

Mr. Eccles

C O P Y

Z-285

March 4, 1940

To: Board of Governors      Subject: Reasons Why Employees of the Board Should Not  
From: Mr. Vest              Be Placed in the Classified Civil Service.

In accordance with the action of the Board at its meeting on March 1, 1940, the attached memorandum has been prepared setting forth various reasons why the employees of the Board of Governors should not be placed in the classified civil service. This is intended for possible use by Chairman Eccles in any discussions that he might have with the President in case the bill H.R. 960 should be enacted into law.

In addition to the memorandum in question, which is rather brief, there is also attached a somewhat longer memorandum in more detail.

Respectfully,

(Signed) George B. Vest

George B. Vest,  
Assistant General Counsel.

Attachments.

REASONS WHY EMPLOYEES OF THE BOARD OF GOVERNORS OF THE FED-  
ERAL RESERVE SYSTEM SHOULD NOT BE COVERED INTO THE  
CLASSIFIED CIVIL SERVICE

The bill H.R. 960, if enacted, would authorize but not require the President to cover practically all Government employees, including those of the Board of Governors of the Federal Reserve System, into the classified civil service and to place them under the Classification Act of 1923, as amended. Such action with respect to the employees of the Board of Governors would be unnecessary and undesirable for the following reasons:

The salaries of the employees of the Board of Governors are not paid by the Treasury or from the proceeds of taxation by the Government but are derived from assessments on the Federal Reserve banks. The Government has never contributed anything to the capital or expenses of the Federal Reserve System.

The last annual report of the Civil Service Commission discloses that the Commission is far behind in "a number of its most important activities". In this situation, if the offices and positions of the Board of Governors were placed under the classified service and its restrictions as to employment, it is clear that the Board would be seriously handicapped in obtaining efficient and capable personnel. Also, the Board's expenses would probably be increased by the necessity for additional employees to handle personnel matters.

Placing the Board's employees in the classified civil service might result also in subjecting them to the provisions of the Civil Service Retirement Act, although they have been for a number of years members of the Federal Reserve retirement system. This would create additional expense for the Government because of the necessity for increased Government contributions to the civil service retirement system.

The personnel of the Federal Reserve System is not confined to the 440 employees of the Board of Governors but includes also the officers and employees of the 12 Federal Reserve banks and their 24 branches, numbering more than 11,300, who clearly could not be placed in the classified civil service without legislation.

With the Board's employees under the classified service, it would no longer be practicable for the Board to bring into its employment trained employees from the Federal Reserve banks.

Under the bill H.R. 960, if applied to the Board, no additional employees could be obtained by the Board from States (14 in number) whose civil service quotas are already filled nor could present

employees from any such States be promoted, until the quotas of all States are filled. Possibly, it might be necessary to discharge present employees from such States.

The whole history of Federal Reserve legislation since 1913 shows an intent on the part of Congress to place the entire responsibility for its personnel on the Board itself and likewise to place the entire cost of the Federal Reserve System on the Federal Reserve banks and none of it on the Government. In 1938, upon a suggestion by the President, the Board's employees were excluded from an order covering a number of Government positions into the classified service.

It is not necessary to place the Board's employees under the classified civil service, because employment in the Federal Reserve System has been on a merit basis since its organization in 1914. Even if it be considered desirable that employees of the Board of Governors should ultimately be placed under the civil service, it would seem inappropriate and undesirable to take such action until the Banking and Currency Committee of the Senate, which has been authorized to study the entire monetary and banking machinery of the Federal Government, has completed its study and rendered a report.

THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE  
SYSTEM AND THE CLASSIFIED CIVIL SERVICE

The bill H.R. 960, which has passed the House of Representatives and is now pending in the Senate, provides that "notwithstanding any provisions of law to the contrary" the President is authorized to cover any offices or positions of any agency of the Government (except of the W.P.A.) into the classified civil service and also is authorized to place such employees (with certain exceptions) under the Classification Act of 1923, as amended. Whether or not the President would undertake to exercise this authority with respect to employees of the Board of Governors of the Federal Reserve System is not known at this time. It may be assumed, however, that it is the desire of the Civil Service Commission to cover into the classified civil service all Government employees without exception so far as this is practicable.

The salaries of the employees of the Board of Governors are not paid by the Treasury or from the proceeds of taxation by the Government, but are derived from assessments on the Federal Reserve banks. Accordingly, no economy to the Government would result from placing the Board's employees either under the classified civil service or the Classification Act, and there seems to be no adequate reason for taking such action with respect to its employees.

The last annual report of the Civil Service Commission discloses the fact that the Commission is far behind with respect

to "a number of its most important activities". The report states that "as the Commission responds to emergency requests, it does so knowing that its normal operations will be seriously affected. \* \* \*

The Commission has been compelled to authorize thousands of temporary appointments pending the establishment of registers. Each time this is done it represents a waste of time, energy and money, \* \* \*. In many parts of the country the Commission's Investigations Division is approximately seven months behind in its work. \* \* \*

Reports from the Commission's field offices show that at the rate of current operations a total of 8,736 registers will be three years old or more during the fiscal year 1941." It is clear that with this situation confronting the Civil Service Commission the Board of Governors would be seriously handicapped in endeavoring to obtain efficient and capable personnel, when necessary. It is reasonable to assume that the result would be long delays in securing employees with the distinct possibility that when finally obtained they would not meet the desired standard.

The Senate has authorized its Banking and Currency Committee to study and recommend a national monetary and banking policy and to consider and recommend the character of governmental machinery best calculated to carry out such policy. Even if it be considered that the employees of the Board of Governors should ultimately be placed under the civil service, it would seem inappropriate to take such action while the entire monetary and banking machinery are



under specific study by Congress. It would seem that any action affecting the Board's employees should at least be postponed until this committee has had an opportunity to complete its investigation and render its report.

The personnel of the Federal Reserve System is not confined to the staff of the Board of Governors but includes also the officers and employees of the twelve Federal Reserve banks and their twenty-four branches. The maintenance of an effective career system in the Federal Reserve System is an important objective of the Board. There are only 440 employees of the Board of Governors; whereas there are more than 11,300 employees of the Federal Reserve banks, and it would be obviously undesirable as well as legally impossible, without an amendment to the law, to place the latter under civil service. There seems little reason for covering only a small fraction of the employees of the Federal Reserve System into the classified service.

A particularly unfortunate result of placing the employees of the Board in the classified service would be the fact that no longer would it be practicable for the Board to bring in to its own employment from the Federal Reserve banks employees already trained and experienced in Federal Reserve work. This has been found very desirable in some cases in the past.

If the employees of the Board of Governors should be placed in the classified civil service, it may and probably would

be actively contended that these employees are subject also to the provisions of the Civil Service Retirement Act. Employees of the Board have for a number of years been members of the Federal Reserve retirement system, have been contributing to it, and a number of them have already retired and are dependent on the benefits they are receiving under that system. If Board employees are compelled to go into the civil service retirement system, they must, as a practical matter, withdraw in some way from the Federal Reserve retirement system and pay to the civil service system 2-1/2 per cent of all compensation received from 1920 to 1926 and 3-1/2 per cent of all compensation since that date, with interest, in order to obtain a pension based on their total length of service. It would give rise to many other difficult problems. Moreover, placing the Board's employees in the civil service retirement system would probably create additional expense for the Government because of the necessity for increased Government contributions for retirement purposes.

If the bill H.R. 960 should pass and the President should apply it to the Board's employees, the Board would be unable to obtain any additional employees from States (14 in number) whose civil service quotas are already filled until the quotas of all States are filled, and also until such time would be unable to promote or transfer present employees from any of the States in question to other offices or positions. This would add greatly to the difficulties of obtaining and maintaining efficient personnel. It is even

possible that the law might be so interpreted as to make it necessary for present employees from the States in question to be separated from the service.

The whole history of Federal Reserve legislation since 1913 shows an intent on the part of Congress to place the entire responsibility for its personnel on the Board itself and likewise to place the entire cost of the Federal Reserve System on the Federal Reserve banks and none of it on the Government. This intent was reemphasized and strengthened by the Banking Acts of 1933 and 1935, which increased the importance of the Board in relation to the Federal Reserve banks and in the determination of monetary policies. In the Banking Act of 1933 Congress expressly provided that the employment, compensation, leave and expenses of the Board's employees should be governed solely by the provisions of the Federal Reserve Act and regulations of the Board and that the moneys expended by the Board were not Government funds or appropriated moneys.

In this connection it is significant that, upon a suggestion from the President, employees of the Board were excluded from the executive order of the President of June 24, 1938, which covered a number of Government positions into the classified service. It is also interesting in this connection that the United States Employees Compensation Commission has taken the position that the employees of the Board are not subject to the provisions of the Federal Employees Compensation Act.



If the Board's employees should be placed under the classified civil service, it is probable that it would be necessary for it to employ certain additional help to handle personnel matters. This, of course, would cause an increase in the expenses of the Board.

From the organization of the Federal Reserve System in 1914 to date, appointments and promotions on the Board's staff have been based on merit. The Board has developed a small, competent and highly specialized staff on a career basis, which can best be operated without the technicalities that necessarily accompany a civil service system designed to function for large, routinized organizations. To subject the Board to the restrictions of the civil service would not strengthen the Board's organization and would increase the Board's difficulty in obtaining and retaining the type of personnel which it needs.