

The meeting of the Board of Governors of the Federal Reserve System with the Chairmen of the Federal Reserve Banks was reconvened in Washington on Wednesday, December 6, 1939, at 10:00 a.m.

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

Messrs. F. H. Curtiss, T. B. McCabe, G. C. Brainard, Robert Lassiter, W. T. Nardin, and R. B. Caldwell, Chairmen of the Federal Reserve Banks of Boston, Philadelphia, Cleveland, Richmond, St. Louis, and Kansas City, respectively

Messrs. R. E. Wood, W. C. Coffey, Jay Taylor, and St. George Holden, Deputy Chairmen of the Federal Reserve Banks of Chicago, Minneapolis, Dallas, and San Francisco, respectively

Mr. R. S. Parker, President of the Federal Reserve Bank of Atlanta

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. Goldenweiser, Director of the Division of Research and Statistics
 Mr. Smead, Chief of the Division of Bank Operations
 Mr. Paulger, Chief of the Division of Examinations
 Mr. Parry, Chief of the Division of Security Loans
 Mr. Dreibelbis, Assistant General Counsel
 Mr. Thompson, General Assistant in the Secretary's Office

Mr. Szymczak made a statement with respect to salaries of

12/6/39

-2-

officers of Federal Reserve banks, a summary of which has been placed in the Board's files.

During Mr. Szymczak's statement Mr. Wood said that, while official salaries at the Federal Reserve banks might be too high in some cases, he did not believe it was good policy from the standpoint of the morale of an organization to reduce salaries, especially in any case where the officer or employee has served for a long time, and that, if it were felt that the employee should not be discharged, the problem would have to be worked out as replacements were made by placing the new men on a lower basis. It was stated during the discussion of this point that the procedure referred to by Mr. Wood has been adopted in a number of cases throughout the System.

In connection with a reference by Mr. Szymczak to the salaries paid in the highest Government positions in Washington, Mr. Wood stated that he did not believe that salaries in the Federal Reserve banks should be compared with the salaries paid Government officials in Washington. He also said that he had had experience with salary classification plans, that they do not work out very well in practice, that they cannot be substituted for the judgment of the operating officers of an institution, and that if an exceptional man is discovered in the organization it is necessary to pay him more than others in comparable positions.

Mr. Ransom, in connection with Mr. Szymczak's reference to earnings and expenses of the Federal Reserve banks, called attention

12/6/39

-3-

to the fact that the System has paid to the Federal Government a total of approximately \$290,000,000 in franchise taxes and for stock of the Federal Deposit Insurance Corporation, and that since its organization the System has not received any appropriations from Congress, the capital of the Federal Reserve banks having been provided by the member banks and all expenses, including those of the Board, having been met out of earnings of the Federal Reserve banks.

At the conclusion of his statement Mr. Szymczak made the further comment that on some occasions in the past communications from the Federal Reserve banks relating to official salaries had been submitted by the Presidents or other executive officers of the banks and that it was the feeling of the Board that these communications should be signed by the Chairmen or the Deputy Chairmen.

Chairman Eccles stated that inasmuch as some of the Chairmen would have to leave the meeting at noon and others shortly thereafter it would not be possible to discuss all of the topics on the program.

Mr. Draper stated that because of time limitations he would suggest that the statement which he had prepared to submit to the Chairmen on the subject of loans to small business be dispensed with with the understanding that it will be mailed to the Chairmen.

This suggestion was agreed to unanimously and it was understood that a similar procedure would be followed in connection with the statements which were to have been made by Mr. Ransom on the Wagner Resolution and Mr. Davis on member bank and other public relations activities of the Federal Reserve banks.

12/6/39

-4-

In connection with the subject of membership in the Federal Reserve System, which Mr. McKee had intended to discuss, there were handed to the Chairmen statistical statements entitled "Membership in the Federal Reserve System" and "Changes in State Bank Membership".

Mr. Davis inquired whether the Chairmen felt that it would be advisable to plan for another meeting of the Chairmen in the near future.

Mr. McCabe responded with the statement that he thought this was highly desirable and that he thought it would be well to hold the meeting at a time determined well in advance, and at a place away from Washington where the Chairmen and the members of the Board could devote their entire time to the program of the conference during the days it was in session.

This suggestion was discussed and concurred in by the Chairmen.

Mr. Wood expressed the opinion that the broad policies of the Federal Reserve System must be determined largely in Washington and that, therefore, aside from being responsible for the efficient operation of the Federal Reserve banks and the determination of certain matters of policy, the boards of directors of the banks could be of greatest assistance in times of an emergency and in studying the problems which are certain to arise in the future particularly if the war in Europe should last as long as three years when the financial structure of the belligerent nations would be in danger

12/6/39

-5-

of complete collapse. Mr. Wood's statement was followed by a discussion of the responsibility of the Chairmen and Federal Reserve Agents and Mr. Brainard inquired as to the extent of the agents' responsibility in connection with the custody of collateral for outstanding Federal Reserve notes and of unissued Federal Reserve notes.

Chairman Eccles stated that when the Federal Reserve Agents were the full-time salaried representatives of the Board at the Federal Reserve banks they relied on Assistant Federal Reserve Agents very largely for the daily routine operations of the Agent's department, that the assistant agents are bonded, that the department is audited regularly by the Federal Reserve bank's auditors and examined annually by the examiners for the Board of Governors, and that, therefore, it is not expected that the Chairmen will devote any more time to the routine operations of the department than they deem necessary but that they will rely on the Assistant Federal Reserve Agents whom the Agents should be satisfied are competent employees.

In response to an inquiry from Mr. McKee whether the Chairmen could throw any light on the condition of the capital market, comments were made to the effect that there is no shortage of capital to produce all of the things that the people are able to pay for, that many concerns have very substantial amounts in the form of depreciation, obsolescence and depletion charges that are available for capital purposes, that concerns in satisfactory financial condition have no

12/6/39

-6-

trouble in getting additional capital, and that, with the exception of certain railroads, the demand for additional capital generally is on the part of concerns for which there is no adequate economic justification and the financial condition of which is not satisfactory.

Mr. Coffey said that the applications for industrial loans received at the Federal Reserve Bank of Minneapolis indicate that financially sound businesses are experiencing no difficulty in getting all the capital or credit needed to carry on their operations.

Mr. McCabe suggested that there be appointed a committee of Chairmen which would serve as an executive committee for the Chairmen of Federal Reserve banks to serve as a medium of contact with the Board and to make recommendations with respect to when the next meeting of the Chairmen should be held and with respect to the program for that meeting. It would be the duty of the Committee, Mr. McCabe said, to study the topics proposed for the program and make suggestions with respect to various phases of such topics so that a very constructive program could be arranged and effectively discussed at the next meeting. He added that the reason for this suggestion was that he felt that, if the System was to be continued as a genuine influence in the affairs of this country, the Chairmen have a number of problems facing them and it was essential that a representative group of Chairmen meet in an attempt to crystallize the essentials of these problems into a program for discussion at the next meeting. It would be expected, he said, that the committee would keep in touch with the

12/6/39

-7-

Chairmen and the Board of Governors and get their suggestions as to the topics and problems to be brought up for discussion.

This suggestion was agreed to unanimously and it was understood that the Chairmen would remain in session for the purpose of selecting such a committee.

Thereupon the members of the Board and its staff, with the exception of Mr. Carpenter who was requested to remain and serve as Secretary of the separate meeting, withdrew from the room.

Upon motion duly made and seconded, Mr. Coffey was appointed temporary Chairman of the meeting.

Mr. Nardin moved that an executive committee consisting of three Chairmen be appointed.

Mr. Nardin's motion was put by the chair and carried unanimously.

It was suggested that during the early period of the committee's activities it would be well to select Chairmen from the Federal Reserve banks on the eastern seaboard so that they would be close to Washington and readily available for discussion.

In accordance with this suggestion the names of Messrs. Curtiss, McCabe and Lassiter were placed in nomination as members of the executive committee.

Upon motion duly made and seconded, and by unanimous vote Messrs. Curtiss, McCabe and Lassiter were appointed members of the executive committee to serve until the adjournment of the next meeting of the Chairmen of Federal Reserve banks.

12/6/39

Mr. Coffey suggested that Mr. McCabe call the first meeting of the executive committee with the understanding that at that meeting the committee would select its own chairman.

Thereupon the meeting adjourned.

Chester Morril
Secretary.

Approved:

W. Steeles
Chairman.