

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, April 7, 1939, at 10:30 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. Dreibelbis, Assistant General Counsel
Mr. Vest, Assistant General Counsel
Mr. Williams, Assistant Counsel

There were distributed among the members of the Board copies of a draft of statement prepared in accordance with action taken at the meeting of the Board on March 31, 1939, following a discussion of the advisability of the Board recommending to Congress the appointment of a committee to study the problems raised by the banking and monetary bills now before Congress. The statement was considered in the light of the discussion at the meeting of the Board on April 4, 1939, in connection with Senate bill S. 2045 introduced on April 3 which would provide for the transfer of all examination functions of the Board of Governors and the Federal Reserve banks and the examining and other functions of the office of the Comptroller of the Currency to the Federal Deposit Insurance Corporation.

At the conclusion of the discussion, the statement was approved unanimously as follows:

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"During this session of Congress, as during other recent sessions, the Board of Governors has been asked by Committees of the Senate and House to report on a large number of bills dealing with proposals for overcoming the country's economic difficulties by monetary action.

"Among the proposals that are currently before Congress, many are based on the belief that our difficulty is in the lack of an adequate supply and control of money. Some would remedy this situation by the issuance of currency, either directly by the Treasury or through the Federal Reserve banks, some would retire Government bonds by issuing paper money and thus not only increase the supply of currency but also reduce or retire altogether the interest-bearing public debt. Others believe that the remedy lies in monetization of silver at a high price, and the issuance of silver certificates to add to the supply of money. Still others believe that what is needed is a stimulus to the use of money through some system of stamp scrip that would result in a penalty on money that is not promptly spent. Another group of measures aims to correct conditions by changing the ownership and management of the Federal Reserve System and by requiring 100 per cent reserves against demand deposits. Another proposed remedy would establish a new system of banks to supply intermediate and long-time capital, particularly to small business.

"Still others think that the monetary system now in existence should be corrected by the elimination of silver purchases, by the establishment of a fixed price for gold and by the reintroduction of gold coins into circulation. They contend that the elimination of currency uncertainties would restore confidence and result in economic revival. There are some who believe that the flow of capital into enterprise is retarded by what they consider as an artificially low level of money rates and others who argue that the Government absorbs too large a part of the country's savings through the sale of its own securities.

"These opinions and proposals cover a wide range, and seek legislative action on matters of vital importance to the welfare of the nation.

"The Board at different times in response to Committee requests has stated its position on individual proposals. While it has expressed disagreement with some of the measures which in its judgment would not accomplish the purposes

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"for which they are intended, it recognizes the importance of making every effort to achieve the underlying objective, which, broadly speaking, is the fullest practicable utilization of the country's human and material resources. It has been the Board's view that since the money supply, however measured, is larger now than at any previous time, the difficulty must lie not in the scarcity but in the inadequate use of the existing supply. The Board would welcome a reexamination of its own conclusions and a study of the factors that obstruct the flow of money through the channels of investment, production, and distribution.

"In earlier statements the Board has pointed out that there are many phases of economic life that are not susceptible of control through monetary means alone; it has taken the position that stability in production and employment is a more satisfactory objective of public policy than price stability alone, and that concerted action by many agencies within and outside the Government, which have an influence on economic activity, is essential for the achievement of recovery and an adequate national income.

"Notwithstanding the inherent limitations upon the influence of monetary and credit action on economic conditions, the Board is convinced of the importance of such action at certain times, and feels strongly the necessity of having the mechanism of monetary and banking control and supervision at all times in condition to function effectively in the public interest. In its Annual Report for 1938 the Board pointed out that our present system of regulation and supervision over money and banking, notwithstanding many improvements made in recent years, is still defective in many respects. The 15,000 banks that exist today are subject to conflicting and overlapping laws and jurisdictions, which result in discriminations against certain groups of banks and in a confusion of duties and responsibilities among different Federal and State authorities. Federal supervision of banking itself is distributed among several governmental agencies without clear delimitation of the respective powers and responsibilities of these agencies.

"On the more strictly monetary side the powers over

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"the supply of currency and bank reserves are divided between the United States Treasury and the Federal Reserve System. While it appears to have been the intent of Congress that the Federal Reserve System have responsibility for regulating the supply and cost of money, including currency and bank deposits, the powers over this supply possessed by the Treasury now outweigh those of the System.

"In brief, the effectiveness of our banking and monetary mechanism is weakened by the fact that there is no clear division of responsibility, no definite determination of authority over money and credit within the Federal Government itself, and that there is conflict of jurisdiction and supervision over the banks through which, in the existing system, monetary and credit powers must operate.

"In view of these circumstances, the Board urges that Congress through appropriate committees or a joint committee take steps to determine the objectives by which monetary and banking authorities shall be guided, the validity of different plans and views on monetary and credit matters proposed or held by agencies within or outside the Government, including the Board's own positions, and the character of governmental machinery that would be best calculated to carry out the purposes of Congress in this important field. Such a broad approach would enable Congress to consider all the proposals in relation to each other, and to other important problems of our economic system. Piecemeal consideration of various proposals is a slow, cumbersome, and unsatisfactory process.

"Recognition by Congress of the limits within which monetary and credit action can be effective and determination of the mechanism and policies that would contribute most to its effectiveness will clear the way for consideration of broader aspects of a constructive program for further economic recovery and stability."

It was agreed unanimously that the statement should be sent by messenger tomorrow to the Chairmen of the Senate and House Banking and Currency Committees, with copies by mail to the other members of the Committees, and

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released to the press for publication in the morning papers of Monday, April 10, 1939.

In connection with the above action the following letter, prepared for the signature of Chairman Eccles, to Senator Wagner as Chairman of the Senate Banking and Currency Committee was approved unanimously:

"The Banking and Currency Committee has from time to time requested the Board of Governors to report its views on certain pending bills that seek important changes in the country's monetary mechanism. On March 9 the Board sent to the Committee a general report in response to your request for its views on Senate Bill No. 31, but the pending unanswered requests seem to call for further consideration along the lines suggested in the enclosed statement."

Unanimous approval was also given to the following letter, prepared for the signature of Chairman Eccles, to Congressman Steagall as Chairman of the Banking and Currency Committee of the House of Representatives:

"In view of the large number and diversity of pending measures for amendment of the country's monetary mechanism upon which the Board of Governors has been asked by Congressional Committees to express its views, the Board respectfully submits the enclosed general statement for the consideration of your Committee."

At this point Mr. Williams left the meeting.

There was further discussion of S. 2045 (Brown Bill) and the general subject of bank examination and other banking functions raised for consideration by the introduction of this bill.

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There were then presented telegrams to Messrs. Kimball and Post, Secretaries of the Federal Reserve Banks of New York and Philadelphia, respectively, Mr. Leach, President of the Federal Reserve Bank of Richmond, Mr. McLarin, Vice President of the Federal Reserve Bank of Atlanta, Messrs. Stewart and Powell, Secretaries of the Federal Reserve Banks of St. Louis and Minneapolis, respectively, Mr. Gilbert, First Vice President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis, Dallas and San Francisco on April 4, by the Federal Reserve Banks of New York, Philadelphia, Richmond, Minneapolis and San Francisco on April 6, 1939, and by the Federal Reserve Bank of Atlanta today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

At this point Messrs. Thurston, Wyatt, Goldenweiser, Dreibelbis and Vest 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 meeting of the Board of Governors of the Federal Reserve System held on April 6, 1939, were approved unanimously.

Letter to Mr. Coleman, Vice President of the Federal Reserve

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Bank of Dallas, reading as follows:

"Referring to your letter of April 1, 1939, the Board approves the payment of a salary to Mr. E. A. Thaxton for a further period of six months from May 1, 1939, at the rate of \$3,000.00 per annum, which is \$300 in excess of the maximum annual salary provided in the personnel classification plan of your bank for the position to which Mr. Thaxton is temporarily assigned."

Approved unanimously.

Letter to the board of directors of the "Chemical Bank", Sweet Springs, Missouri, 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 St. Louis:

- "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 otherwise eliminate estimated losses of \$1,087.70, as shown in the report of examination of such bank as of February 18, 1939, made by an examiner for the Federal Reserve Bank of St. Louis."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Chemical Bank', Sweet Springs, Missouri, for membership in the Federal Reserve

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"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 Finance for the State of Missouri for his information.

"Your attention is called to the fact that although the bank's common capital stock is shown on its books at \$47,000, stock of the Federal Reserve Bank should be issued on the basis of the par amount outstanding, or \$50,000. The bank, therefore, is entitled to subscribe to Federal Reserve Bank stock on the basis of total capital and surplus of \$59,000, which amount includes the \$3,000 capital debentures outstanding to the Reconstruction Finance Corporation and surplus of \$6,000. Surplus in the amount shown on the books of the bank is included, of course, because it is intact after making allowance for losses estimated in the report of examination for membership and the \$3,000 difference in the par value of the common capital stock and the amount at which it is shown on the books of the bank."

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

"In accordance with the recommendation contained in your letter of April 3, the Board approves the establishment of a branch at Watkins Glen, New York, by the 'Elmira Bank & Trust Company', Elmira, New York, in connection with the merger of the Elmira Bank & Trust Company and the 'Watkins State Bank', at Watkins Glen, provided, of course, approval is given by the appropriate State authorities."

Approved unanimously.

Letter to Mr. Hill, Vice President of the Federal Reserve Bank of Philadelphia, reading as follows:

"Reference is made to your letter of March 29, 1939,

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"with which you forwarded a letter from the Industrial Trust Company, Wilmington, Delaware, dated March 28, 1939, requesting approval of the action taken by the member bank in granting a loan of \$65,000 to the Industrial Trust Building Corporation, a wholly owned affiliate holding the premises of the bank. As you report, in view of the fact that the member bank already has an investment of \$655,800 in the affiliate, and the bank's capital is only \$625,000, the action taken without prior approval of the Board constituted a violation of the provisions of Section 24A of the Federal Reserve Act.

"The member bank states that the violation of the Federal Reserve Act was unintentional; that the loan was made for the purpose of liquidating a mortgage against the building and to effect a saving of interest; and that a schedule of payments is to be followed which should provide for the liquidation of the loan by the close of 1940 or earlier.

"In view of the representations made by the member bank, the substantial surplus and total capital account, the further information contained in your letter, and your recommendation, the Board approves the action taken by the member bank in increasing its investment in and loans to the affiliate as described."

Approved unanimously.

Letter to Mr. Parker, President of the Federal Reserve Bank of Atlanta, reading as follows:

"This refers to your letter of March 23, 1939, regarding the proposed purchase of 150 shares of the corporate stock of Edgemar Company by Trust Company of Georgia Associates, a wholly owned subsidiary of Trust Company of Georgia, Atlanta, Georgia. In view of the circumstances described in your letter, and in accordance with your recommendation, the Board will interpose no objection to the purchase of the stock by Trust Company of Georgia Associates."

Approved unanimously.

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Letter to the Presidents of all Federal Reserve banks, reading as follows:

"You will recall that, at the meeting of the Conference of Presidents held on September 20, 1938, consideration was given to the possibility of at least a temporary disturbance in the money market in the United States in case hostilities should break out in Europe. While the Board is not in possession of any information relating to developments in Europe other than that reported in the press, it has thought it advisable to be prepared in sufficient time to act promptly and in a manner to reassure the public.

"In order to have all the questions of immediate policy settled in advance, so that such action as may be determined upon may be taken and announced without delay, the Board suggests that you take up with your directors the following questions:

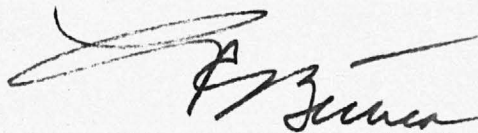
"1. In making loans on Government securities, will you lend at par: to member banks? to nonmember banks? to others? (The last two under section 13, paragraph 13, page 90 of the Federal Reserve Act.) Your Board may wish to make a distinction between a temporary emergency policy and a longer time policy in this respect.

- "2. Do you wish to propose any changes in:
- (a) the bank's regular discount rate?
 - (b) the rate charged for loans on United States Government securities to nonmember banks and to other lenders? (Under section 13, paragraph 13)
 - (c) the rate charged on 10(b) advances?

"The Board will appreciate it if you will inform it as soon as possible regarding any decisions that your directors may reach on these matters or any other allied matters."

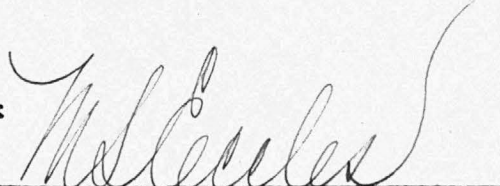
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.