

December 3, 1948.

Mr. Elmer B. Staats, Assistant Director,  
Legislative Reference,  
Bureau of the Budget,  
Washington 25, D. C.

Dear Mr. Staats:

This refers to your letter of November 23, 1948, to Chairman McCabe, requesting an expression of the Board's views with respect to a draft of bill "To increase the rate of compensation of heads and assistant heads of executive departments and of other officers".

The Board is in full agreement with the general objective of this measure. The Board feels however that the differentials in salary levels proposed in the bill would be distinctly prejudicial to the Federal Reserve System.

When the Federal Reserve System was established in 1913 as the Government agency charged with primary responsibility for national monetary and credit policies Congress specified, for the then-as-now full-time Reserve Board Members, salaries equal to those of Cabinet heads. Subsequently, though not concurrently, salaries of Cabinet officers and of Reserve Board members were increased to \$15,000, the levels at which all are at present.

The bill proposes to increase Cabinet officer salaries to \$20,000 and to place those of members of this Board in a \$16,500 category, while raising to \$18,000 Under Secretaries, the Comptroller General, the Budget Director, the Administrator of Veterans' Affairs, the Federal Security Administrator, the Chairman of the Atomic Energy Commission, the Housing and Home Finance Administrator, the Federal Works Administrator, and, at the discretion of the President, the National Security Council, the National Security Resources Board, the Council of Economic Advisers, and certain positions in the President's executive office. Such a classification would imply an opinion that the status and responsibilities of the Board of Governors of the Federal Reserve System have become relatively less than those of all the other officials mentioned. The Board does not perceive the reasons for thus substantially reversing the position taken by Congress with respect to the Board throughout its entire history.

If the responsibilities and public services rendered by the Federal Reserve System had diminished over the years the logic of such realignment of salary relationships would be understandable. The facts are however that the responsibilities and functions of the Board and of the nationwide System which the Board supervises have steadily and greatly enlarged not only during but particularly since the War, because of the phenomenal growth of the entire economy, the magnitude of the public debt and the problems of its management, and the critical position which central banking operations necessarily occupy in this tremendously expanded economic picture.

Accordingly, the Board feels that the proposed subordination of the System in salary status would be detrimental to the System's best interests and can not be justified in the light of the facts or of the objective. The maintenance of Board salaries at levels comparable with those existing throughout practically all of the Board's 35 years of existence would entail no charge on the Federal Budget.

Very truly yours,

S. R. Carpenter,  
Secretary.

ET:msa