

Governor Eades

C O P Y

February 20, 1950

Members of the Board

Mr. Vardaman

On several occasions during the past three years the question of alternating Class C directors to the position of Chairman has arisen quite informally. Some weeks ago I asked Mr. Morrill and Mr. Carpenter to give me a memorandum on this subject, and Mr. Carpenter has handed me the attached dated February 8, in which he outlines some of the advantages and disadvantages of the alternating procedure.

In view of the apparent preponderance of disadvantages, the question can be dropped, so far as I am concerned, and I am handing you the memorandum for your general information.

cc - Mr. Morrill
Mr. Thurston
Mr. Carpenter

C O P Y

February 8, 1950

To: Mr. Vardaman

From: Mr. Carpenter

In response to your request, I have conferred with Messrs. Morrill and Thurston on the desirability of a system of annual rotation of the chairmanship of a Federal Reserve Bank among the three Class C Directors and, after balancing the advantages and disadvantages of such an arrangement as set forth below, we have come to the conclusion that the present procedure is the more desirable.

ADVANTAGES

1. Would require the Board to exercise greater care in the selection of Class C Directors because all three, rather than one, would be called upon to serve as Chairman.
2. Would give all Class C Directors closer contact with the Board and Chairmen of other Federal Reserve Banks and increase their interest in System problems.
3. Would bring all Class C Directors into closer contact with officers and operations of the Federal Reserve Banks.
4. Would prevent too great a crystallization of policies and procedure as it would enable a new Chairman more readily to propose new ideas.
5. Would make it clear that a particular individual would not be expected to serve as Chairman throughout the 3-year period of his appointment as Class C Director.
6. Would make service as Class C Director more attractive because of the prospect of serving as Chairman of the Federal Reserve Bank.

DISADVANTAGES

1. Would accentuate some of the existing problems in connection with the appointment of Chairmen. It has been the general preference of the Board to select a Chairman whose place of business was in or near the head office city, in order that he might be more readily available for consultation by the officers as well as to enable him more conveniently to attend meetings of the executive committee in addition to those of the board. This policy would be more difficult to carry out under a system of

rotation because it is preferable that the three Class C Directors come from various parts of the district.

2. It would deprive the Board of the advantage it now has of designating the particular individual among the three Class C Directors who seems best qualified to serve as Chairman, and might operate to pass the Chairmanship in some years to men who would be less suitable for that purpose than the incumbent.

3. Although the Board has used its best efforts to obtain the best qualified men for all three Class C directorships, it has been found necessary frequently to seek someone outside the group to fill the Chairmanship when a vacancy occurs or a successor is desired for any other reason.

4. The Chairman serves also as Federal Reserve Agent and if the position were rotated each year there would be the difficulty of more frequent transfers of responsibility to new Chairmen for Federal Reserve note issues and other statutory functions.

5. The Chairmanship would change so frequently that it would reduce the effectiveness of the incumbent and his opportunity to carry out policies which take some time to develop, especially in view of the fact that the Class C Directors are a minority of the board. Disadvantages would be reduced to some extent if rotation were on a 3-year rather than an annual basis.

6. It is often the case that designation as Chairman is a decisive factor in persuading outstanding men to accept appointment as Class C Director. It would increase materially the difficulty of obtaining his acceptance if it were understood that he could serve as Chairman for only one year in the three years of his term. It is also probable that in some cases the Chairman would resign rather than stay on merely as a Class C Director.

7. No matter how desirable in principle a system of rotation might seem to be at first, experience with other self-imposed rules has shown that the Board would not consider itself bound and that it would make exceptions because of personalities or other reasons of expediency.