

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, March 31, 1939, at 11:00 a. m.

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

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

In connection with the discussions at recent meetings of the Board with respect to the procedure to be followed by the Board in the approval of salaries of officers of Federal Reserve banks, Mr. Szymczak raised the questions (1) whether the procedure should provide for the consideration of salaries at the different banks on different dates, and (2) whether, in the discussion of the procedure with the Chairmen of the Federal Reserve banks at their next meeting, the Board would refer to the informal maximums agreed upon by the Board at its meeting on March 15, 1939, for official salaries at the Federal Reserve banks, or request the Chairmen to discuss the question of procedure in a general way in order that the Board might

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have the benefit of their suggestions. The two questions were discussed but no decision was reached.

There were then presented telegrams to Mr. Paddock, First Vice President of the Federal Reserve Bank of Boston, Messrs. Kimball, Post, Hays and Dillard, Secretaries of the Federal Reserve Banks of New York, Philadelphia, Cleveland and Chicago, respectively, and Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, stating that the Board approves the establishment without change by the Federal Reserve Banks of New York, Cleveland, Chicago and Kansas City on March 30, 1939, and by the Federal Reserve Banks of Boston and Philadelphia today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Clayton stated that in accordance with the request made by the Board after its meeting yesterday, the heads of the Divisions of the Board's staff held a meeting this morning for the purpose of considering the proposals submitted by the Board with respect to a procedure to be adopted in the consideration of salaries of members of the Board's staff, and that it was decided unanimously to make the following recommendations to the Board:

- (1) All division heads constitute a Staff Personnel Committee, the senior assistant head of each division being authorized to serve on the committee as an alternate member for the respective division heads as occasion demands;
- (2) The chairman of the Staff Personnel Committee be designated by the Board's Personnel Committee;

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- (3) Each division head be required to establish informally a personnel committee in and for his division;
- (4) Each division head, with the assistance of his division personnel committee, review salaries of employees in the division once each year, such review to be completed not later than a date to be set by the Board's Personnel Committee;
- (5) The findings and recommendations resulting from the reviews within the divisions be submitted by the respective division heads to the Staff Personnel Committee for consideration; and
- (6) The Staff Personnel Committee submit its recommendations to the Board's Personnel Committee, which in turn will make its recommendations to the Board.

In connection with Item 4, Mr. Szymczak pointed out that the Board's letter of December 28, 1938, (S-138) stated that the Board had adopted a policy of considering salaries of members of its staff on an individual basis when it appeared that an adjustment was due and that it had decided to adopt a similar policy with respect to the consideration of the salaries of officers of Federal Reserve banks. Mr. Szymczak said that approval of the recommendations referred to above would require further consideration of the procedure to be followed in passing upon salaries of officers of Federal Reserve banks.

It was understood, after a discussion of this matter, that Mr. Szymczak would make a recommendation to the Board as to whether the procedure for the consideration of salaries of officers of Federal Reserve banks should provide that the Board consider salaries at all of the Federal Reserve banks at one time or by groups of one or more banks, the recommendation to be made in the light of the desirability of providing for the consideration of such salaries at a time other than the



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end of the year and on as few occasions during the year as is consistent with a thorough review of the matter by the Board.

At the conclusion of the discussion of the recommendations made by the heads of the Divisions of the Board's staff, Mr. Davis moved that the recommendations be approved.

Carried unanimously.

Mr. Ransom moved that the Staff Personnel Committee be required to keep minutes recording the actions taken by the Committee.

Carried unanimously.

Mr. Clayton stated that at the meeting this morning the division heads had requested that he inquire of the Board whether the recommendations for salary adjustments now before the Board were to be regarded as being withdrawn with the understanding that the Staff Personnel Committee would be expected to review the recommendations for the purpose of resubmitting them to the Board's Personnel Committee after determination by the Staff Personnel Committee of the basis upon which its recommendations to the Board's Personnel Committee will be made. Mr. Goldenweiser said that some of the adjustments of salaries of members of the Division of Research and Statistics which he had recommended should be made promptly for the reason that further delay might result in loss of the employees and that for that reason he would dislike to see action on the pending recommendations postponed until the Staff Personnel Committee has had an adequate opportunity

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to determine the general principles which it will use as a guide for future recommendations.

Mr. Ransom moved that the Staff Personnel Committee be requested to consider promptly the recommendations for adjustments in salaries that have been submitted by the division heads and to make a recommendation to the Board's Personnel Committee thereon in any case where, for any reason, it appears that prompt action is desirable, the Staff Personnel Committee to have in mind that the adjustments recommended should be related as nearly as possible to the general principles to be adopted for its future guidance.

Carried unanimously.

Mr. Szymczak moved that the Staff Personnel Committee be authorized, in its discretion, to contact the Civil Service Commission or any other organization through one of its members or otherwise for the purpose of obtaining information which will be of assistance to the Committee in its work.

Carried unanimously.

Chairman Eccles referred to the second of the foregoing recommendations submitted by the division heads and stated that the Personnel Committee had designated Mr. Clayton to serve as chairman of the Staff Personnel Committee.

The meeting then recessed and reconvened at 2:40 p.m. with the same attendance as at the morning session except that Messrs. Smead and Parry were not present and Mr. Wingfield, Assistant General Counsel, was in attendance.

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Mr. Ransom stated that it had been learned by Counsel's office that the revised trust indenture bill (S. 477) which was favorably reported to the Senate Banking and Currency Committee today by a subcommittee does not contain in essential respects the suggestions contained in the report on the bill made by the Board of Governors to the Chairman of the Senate Committee on Banking and Currency, that therefore it will not be feasible, as was thought might prove to be the case, to suggest in a report on a similar bill now before the House of Representatives that consideration be given to the bill in the form pending before the Senate, and that it was felt that the draft of report on the bill which had been prepared for transmission to the Chairman of the Committee on Interstate and Foreign Commerce of the House of Representatives should be sent.

Upon motion by Mr. Ransom the following letter to Mr. Lea, as Chairman of the Committee on Interstate and Foreign Commerce, was approved unanimously:

"This is in response to your request of March 23, 1939, for a report by the Board of Governors of the Federal Reserve System on the bill H.R. 5220 relating to the regulation of trust indentures under which certain securities are issued and sold in interstate and foreign commerce and through the mails.

"The provisions of the bill H.R. 5220 appear in general and fundamentally to be the same as those contained in Confidential Committee Print No. 2 of February 21, 1939, of the bill S. 477. The Board has heretofore submitted its views to the Banking and Currency Committee of the Senate with respect to the provisions of the bill S. 477 in two



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"letters dated February 16, 1939, and March 4, 1939; and the views expressed herein conform to the views expressed to the Banking and Currency Committee of the Senate in those two letters.

"The Board recognizes that there have existed in the past abuses in connection with corporate trust indentures which this bill is designed to remedy, and that the interest of investors would be better served if the responsibilities of corporate trustees were more clearly defined, if they were required to exercise a greater degree of diligence than has been exercised at times in the past, and if they were not permitted to occupy positions conflicting with their fiduciary responsibility.

"In attempting to provide a remedy, however, the bill sets up certain administrative requirements and imposes upon the corporate trustee certain additional obligations which might increase the difficulties and expense of obtaining needed capital for business enterprises. It might also cause corporate trustees in times of stress to take action resulting in liquidations that would be unnecessary or undesirable from the standpoint of the public interest.

"The question may well be considered whether there is pressing need at this time for additional legislation of this character. Congress has vested in the Government broad powers designed to protect investors. It is important that the protective results hoped for from this additional legislation be weighed against its restrictive effects upon the capital markets. The decision should be heavily influenced by consideration of the course that will be most helpful at this stage of economic recovery. The Board has weighed the problem, and is of the opinion that action should be postponed until further study can be made by Congress of the financial field of which this bill touches only a part.

"If, however, the Committee is satisfied that there does exist at this time a need for some additional legislative action in order to prevent a recurrence of the abuses in this field which occurred under indentures drawn prior to the enactment of the Security Act of 1933, the Board wishes to raise the question whether the bill could not be made less of a deterrent to capital financing, and at the same time be improved materially from the standpoint of its effect upon the issuance and servicing of trust indentures, by writing into the law itself, in simpler terms, the standards of conduct which ought to be observed by every corporate trustee and by eliminating any administrative procedure which is not already necessary in connection

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"with applications for registration under the Securities Act.

"With the exception of the matters hereinafter discussed relating to the avoidance of unnecessary duplication of supervision of banks, the Board wishes to make it clear that it believes that, if any additional administrative authority is considered necessary by Congress to carry out the proposed legislation, it should be conferred on the Securities and Exchange Commission.

"With respect to the avoidance of any unnecessary duplication of supervision of banks, there is enclosed herewith for the consideration of your Committee a draft of certain proposed amendments to the bill H.R. 5220 which the Board believes should be incorporated in the bill.

"In its Annual Report to the Congress which was made at the end of January, the Board called attention to the already confused situation in the field of Federal bank examination and supervision. It would feel remiss if, in the light of this report, it should fail to call attention to the possibility, however remote, that this pending legislation might unintentionally add further to this state of confusion in the course of time, if not now clarified by a positive statement in the bill.

"The Comptroller of the Currency, the Federal Reserve System and the Federal Deposit Insurance Corporation, which are the three principal Federal bank supervisory agencies, regularly examine banks and require the publication of reports of their condition. With the enclosed amendments, the bill would not only authorize but require these bank supervisory agencies to furnish to the Securities and Exchange Commission such information respecting banks and trust companies as the Commission may need to enable it to discharge its responsibilities under the bill.

"In the drafting of the bill the Commission has been most considerate of the Board's point of view on questions involving bank examination and supervision and has from time to time invited the Board's suggestions; and the Board has tried to be helpful in drawing on its past experience in the field of bank regulation. From the beginning of the discussions between the Commission and the Board, we have been assured that the Commission did not wish the bill to be the means of placing on the Commission responsibility or authority for bank examinations.

"The enclosed amendments are designed to make it clear that the Commission shall not duplicate or supplement any



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"of the work done by the bank supervisory agencies but shall rely on information which such agencies would be directed to furnish to the Commission under the provisions of the bill as amended by the proposed amendments enclosed herewith."

At this point Mr. Wingfield withdrew from the meeting.

At Mr. Ransom's suggestion, Mr. Bethea was authorized to furnish each member of the Staff Personnel Committee with a copy of the confidential report prepared in the Secretary's office at the request of the Board's Personnel Committee on a study comparing salaries of the Board's employees as of November 1, 1938, with salaries established by the classification pay scale for comparable positions in the departmental service, a copy of which had been furnished to each member of the Board last December.

Reference was made to informal discussions which had been had by members of the Board with respect to the comments made in the Press and elsewhere that the statement issued by the Board under date of March 13, 1939 regarding stabilization of prices by monetary means did not offer a suggestion as to what action might be taken to solve the problem discussed in the statement, and consideration was given to the question whether a supplementary statement might be issued by the Board which would recommend the adoption by Congress of resolutions providing for a joint Congressional committee to study the matter. A draft of statement prepared by Messrs. Goldenweiser and Thurston along this line had been distributed to the members of the Board prior to this meeting. The statement and certain suggested changes therein

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offered by Mr. Ransom, were discussed. It was the consensus of the members present that in view of the numerous bills pending before Congress proposing changes in the regulation of money, credit and banking, the Board might appropriately prepare a statement which would be in the nature of a supplement to the Board's annual report for 1938 and which would recommend the appointment by Congress of a committee to consider the monetary and banking problems raised by these bills with a view to reaching a solution.

This suggestion was discussed and Mr. Goldenweiser was requested to prepare a draft of statement which might be used by the Board in this connection.

Mr. Goldenweiser referred to a letter received from the Acting Director of the Budget under date of February 24, 1939, for a report on a draft of bill which had been recommended by the Central Statistical Board (of which Mr. Goldenweiser is a member) to provide for a better coordination of Government reports, to simplify Government reporting requirements, and for related purposes. Mr. Goldenweiser said that the proposed legislation had been considered by members of the Board's staff and that it was his recommendation that the Board advise the Bureau of the Budget that it would approve the bill with one clarifying change which he discussed briefly.

Mr. Goldenweiser's recommendation was approved unanimously, and it was understood that a letter to the Bureau of the Budget in accordance therewith would be prepared for consideration by the Board.

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At this point Messrs. Wyatt and Goldenweiser left the meeting and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on March 29 and 30, 1939, were approved unanimously.

Mr. Bethea reported that the Comptroller of the Currency today issued a call on all national banks for reports of condition as at the close of business on March 29, 1939, and that, in accordance with the usual practice, a call was made on behalf of the Board of Governors of the Federal Reserve System today on all State member banks for reports of condition as of the same date.

The call made on behalf of the Board was approved unanimously.

Letter to the board of directors of the "Farmers & State Bank", Evansville, Wisconsin, stating that, subject to conditions of membership numbered 1 to 3 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 Chicago:

- "4. Such bank shall make adequate provision for depreciation in its banking house.
- "5. Prior to admission to membership, such bank, if it has not already done so, shall charge off or



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"otherwise eliminate estimated losses of \$905, as shown in the report of examination of such bank as of March 13, 1939, made by an examiner for the Federal Reserve Bank of Chicago."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Farmers & State Bank', Evansville, Wisconsin, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of Banking for the State of Wisconsin for his information.

"It is noted that the bank was involved in a consolidation pursuant to an agreement executed in 1932, a copy of which was not furnished. It is assumed that your counsel gave consideration to the possible effect of such consolidation upon the corporate powers of the bank but definite advice as to this matter will be appreciated."

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

"Reference is made to the report of examination of the 'Lewis County Trust Company', Lowville, New York, as of January 14, 1939, which was transmitted with Mr. Sheehan's letter of March 13, 1939.

"The report of examination reflects a continued unsatisfactory condition with a pressing need for a management which will actively undertake to improve the quality of the bank's assets, particularly the loan and investment accounts. The large aggregate of estimated losses, impairing the bank's common capital, and the substantial amount of assets otherwise adversely classified reflect the need for a strengthening of the capital structure of

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"the bank. Various unsatisfactory features were mentioned in the Board's letter addressed to you on March 17, 1938, in which it was stated that the lack of progress shown by the bank was disappointing and the view was expressed that it was most important that a program be consummated at the earliest possible date to remedy the unsatisfactory conditions in the bank. The current report states that practically nothing has been done since the previous examination to improve the bank's condition, and the situation has been complicated by the death of Mr. Gould, one of the two directors, Mr. Lewis being the other, reputedly of financial responsibility, on whom reliance had been placed for improving the situation.

"In a memorandum dated February 16, 1939, from your department, it is reported that efforts by Director Lewis to arrange a merger with the local national bank had proved unsuccessful and that Mr. Lewis was going ahead on a program of strengthening both the management and the capital position of the bank. You have also reported previously that Mr. Lewis had given you definite assurances that he would see to it that the bank would be placed in a satisfactory condition. Such assurances are appreciated, but the lack of definite progress in effecting the improvement is disturbing. It is understood that you have been working closely with the State Banking Department in an effort to effect an improvement in the situation and that you have requested a conference with a committee of the bank's directors in the near future. It is understood also that Mr. Lewis has been away for some time but is expected to return in the near future and it is assumed that shortly after his return active steps will be taken to correct both the management and the capital situation.

"If appropriate corrective steps are not taken within a reasonable time, it would seem that consideration might be given to the question of whether the bank is complying with the terms of condition of membership numbered 3 which provide, among other things, that the bank will exercise all powers with due regard to the safety of its customers."

Approved unanimously.

Letter to Mr. William D. Eaton, Wakefield, Massachusetts, reading as follows:

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"This refers to your letter of March 28, 1939, with further reference to the Board's views with regard to the provisions of the pending proposed Trust Indenture Act. In view of the fact that this is a matter now pending before Congress and the Board has expressed its views to a Committee of Congress and such expression has not been released for publication by that Committee, it would not seem appropriate for the Board to undertake to advise you at this time as to its views in the matter."

Approved unanimously.

Memorandum dated March 23, 1939, from the special committee (Messrs. McKee and Draper) appointed at the meeting of the Board on February 27, 1939, recommending that the Federal Advisory Council be advised as set forth in the following letter to Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council:

"The Board of Governors has given further consideration to the recommendations submitted by the Federal Advisory Council at the meeting with the Board on February 14, 1939.

"As stated during the meeting, the answers to the questions listed under Topic 1 relating to the question 'How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?' are so brief that the position of the Council might easily be misunderstood in the absence of a further statement giving more clearly the reasons underlying the position taken, and it was suggested at the meeting that the Council might wish to give further consideration to the matter and determine whether it would be desirable for it to expand the answers to some of the questions to meet this situation. While the Board appreciates the fact that the brevity of the comments was influenced by the desire of the Council to prevent the recommendation from being so long that it would be burdensome, it is hoped that the Council will expand the recommendation so that a full statement of reasons will be given for the position taken on each question.



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"It will be recalled that it was brought out at the meeting on February 14 in connection with the recommendation on Topic 2, that the Board make a study of the long range effects of the easy money policy, that the Board and various members of its staff are continuously engaged in studying the relationship between the cost of money and the operation of different parts of our economic mechanism. The Board does not see how this problem with its many ramifications can be made the subject of a special study by the Board which would be independent of those that are being made currently by the Board and by other agencies of Government.

"Topic 3 suggests an amendment to section 8 of the Clayton Act relating to interlocking bank directorates to permit an officer, director, or employee of a member bank who is now lawfully serving as a private banker or a director, officer, or employee of any other bank to continue such service and to prohibit the creation of any new interlocking directorates. At the meeting of the Council with the Board Mr. Hanes inquired whether the Board would oppose an amendment to the Clayton Act which would permit the continuation of the existing interlocking directorates, but would prohibit new interlocking relationships, involving insured banks. The Board sees no objection to this solution of the matter.

"Recently representatives of the American Bankers Association submitted to the Board informally a draft of an amendment to section 8 of the Clayton Act which would permit an officer, director or employee of an insured bank to serve as an officer, director or employee of not more than one other bank and the representatives were advised informally that the Board would not favor such an amendment but would not oppose the amendment referred to by Mr. Hanes.

"As the Council has been advised, copies of its statement on Topic 4 relating to the trust indenture bill now pending before Congress have been sent to the Chairmen of the Senate Committee on Banking and Currency and the House Committee on Interstate and Foreign Commerce.

"As the Council was advised at the meeting with the Board, in connection with the discussion of Topic 5, Counsel for the Federal Reserve banks and the Board have been studying the effects on the industrial loan activities

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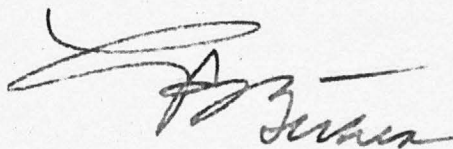
"of the Federal Reserve banks of amendments to the Federal Bankruptcy Act made by the Chandler Act approved June 22, 1938. This study has not yet been completed and the Board has not had an opportunity to determine what, if any, action it should take on the matter."

Approved unanimously.

Mr. Bethea suggested that the Board authorize the payment of the cost of luncheon served to Honorable Preston Delano, Comptroller of the Currency, in the Board's dining room today.

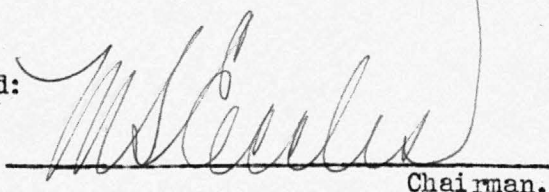
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:

  
Chairman.