

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

December 7, 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. It 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 governmental 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.

It has been recognized from the beginning of the System that the salaries of members of the Board could not be as high as those of the top executive officers of the Federal Reserve Banks notwithstanding the fact that the responsibilities of the Board include general supervision of the Reserve Banks. The reason for this relationship has been that the salaries of the senior officers of the Reserve Banks (the salaries of the Presidents of the Banks range from \$25,000 to \$50,000 per annum) are determined not only on the basis of the public character of the Banks but also of the higher salaries paid in large private banks in the respective cities in which the Reserve Banks are located. However, Congress has always followed a policy of providing salaries for members of the Board at the top of the salary scale for the departments and agencies of the Government.

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

Mr. Elmer B. Staats - 2

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. It could not do otherwise than to affect adversely the relationships of the Board not only in Washington but also with the Federal Reserve Banks and the commercial banking system of the country. 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 the realignment of salary relationships proposed in the bill would be understandable. The fact is that the powers and responsibilities of the Board and of the nation-wide system which the Board supervises have steadily and greatly enlarged not only in the absolute sense, but relative to many other Federal agencies. During, and particularly since the war, the rapid growth in the nation's banking structure, the magnitude of the public debt, and the problem of its management, have made central banking operations of critical importance under current and prospective economic conditions in this country.

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,

(Signed) S. R. Carpenter,

S. R. Carpenter,
Secretary.