mr. Ransom then read the foreword and summary contained in the Board's Annual report, following which Chairman Eccles and Mr. Goldenweiser discussed briefly the background and reasons which prompted the Board to include in the report the statement of problems relating to the banking structure. There ensued a general discussion of questions raised by the Chairmen with respect to the report.

At the conclusion of the discussion Mr. Ruml stated that the Chairmen of the Federal reserve banks felt that it would be advantageous to have another meeting of the Chairmen in the course of the next three or four months after they have had an opportunity to consider the matters discussed at this meeting and the Board of Governors had had an opportunity to review the suggestions made by the Chairmen.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

W. E. Eccles
Chairman.