

a personal reply

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January 3, 1949.

The Honorable William Langer
United States Senate
Washington, D. C.

Dear Senator Langer:

Your letter of December 28 inviting my views on the inadequacy of compensation in the higher brackets of Federal personnel is very much appreciated. I feel very strongly indeed that the legislation to which you refer is necessary and desirable. I know from both observation and experience that the inadequacy of Federal salaries, particularly in the upper brackets, has an increasingly deleterious effect upon morale and imposes a serious handicap upon efforts to replace those who leave Federal service to accept more remunerative employment.

It is now about nine months since I came to Washington to serve as Chairman of the Board of Governors of the Federal Reserve System. Earlier, on three separate occasions, I had taken leave from my industry to occupy official posts. I have had, consequently, ample opportunity to compare the advantages and disadvantages of top executive situations in the Federal Government with those offered by private industry. The great advantage that Washington offers is the satisfaction that comes from public service. Unfortunately, it is a satisfaction that many individuals of very high caliber cannot afford. The problem has become more and more acute because of the tremendous decrease in take-home pay and the purchasing power of money.

The Board of Governors is constantly confronted by this problem in maintaining its personnel in Washington and in passing upon the compensation of senior officers at the twelve Federal Reserve Banks. While we are not limited in these respects by statute to any fixed ceiling, it is necessary in practice to observe a reasonable relationship to the compensation allowed for positions in the public service in Washington where there are statutory ceilings. I recognize, of course, that the Federal Government cannot undertake to meet the competition of private banking business and industry with respect to salaries, but I also am convinced that the disparities should not be as great as they are under present day conditions. The result is that the Federal service is frequently deprived of the services of very able men who,

because they do not possess sufficient independent means, cannot afford to enter or remain in it. There have been a number of cases in and out of the Federal Reserve System in which a moderate rise in salary levels, such as that proposed by your Committee, would probably have prevented loss to the public service.

Quality of personnel selection in the Government service and in the Federal Reserve System is the most vital factor in the administration of public affairs. It was one of my ambitions when I came to Washington last April to give continuous emphasis to this phase of management. My efforts, however, have been severely handicapped by the salary limitations which are inherent in the situation. I feel deeply that this is a field in which Government has much to learn from our more progressive private industries. It should not be necessary to impose upon the best qualified individuals, before reaching a decision as to entering the public service, the question whether their personal financial situation is such that they can afford to accept an offer.

Our top staffs have been developed carefully over the years into an exceptionally competent group who are devoted to the Federal Reserve System, to which they have committed their careers, and many have remained in it because of their interest in its welfare. We, however, have encountered numerous difficulties in filling vacancies and in meeting increasing demands upon the services of our organization; and I am, therefore, most apprehensive as to the future. Incidentally, I may say that your Committee need have no feeling that the Federal budget is involved so far as the Federal Reserve System is concerned because it pays its own way without Federal appropriations.

In conclusion, I hope that what I have said has made clear my very strong feeling that the proposed legislation would be in the best interests of good Government.

Sincerely yours,

(Signed) Thomas B. McCabe

Thomas B. McCabe,
Chairman.

UNITED STATES SENATE

December 28, 1948

Hon. Thomas B. McCabe
Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C.

Dear Mr. McCabe:

Approximately a year ago, I appointed a subcommittee consisting of Senators Ralph E. Flanders, Raymond E. Baldwin and Herbert R. O'Connor to conduct a hearing and take testimony relative to the pay of personnel in the higher brackets. Last week they concluded these hearings and made recommendations for increasing the compensation of the Chairman and members of the Board of Governors of the Federal Reserve System.

Immediately after January 3, the subcommittee, of which I am an ex-officio member, will make their report to the full Committee on Post Office and Civil Service. If it is agreeable to you and not embarrassing in any manner, I should like to have a letter from you as to whether, in your opinion, this legislation is necessary or desirable. You will remember this bill was reported out favorably at the last session, but was defeated on the floor of the Senate by an amendment eliminating an increase in pay in the higher brackets.

I would particularly appreciate it if you would immediately advise me if you have lost good, efficient personnel because you are unable to pay salaries comparable with those paid in private industry.

With best personal regards, I am

Sincerely,

(Signed) Wm. Langer

Chairman
Post Office and
Civil Service Committee