A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, June 23, 1939, at 11:00 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczek
Mr. McKee (part of meeting)
Mr. Davis
Mr. Draper

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Dreibelbis, Assistant General Counsel
Mr. Vest, Assistant General Counsel
Mr. Wingfield, Assistant General Counsel

There were presented telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Mr. Wagner, Vice President of the Federal Reserve Bank of Cleveland, Mr. Leach, President of the Federal Reserve Bank of Richmond, Messrs. Dillard and Stewart, Secretaries of the Federal Reserve Banks of Chicago and St. Louis, respectively, Mr. Ziemer, Vice President of the Federal Reserve Bank of Minneapolis, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, and Mr. Stroud, First Vice President of the Federal Reserve Bank of Dallas, stating that the Board approves the establishment without change by the Federal Reserve Bank of Kansas City on June 21, by the Federal Reserve Banks of Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City and Dallas on June 22, 1939, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Ransom stated that the Board had received a request from
Senator Wagner, Chairman of the Senate Committee on Banking and Currency, for a report on S. 2606, a bill introduced by Senator Logan on June 15, 1939, "Amending the Federal Reserve Act; declaring a monetary policy; establishing and instructing a monetary agency, and for other purposes". He said that he was bringing up the matter at this time in order to ascertain whether the Board wished to make a report on the bill.

It was agreed unanimously that a report should be made and Counsel was requested to draft an appropriate letter for the Board's consideration.

There was presented a letter dated June 20, 1939, from J. H. Merritt tendering his resignation as Class C director and Chairman and Federal Reserve Agent at the Federal Reserve Bank of Dallas. The Secretary read Mr. Merritt's letter, together with a copy of a letter of the same date enclosed therewith which Mr. Merritt had written to President Gilbert giving the reasons why he was tendering his resignation at this time. The Secretary also read a telegram dated June 21, 1939, addressed to Mr. Szymczak by Ford Seale, a Class A director of the Federal Reserve Bank of Dallas, expressing the hope that the Board would not accept Mr. Merritt's resignation and offering to assist in working out the difficulties which gave rise to it. It appeared from this correspondence that Mr. Gilbert had suggested to Mr. Merritt that he vacate the office space which he now occupies in the Dallas bank.
for Mr. Stroud, the newly elected First Vice President, on the understanding that Mr. Merritt would make his headquarters in Mr. Gilbert's office during such times as he was in the bank.

Mr. Szymczak reported that he had discussed the matter informally with Mr. Gilbert when he was in Washington earlier in the week attending the meeting of the Presidents' Conference. Mr. Szymczak said that Mr. Gilbert had explained that Mr. Merritt uses his office in the bank infrequently for only short periods, that when he (Mr. Gilbert) had mentioned the matter to Mr. Merritt he had agreed to the change without any apparent reluctance, and that he (Mr. Gilbert) was therefore greatly surprised to learn of Mr. Merritt's action in submitting his resignation to the Board of Governors. Mr. Szymczak also reported that Mr. Stroud had called him on the telephone and indicated that he had understood that Mr. Merritt wished him to have the office and that he (Mr. Stroud) had no reason to think that there was any feeling of resentment on Mr. Merritt's part.

Mr. Ransom suggested that the matter be referred to Mr. Szymczak in order that he might request Mr. Gilbert by telephone to restore to Mr. Merritt the office he has occupied in the Dallas bank since his appointment as Chairman and Federal Reserve Agent. It was understood that Mr. Ransom's suggestion contemplated that Mr. Gilbert would advise the Board by wire when such action had been taken and that upon receipt of such advice the Secretary would send a telegram
to Mr. Merritt stating that the Board had been advised that his office in the Dallas bank had been restored to him and that since the Board understands that this removes the cause for the submission of his resignation the Board has voted unanimously not to accept his resignation as Class C director and Chairman and Federal Reserve Agent at the Federal Reserve Bank of Dallas.

The Board by unanimous vote approved Mr. Ransom’s suggestion.

(Secretary’s Note: At the close of the meeting Mr. Szyniczak called President Gilbert on the telephone and advised him of the Board’s wishes in the matter. However, later in the afternoon the following telegram was received from Mr. Merritt: "Satisfactory arrangements have been concluded in regard to all matters pertaining to the office of Chairman and Agent and I hereby withdraw my resignation." In view of this development it appeared unnecessary for the Board to send any telegram to Mr. Merritt. The matter was nevertheless brought to Mr. Szyniczak’s attention and it was agreed that no further action should be taken other than to acknowledge the receipt of Mr. Merritt’s telegram and circulate it to the members of the Board for their information.

Consideration was then given to a recommendation dated June 22, 1939, from the Personnel Committee that the Board appoint J. B. Cozzo of Dallas, Texas, as a Class C director of the Federal Reserve Bank of Dallas for the unexpired portion of the three-year term ending December 31, 1940.

After discussion the Board, by unanimous vote, authorized the Secretary to tender the appointment to Mr. Cozzo in
the usual manner through the Chairman of the Federal Reserve Bank of Dallas.

Mr. Davis stated that the Board at its meeting on January 20, 1939, had referred to him for further consideration, in consultation with the staff, the question whether the definition of "executive officer" contained in Regulation O should be modified so as not to apply to inactive officers and that he had had numerous conferences since that time with members of the Board's legal staff and others in an effort to formulate a definition which he felt would be satisfactory to the Board. He thereupon submitted for consideration a revision of the definition of the term "executive officer" as it now appears in Regulation O with his recommendation that the regulation be amended accordingly. A copy of the revised definition was handed to each member of the Board and staff attending the meeting and the proposed amendment was discussed in detail.

Mr. Ransom stated that he was willing to vote in favor of the proposed amendment but desired to make it clear that if it lay within the power of the Board to prohibit the appointment of inactive officers by banks he would vote that it do so. He also said that, while he recognized that the Board in taking the foregoing action was in effect sanctioning a practice which he felt was not in the public interest, he was satisfied that the Board does not have the right under the provisions of existing law to ignore the distinction between
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Executive officers and other officers.

Mr. Szymczak indicated that he concurred in the views expressed by Mr. Ransom and that for the same reason he would be willing to go along with the other members of the Board in voting for the proposed amendment. Mr. Ransom added that possibly his conclusion in regard to the legal question involved might not be persuasive with Chairman Eccles who was not present at the meeting since the Chairman had consistently opposed the practice of banks appointing inactive officers. Mr. Ransom said that he felt that in the circumstances the Chairman should be given an opportunity to record his vote on the proposed amendment.

(Secretary's Note: Mr. Ransom's suggestion was subsequently brought to the attention of Chairman Eccles who stated that he thought the record clearly indicated his attitude on the subject and that, in view of the consideration given to the matter by the other members of the Board, he did not wish to be recorded as voting against the proposed amendment.)

Mr. Vest raised a question as to whether the Board did not desire to authorize an amendment to section 4(a) of Regulation O by striking out "June 16, 1938," and inserting in lieu thereof "June 16, 1944," thus giving effect to the change recently made in the law by extending the period within which loans made by member banks to their executive officers prior to June 16, 1933, may be renewed or extended.
It was the consensus that an appropriate amendment giving effect to the act approved by the President on June 20, 1939, and referred to by Mr. Vest, should be adopted simultaneously with the amendment of the definition of the term "executive officer" contained in section 1(b) of Regulation 0.

At the conclusion of the discussion, upon motion by Mr. Davis, seconded by Mr. McKee, the Board, by unanimous vote, adopted the following resolution:

"RESOLVED, That effective July 1, 1939, Regulation 0, Loans to Executive Officers of Member Banks, be amended in the following respects:

1. Section 1(b) of Regulation 0 is amended to read as follows:

"(b) The term "executive officer" means every officer of a member bank who participates or has authority to participate in the operating management of the bank or any branch thereof otherwise than in the capacity of a director of the bank, regardless of whether he has an official title or whether his title contains a designation of assistant and regardless of whether he is serving without salary or other compensation. It will be assumed that the chairman of the board, the president, every vice president, the cashier, secretary, treasurer and trust officer of a member bank are executive officers, unless it is provided by resolution of the board of directors or the bank's by-laws that any such officer is not authorized to participate in the operating management of the bank and he does not actually participate therein."

2. Section 4(a) of Regulation 0 is amended by striking out 'June 16, 1938' in the first and last sentences of such section and inserting in lieu thereof 'June 16, 1944'."

Upon motion by Mr. Davis, the Board, by unanimous vote, approved the following
telegram to the Presidents of all Federal Reserve banks and authorized the release to the press of the statement quoted therein:

"Effective July 1, 1939, the Board has amended its Regulation 0 and is giving to the press today for immediate release the following statement regarding this action:

'CHANGE IN DEFINITION OF "EXECUTIVE OFFICER"

'Effective July 1, 1939, the Board of Governors has amended the definition of the term "executive officer" contained in section 1(b) of its Regulation 0, which relates to loans to executive officers of member banks, to read as follows:

"(b) The term 'executive officer' means every officer of a member bank who participates or has authority to participate in the operating management of the bank or any branch thereof otherwise than in the capacity of a director of the bank, regardless of whether he has an official title or whether his title contains a designation of assistant and regardless of whether he is serving without salary or other compensation. It will be assumed that the chairman of the board, the president, every vice president, the cashier, secretary, treasurer and trust officer of a member bank are executive officers, unless it is provided by resolution of the board of directors or the bank's by-laws that any such officer is not authorized to participate in the operating management of the bank and he does not actually participate therein."

'Section 22(g) of the Federal Reserve Act, which restricts loans to "executive officers" and which is implemented by the Board's Regulation 0, makes a distinction between "executive officers" and other officers. On reviewing this subject, the Board concluded that the regulation should be amended to give clearer recognition to this distinction and to the view that the question whether or not a person is an "executive officer" does not depend upon the title which he has but upon the nature of his duties. As amended, the regulation would not apply to a person, regardless of his title, who has no authority to perform and actually does not perform the duties of an executive,
especially in view of the fact that the law does not restrict loans to directors who are not also executive officers.

The Board also amended its Regulation O by changing the date in section 4(a) to "June 16, 1944". This amendment was made to conform to the change recently made in the law extending until June 16, 1944, the date to which loans made by member banks to their executive officers prior to June 16, 1933, may be renewed or extended.

Advice of Board's action, together with copy of press statement quoted above, should be mailed to all member banks in your district as soon as possible.

The regulation, as amended, is being printed here, and as soon as printed copies are available a supply will be sent to you for distribution to member banks in your district. Please advise Board by wire the number of printed copies desired.

Mr. Davis stated that he had been holding on his desk correspondence originated by Mr. James C. Bolton, President of the Rapides Bank and Trust Company, Alexandria, Louisiana, relating to the status of R. S. Thornton, an inactive vice president of that institution.

Mr. Davis said that the adoption of the foregoing amendment to Regulation O changing the definition of an "executive officer" had a material bearing on the questions raised by Mr. Bolton and that the correspondence should be referred to Counsel for preparation of a letter ruling on the question raised in the light of the provisions of Regulation O as amended.

It was agreed that the correspondence should be referred to Counsel for the purpose indicated.

Reference was made to the fact that at the meeting of the Board on February 27, 1939, it was agreed that the memorandum prepared
by Mr. Piser under date of December 9, 1938, with respect to the Government security market and the System open market account should be made the special order of business at a full meeting of the Board. It was explained that the matter was listed on the docket for consideration at this meeting in anticipation of having all members of the Board in attendance. However, in view of Chairman Eccles' absence, it was agreed that the matter should be passed over and brought up at a subsequent meeting.

Mr. Davis stated that some consideration had been given to the number of paper bound copies of the book "The Federal Reserve System - Its Purposes and Functions" which should be ordered at this time. He pointed out that the original order had provided for ten thousand paper bound copies but that the demand had already exhausted the supply and the indications were that the Board should order at least forty thousand additional copies. Mr. Davis inquired whether the members of the Board and staff had any suggestions as to whether a greater or less number should be ordered and indicated that the estimated cost on the basis of forty thousand copies would be $4,390 or 10.975¢ per copy.

At the conclusion of a discussion, the Board authorized the printing of an additional 40,000 paper bound copies of the book with the understanding that the appropriate budget classification would be increased by the amount of the expenditure involved.
Mr. Ransom reported on the status of S. 2150, a bill to amend section 8 of the Act entitled "An Act to supplement laws against unlawful restraints and monopolies, and for other purposes", particularly with reference to interlocking bank directorates, which had been introduced by Senator Glass on April 11, 1939. He stated that the bill was passed by the Senate on June 19, 1939, that on June 20 it was referred to the Judiciary Committee of the House of Representatives, and that it was anticipated that the bill would be reported out favorably by that Committee.

Mr. Ransom called attention to the fact that on June 20, 1939, Senator George had introduced a bill S. 2649, to further amend section 12B (c)(13) of the Federal Reserve Act, relating to insured deposits, which had been referred to the Committee on Banking and Currency.

Mr. Goldenweiser referred to bill S. 1318, relating to the exclusion of certain deposits in determining the assessment base of banks insured by the Federal Deposit Insurance Corporation, which had passed the Senate on June 13, 1939, and had been referred to the Banking and Currency Committee of the House of Representatives on June 14, 1939, and raised the question as to whether the Board would not wish to submit a report to the Committee on Banking and Currency of the House expressing its views as to the merits of this proposed legislation.

It was agreed unanimously that a report should be made and Counsel was requested to draft an appropriate letter for the Board's consideration.
Mr. Ransom referred to S. 2618, a bill introduced by Senator Glass to extend the period during which direct obligations of the United States may be used as collateral security for Federal Reserve notes, which present authority expires on June 30, 1939, and stated that he had contacted Senator Glass' secretary, J. W. Rixey Smith, who had advised that a poll by Senator Glass of his subcommittee had been taken and that Senator Glass had advised Senator Wagner, Chairman of the Senate Banking and Currency Committee, that the subcommittee had reported the bill out favorably, and that Mr. Smith had personally called Senator Wagner's attention to the fact that it was important that the bill be reported out promptly by the full Committee.

Mr. Ransom stated that he had been giving some thought to the procedure which should be followed in preparing for the hearings to be held pursuant to S. Res. 125, introduced by Senator Wagner, providing for a study and determination of a national monetary and banking policy, in the event the resolution which has been reported upon favorably by the Senate Banking and Currency Committee is passed by the Senate. He said that he thought the Board should ask the Committee at the proper time for an opportunity to have members of its staff present evidential material in support of the questions raised in the Board's annual report. He stated that, while he assumed the members of the Board would be called upon to testify individually, he had asked the assistance of the staff in preparing material which
will be wholly factual except where it is necessary to have some statement as to the theory of money. He added that he had already asked Messrs. Wyatt and Goldenweiser to prepare statements on certain subjects. Mr. Ransom expressed the opinion that this work would take a great deal of the time of members of the staff during the summer inasmuch as the present indications were that Senator Wagner would start hearings next October. He also expressed the view that technical information should be presented to the Committee by staff members and that it might be advisable for the Board to assign one of its legal staff to work with the committee to insure an orderly presentation of such staff testimony.

Mr. Ransom said that he was not asking the Board to approve the procedure he had outlined but that he had discussed the program with Chairman Eccles who did not object to the procedure suggested. In response to a question from Mr. McKee, Mr. Ransom said that he believed it would be possible to present all essential information to the committee at hearings extending over a week's time, provided they were held from 10 a.m. to 12 noon each day, but that he doubted that it would be possible to do it in less time. He stated that in his opinion it would require familiarity with the history of developments in all the fields to be studied up to the present time in order for any one to testify to the best advantage. He also expressed the view that he would like to have just as many charts as possible to assist
in the presentation of such testimony. It was his thought, he said, that the Board might offer Senator Wagner the services of Mr. Dreibelbis to work with the Senate Committee on Banking and Currency with the view to having him arrange for the presentation of factual information by members of the Board and its staff. In response to an inquiry from Mr. Draper as to the handling of the economic aspects of the material which the Board would desire to present, Mr. Ransom stated that Mr. Goldenweiser and his associates would be available for consultation with Mr. Dreibelbis.

Mr. Ransom then stated that when he and Mr. McKee attended the meeting of the board of directors of the Federal Reserve Bank of Cleveland on June 22, 1939, a very interesting report had been presented on the bank's experience in making industrial loans under the provisions of section 13b of the Federal Reserve Act. Mr. Ransom read excerpts from a summary of that report which he had brought back with him.

At Mr. Ransom's request Mr. Wingfield reported on conversations which he had had with Mr. Burke of the Securities and Exchange Commission, with respect to H.R. 5220, the trust indenture bill. Mr. Wingfield stated that the substance of his first conversation with Mr. Burke had been incorporated in a memorandum dated June 21, 1939, which he had submitted to the Board for its information, the gist of which was that Mr. Burke had inquired informally as to whether he (Mr. Wingfield)
thought that if the Board were requested to make a report on the revised bill it would be inclined to modify its adverse report. Mr. Wingfield said he had indicated to Mr. Burke that it would be his personal guess that the Board would not be inclined to modify its report, although he realized that changes in the bill tended to meet the Board's general criticism, because among other things the Board's report had suggested that the trust indenture bill be made a part of a broad study of the banking situation and a resolution providing for such a study had subsequently been reported to the Senate by its Banking and Currency Committee. He also stated that he understood the Securities and Exchange Commission was not willing to do anything regarding possible overlapping bank supervision to which exception was taken in the Board's report. Mr. Wingfield said that subsequently Mr. Burke had called him back and had indicated that Commissioner Frank or Eicher of the Securities and Exchange Commission, would probably call Mr. Ransom.

Mr. Ransom said that in the event a representative of the Commission called him on this subject he would have to say, in the light of this morning's discussion, that he has no reason to anticipate that the Board would want to change the report but that the subject would be formally called to the Board's attention if the Commission so requested.

At this point Messrs. Wyatt, Dreibelbis, Vest and Wingfield 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 June 22, 1939, were approved unanimously.

Memorandum dated June 20, 1939, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the appointment on a temporary basis for a period of one year of Andrew M. Kamarck as a junior economist in the Division, with salary at the rate of $2,500 per annum, effective as of the date upon which he enters upon the performance of his duties. The memorandum stated that in view of the fact that next year Mr. Goldenweiser probably will wish to recommend a permanent appointment for Mr. Kamarck, it was suggested that he now be permitted to become a member of the Federal Reserve Retirement System.

Approved unanimously.

Memorandum dated June 21, 1939, from Mr. Noell, Assistant Secretary, recommending that, for the reasons stated in the memorandum, Lee Winston Langham and Louis William Zidek be appointed as elevator operators, each with salary at the rate of $1,200 per annum, effective as of the date upon which they enter upon the performance of their duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated June 21, 1939, from Messrs. Parry and Goldenweiser, Chief of the Division of Security Loans and Director of the
Division of Research and Statistics, respectively, stating that a verbal request had been received from the Federal Deposit Insurance Corporation and the National Bureau of Economic Research that Mr. Louis N. Dembitz, Special Assistant in the Division of Security Loans, be assigned for a period of about three months to assist on technical problems in the study of corporate bonds which is being conducted as a W.P.A. project, and recommending that the Board approve the assignment of Mr. Dembitz to assist on the project and that the contribution of Mr. Dembitz' time and expenses of travel be charged against the contribution of $6,250 to the project which was authorized by the Board on October 31, 1938.

Approved unanimously.

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

"In letter R-454 of May 1, 1939, the Federal Reserve banks were requested to furnish certain par list data concerning (1) banks in their respective districts, checks on which were collected through intermediary towns, and (2) available optional facilities for collecting cash items drawn on banks in their respective districts. The replies to the Board's letter indicate, in connection with collections handled through intermediary towns, that there are about 400 points in the Seventh District where collections are made in this way, and that there are three or four such points in other districts which for special reasons the Federal Reserve banks believe it inadvisable to so designate in the Par List. Conforming with the suggestion of the Federal Reserve banks, the July 1 issue of the Par List will show the points in the Seventh District upon which collections are made through intermediary towns by a
"Note similar to that used prior to 1932, i.e., 'Nonmember bank items collected through an intermediary town'.

"No changes are contemplated in the forthcoming issue of the Par List with respect to optional collection facilities."

Approved unanimously.

Thereupon the meeting adjourned.