

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, August 16, 1939, at 2:30 p.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Assistant to the Chairman
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Parry, Chief of the Division of Security Loans
Mr. Dreibelbis, Assistant General Counsel
Mr. Van Fossen, Assistant Chief of the Division of Bank Operations

Mr. Szymczak referred to a letter received by the Board under date of August 3, 1939, from Mr. Merritt, Chairman of the Federal Reserve Bank of Dallas, setting forth the reasons for a proposed enlargement of the Dallas bank building and requesting approval by the Board of an expenditure of \$390,000 for that purpose. The enlargement would include the construction of a storage basement on the lot at the rear of the present building, filling in the light court from the third to the fifth floors, and the addition of a sixth floor. Under date of August 7, 1939, Mr. Van Fossen addressed a memorandum to the Board recommending that it interpose no objection to the proposed expenditure. Mr. Szymczak said that he was willing

8/16/39

-2-

to advise the Dallas bank that the Board had no objection, but that Mr. McKee had raised a question as to whether this was the proper time to undertake the work and had stated that if the other members of the Board, after consideration of the matter, felt that it should interpose no objection he would not object. Mr. Szymczak said that he felt that the enlargement should be made for the reasons outlined in Mr. Merritt's letter and that he (Mr. Szymczak) had recently discussed the matter over the telephone with Mr. Taylor, Deputy Chairman of the bank, who was not at the meeting of the directors when the matter was decided upon but who had subsequently looked into it and felt that the step should be taken.

In the discussion which followed, it was suggested that because of the close working contacts of the Federal Reserve bank with the local agency of the Reconstruction Finance Corporation, the Federal Deposit Insurance Corporation, and the Chief National Bank Examiner of the district, it would be desirable if these offices were housed in the Federal Reserve bank building, and it was stated that the proposed enlargement would not go far enough to permit of this arrangement in the absence of a substantial shrinkage in the fiscal agency activities carried on by the Federal Reserve bank. In this connection Chairman Eccles suggested the possibility that the bank at a comparatively small additional expense could add a seventh floor, the interior of which could be left unfinished until the need for addi-

8/16/39

-3-

tional space developed, whereas such an addition at a later date would entail a much larger expense.

At the conclusion of the discussion, Mr. Szymczak moved that the Federal Reserve Bank of Dallas be advised that while the Board would offer no objection to the enlargement program proposed by the bank, the Board suggests that before it is undertaken the bank ascertain and advise the Board of Governors what the additional cost would be of roughing in a seventh floor, the interior of which would be finished at a later time when the need for additional space developed and whether in the opinion of the directors it would be desirable to make this further addition.

Mr. Szymczak's motion was put by the Chair and carried unanimously with the understanding that Mr. Szymczak would advise Mr. Gilbert by telephone of the Board's suggestion.

There was presented a memorandum prepared by Messrs. Parry and Solomon under date of July 14, 1939, following receipt by Chairman Eccles of a letter dated June 28, 1939, from Chairman Frank of the Securities and Exchange Commission with respect to objections raised by the Commission to the amendment to Regulation T which became effective on May 22, 1939. The memorandum discussed each of the objections raised in Chairman Frank's letter.

Chairman Eccles stated that, after the press statement approved by the Board with respect to the amendment to Regulation T had been released to the press, Chairman Frank called him on the telephone and asked if the Board would reconsider its action and defer making the

8/16/39

-4-

amendment effective until the Commission could discuss the matter with the Board. Chairman Eccles said that he advised Chairman Frank that the amendment had already been released, that in the circumstances he would suggest that the amendment be given a trial and if the reasons for the Commission's suggestions were borne out the Board could promptly repeal the amendment, and that Chairman Frank had agreed with this procedure. Chairman Eccles stated further that he requested Chairman Frank to address a letter to the Board setting forth the objections of the Commission to the amendment and that the letter referred to above was written in response to this request.

There ensued a discussion of the reply to be made to Chairman Frank's letter during which Mr. Dreibelbis read a draft of reply which he had prepared for Chairman Eccles' signature as follows:

"As I promised in my letter of July 7, 1939, I have brought your letter of June 28, 1939 to the attention of the Board and your comments have been reviewed by our staff and discussed by the Board.

"At the time when we were discussing the matter on the telephone I was, of course, talking informally without attempting to refresh my memory as to the specific attention given each point. I did not mean to convey any impression that the Board acted in the belief that the objections to the proposals were trivial or came only from the Commission's staff instead of from the Commission itself. As a matter of fact, after reviewing the circumstances and refreshing my recollection I can say that all of the points mentioned in your letter were brought to the attention of the Board and considered in the light of the Commission's objections.

"Not only do we recognize the absolute necessity of coordination and cooperation in connection with the performance of our respective functions under the Securities

8/16/39

-5-

"Exchange Act, but I can assure you that we very much value the Commission's viewpoint and suggestions in those matters under the Act which happen to fall within the province of the Board. Accordingly, in drafting the Board's Regulation T originally and in drafting subsequent amendments it has been our practice to obtain the Commission's viewpoint and suggestions before taking final action on any matters involving questions of enforcement, and I do not recall any instance in which the Board has acted on any matters involving questions of enforcement without following this procedure. In the specific case much study was devoted to the suggestions of the Commission and many changes were made in various drafts of the proposed amendments in a painstaking effort to meet the points raised.

"We all recognize, of course, that there are no simple answers to the questions involved. We feel, however, that the changes made in the earlier drafts afforded very substantial protection against the possible abuses to which the Commission referred and it was the Board's considered judgment that with these changes the amendments should be adopted.

"Our conclusion was, of course, influenced quite definitely by the consideration that if defects should develop in the operation of these amendments despite the safeguards, such weaknesses could, if necessary, be corrected by further amendments. I need hardly add that we will very much appreciate your advising us promptly of any instances of abuse of these amendments or of any other provisions of the regulation that may come to your attention, and that we always are glad to have the benefit of your advice, suggestions and cooperation in any such matters."

Mr. Draper moved that the letter be approved.

Carried unanimously.

Further reference was made to the memorandum prepared by Mr. Goldenweiser under date of July 13, 1939, on the subject of discount rates at the Federal Reserve banks which was discussed briefly at the meeting of the Board on July 18, 1939.

It was agreed unanimously that the Board should take no action in the matter at this time but that each member of the Board should

8/16/39

-6-

study it and that the memorandum should be placed on the docket for consideration at a meeting during the latter part of October or early November when all of the members of the Board are present.

Mr. Morrill read a letter dated August 14, 1939, from the Secretary to Mr. Lichtenstein, Secretary of the Federal Advisory Council, stating that the next meeting of the Council would be held in Washington on Sunday, Monday and Tuesday, October 8, 9 and 10, 1939, and requesting a list of the topics which the Board desired the Council to discuss at that time.

Mr. Davis suggested that the Board have a thorough discussion at its meeting with the Council of the questions involving the "easy money policy" regarding which the Council at its last two meetings with the Board had presented statements.

Mr. Davis' suggestion was agreed to unanimously and Mr. Morrill was requested to advise Mr. Lichtenstein accordingly.

Also Mr. Goldenweiser was requested to prepare for use in this connection a full statement of the causes of the present easy money situation and what actions could be taken to increase money rates if that policy should be decided upon.

Mr. Morrill then read a letter received under date of August 11, 1939, from General Frank T. Hines, Chairman of the Governmental Unit of the Community Chest, suggesting that Mr. Draper be appointed department chairman to have charge in the Board's organization of the forthcoming community chest campaign for the year 1940.

Upon motion by Mr. Ransom, Mr. Draper was appointed as department chairman and Mr.

8/16/39

-7-

Morrill was requested to advise General Hines accordingly.

At this point Messrs. Bethea, Carpenter, Thurston, Goldenweiser, Parry, Dreibelbis, and Van Fossen withdrew from the meeting.

Consideration was given to a memorandum dated August 11, 1939, from Mr. Goldenweiser recommending that, for the reasons stated in the memorandum, the salary of Henry H. Edmiston, senior economist in the Division of Research and Statistics, be increased from the present rate of \$4,300 to \$5,000 per annum, effective August 16, 1939.

The recommendation was approved unanimously.

Consideration was also given to a memorandum addressed to the Board by Mr. Goldenweiser under date of August 10, 1939, recommending that, for the reasons stated in the memorandum, the Board appoint Mr. Emile Despres, who is at present Chief of the Foreign Research Division at the Federal Reserve Bank of New York, as a senior economist in the Board's Division of Research and Statistics, with salary at the rate of \$6,000 per annum, effective as of September 11, 1939. The memorandum stated that Mr. Despres is already a member of the Retirement System of the Federal Reserve Banks.

The recommendation was approved unanimously.

The action stated with respect to each of the matters herein-after 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 August 15, 1939, were approved unanimously.

8/16/39

-8-

Letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of August 11 advising that the Executive Committee of your bank has voted, subject to the approval of the Board of Governors, to retain in service for one year from October 3, 1939, Mr. H. A. King, Chief Guard at the El Paso Branch.

"Before writing its letter X-9798 of January 21, 1937, with respect to the retention in service by the Federal Reserve banks of officers and employees after they have attained age 65, the Board considered carefully the objectives of a retirement system and came to the conclusion that in the absence of outstanding reasons it would be in the interest of the System as a whole to retire officers and employees upon the attainment of age 65. Continued physical and mental ability, or ordinarily the individual's financial situation, does not in the Board's opinion constitute exceptional circumstances warranting a departure from this policy and, consequently, the Board does not feel that the circumstances of the present case as set forth in your letter are of such unusual character as to warrant a further extension in the service of Mr. King, especially in view of the fact that one extension has already been granted."

Approved unanimously.

Letter to the Board of Directors of the "Community State Bank", Avilla, Indiana, 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 and furniture and fixtures.

"5. Prior to admission to membership, such bank, if it has not already done so, shall charge

8/16/39

-9-

"off or otherwise eliminate estimated losses aggregating \$1,920, as shown in the report of examination of such bank as of July 25, 1939, made by an examiner for the Federal Reserve Bank of Chicago."

Approved unanimously for transmission through the Federal Reserve Bank of Chicago.

Telegram to Mr. Worthington, First Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"In accordance with recommendation contained your telegram August 16, Board extends until September 16, 1939 time within which The Security State Bank of Sterling, Sterling, Colorado, may accomplish admission to membership."

Approved unanimously.

Thereupon the meeting adjourned.

Rhodes Morris
Secretary.

Approved:

W. S. [Signature]
Chairman.