

FEDERAL RESERVE BOARD

WASHINGTON

November 1, 1921.

X-3237

SUBJECT: Reply of Federal Reserve Board to Senate Resolution 153

Dear Sir:

There is enclosed herewith, for your information, copy of letter addressed by the Federal Reserve Board, under date of October 31, 1921, to the President of the Senate, in response to Senate Resolution 153, directing the Board to furnish the Senate with information regarding the alleged waste of money in increase of salaries of officers and employees and in the erection of buildings, and the general expenses of the Federal Reserve Banks.

Very truly yours,

W. P. G. HARDING,

(Enclosure)

G o v e r n o r

TO GOVERNORS AND AGENTS OF ALL F.R.BANKS.

C O P Y

October 31, 1921.

SUBJECT: Response to S. Res. 153.

Sir:

On October 18, 1921 the Federal Reserve Board received from the Secretary of the Senate a resolution of the Senate (S. Res.153), dated October 14, 1921, reading as follows:

"Whereas, it is charged in the public press of the country and upon the floor of the Senate that the Federal Reserve Board has been guilty of an amazing waste of public money in increase of salaries to officers and employees of the New York Federal Reserve Bank; and

"Whereas, since 1918 in the New York branch alone they have increased the number of officers and employees 279, or about 10 per cent, while they have increased the salaries about 50 per cent, paying its officers and employees all the way from \$10,000.00, \$12,000.00, \$25,000.00, \$30,000.00 and one as high as \$50,000.00, and that prior to 1918 sixty per cent of these officers never received over \$1500.00 to \$2500.00, but are now drawing salaries as high as \$10,000.00; and

"Whereas, the official reports of the Federal Reserve Board show that in the calendar year of 1920 the Federal Reserve Bank of New York's payroll amounted to \$4,639,273, and for the calendar year 1918 the payroll was \$3,104,830, showing an actual increase in payroll since the close of the war of \$1,534,443.00; and

"Whereas, it is charged that the Governor of the Federal Reserve Board has stated that the employees of the Federal Reserve Banks are not paid by the Government nor paid out of revenue derived from taxation, but are private business men and in the banking business to make money; and

"Whereas, under the provisions of Section 7 of the Federal Reserve Act a large per cent of the net receipts made and saved by the Federal Board shall be paid into the Federal Treasury, and if the allegations herein made are true the Treasury of the United States has been deprived of a vast sum of money; Therefore be it

"Resolved, That the Federal Reserve Board, as early as practicable, be, and it is hereby, directed to furnish to the Senate the number of employees, together with their respective salaries, employed by the Federal Reserve Bank in New York, as well as in the other Federal Reserve Banks in the country, and the expenditures made by each branch bank in the erection

"of public buildings and the general expenses in the administration of each Federal Reserve Bank, and how much of the net earnings have been paid to the United States as a franchise tax."

The Board begs leave to call attention to a clause in Section 10 of the Federal Reserve Act, which reads - "The Federal Reserve Board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress".

In compliance with the law the Federal Reserve Board has submitted reports for the years 1914 to 1920, both inclusive. These reports have described in detail and at great length the operations of the Federal Reserve Banks, and there have been transmitted with them exhibits showing the salaries paid by the several Federal Reserve Banks to officers and employees, except that the report for 1914 shows the salaries paid senior officers only. In that report (page 190) the Board stated that while it had in a few cases approved the salaries fixed by banks for officers other than the Governor, as the banks in several districts had not yet completed their organizations, it was "not deemed advisable to give, at this time, a list, which would necessarily be incomplete of the salaries paid to the subordinate officials of all the banks".

In the report for the year 1915 a detailed list of the salaries of all officers and employees, names omitted, is given for each of the Federal Reserve Banks as Exhibit J on pages 97 to 99. In the report for the year 1916 this information appears as Exhibit N on pages 182 to 184. In the report for 1917 it appears as Exhibit N on pages 194 to 196. It appears in the report for 1918 as Exhibit N on pages 244 to 246. In the text of the report for that year (page 29) attention was called to the great expansion of the business of the Federal Reserve Banks with the consequent necessity of making large additions to their working forces. The number of officers and employees in all departments at each of the Federal Reserve Banks at the close of the year was summarized on the same page. In the report for the year 1919 a statement of personnel and salaries at all Federal Reserve Banks appeared as Exhibit M on pages 274 to 277. In the text of that report, on page 34, a table was given showing the number of officers and employees at each Federal Reserve Bank at the close of the year 1919 as compared with the number at the end of the previous year, and attention was called also to the average salary paid of officers and employees by each Federal Reserve Bank (page 35). The report for the year 1920 shows the salaries of officers and employees of the Federal Reserve Banks, as of December 31, 1920, on pages 272 to 274. These tables have, in each instance, since the establishment of branches of Federal Reserve Banks, included the salaries paid at the branches.

In its annual report for the year 1918 (pages 30-31), the Board called attention to the fact that the great increase in volume of business had rendered it necessary for all Federal Reserve Banks to arrange for the acquisition of permanent quarters and gave in detail the expenditures that had been made by several of the banks for building sites and the erection of buildings. Similar information was given in the report for 1919 (pages 37-38) and in the report for 1920 (pages 93-96). In addition to this the sum total of these investments, as carried on the books of all Federal Reserve Banks, covering both their head

offices and their branches, appears in the statement which the Federal Reserve Board publishes each week for the twelve Federal Reserve Banks combined. This item appears also each week in the separate statements published by each Federal Reserve Bank.

AUTHORITY OF DIRECTORS OF FEDERAL RESERVE BANKS AND
SUPERVISORY POWERS OF FEDERAL RESERVE BOARD.

Inasmuch as the Resolution of the Senate refers to the "New York Branch" and to "the expenditures made by each branch bank in the erection of public buildings", the Board respectfully submits a brief statement regarding the character of the Federal Reserve Banks. In doing so the Board disclaims any intention of seeking to evade responsibility in the matters referred to in the Resolution of the Senate, but merely desires to avoid any possible grounds for misunderstanding the nature of its responsibility.

The Federal Reserve Act did not establish a central bank. On the contrary, it made possible the establishment of as many as twelve Federal Reserve Banks, each almost wholly independent of the others in operation, as well as in local policies. From a legal standpoint these banks are private corporations, organized under a special act of Congress, namely, the Federal Reserve Act. They are not in a strict sense of the word Government banks, but are only quasi-Governmental institutions, in that they are under the general supervision of the Federal Reserve Board and have on their boards of directors three men, representing the Government, who are appointed by the Federal Reserve Board.

Each bank has nine directors and the other six are chosen by the member banks, which are the sole stockholders of the Federal Reserve Bank. Section 4 of the Federal Reserve Act provides that each Federal Reserve Bank, after receiving its charter from the Comptroller of the Currency "shall become a body corporate and as such ** shall have power*

"First. To adopt and use a corporate seal.

"Second. To have succession for a period of twenty years from its organization unless it is sooner dissolved by an Act of Congress, or unless its franchise becomes forfeited by some violation of law.

"Third. To make contracts.

"Fourth. To sue and be sued, complain and defend, in any court of law or equity.

"Fifth. To appoint by its board of directors such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

"Sixth. To prescribe by its board of directors, by-laws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

"Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this Act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act."

Section 4 further provides that "Every Federal Reserve Bank shall be conducted under the supervision and control of a board of directors. The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law". It is also provided in Section 4 that "Any compensation that may be provided by boards of directors of Federal Reserve Banks for directors, officers or employees shall be subject to the approval of the Federal Reserve Board."

Section 11 of the Federal Reserve Act authorizes and empowers the Federal Reserve Board

"(f) To suspend or remove any officer or director of any Federal Reserve Bank, the cause of such removal to be forthwith communicated in writing by the Federal Reserve Board to the removed officer or director and to said Bank.

"(g) To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal Reserve Banks.

"(h) To suspend, for the violation of any of the provisions of this Act, the operations of any Federal Reserve Bank, to take possession thereof, administer the same during the period of suspension, and, when deemed advisable, to liquidate or reorganize such bank.

"(j) To exercise general supervision over said Federal Reserve Banks."

Section 21 of the Federal Reserve Act prescribes that "The Federal Reserve Board shall, at least once each year, order an examination of each Federal Reserve Bank, and upon joint application of ten member banks the Federal Reserve Board shall order a special examination and report of the condition of any Federal Reserve Bank."

Other sections of the Act empower the Federal Reserve Board to prescribe rules and regulations governing various transactions which may be engaged in by Federal Reserve Banks, but the foregoing quotations embody all the authority which has been given the Board over the routine business and the administration of the Banks. The Board is not empowered to select the officers and employees of the Federal Reserve Banks, for it can appoint only the Federal Reserve Agent and his assistants, nor does it initiate the salaries paid the officers and employees of the Federal Reserve Banks. These are matters which come within the scope of the authority delegated to the directors of the Federal Reserve Banks in Section 4 of the Act.

The law makes it clear that in approving compensation proposed by the directors, the Board must necessarily be governed in large measure by their representations. The directors are immediately responsible for the administration of the Bank and are familiar with the requirements for its efficient operation, with the qualifications of the officers and employees, with local conditions, such as cost of living, competition for services by member and other banks of the community, and the fair value of the services rendered. The duty of the directors as to the management of a Federal Reserve Bank is quite analogous to that of directors of national banks with respect to those institutions. The Federal Reserve Board has not approved in a perfunctory way salaries proposed by Federal

Reserve Bank directors, but has always called for full information before taking action. In some cases it has withheld approval pending the personal presentation of the matter by a committee of the directors and in other instances it has declined to approve compensation proposed. But the Board has taken the position generally that as the directors are primarily responsible for the operation of the banks, great weight must be given to their representations. There is appended, as Exhibit A, a list of the directors of all Federal Reserve Banks and branches.

FEDERAL RESERVE BANK BUILDINGS.

The buildings owned by the Federal Reserve Banks, or which are now in course of construction, are not, in the view of the Board, "public buildings". They constitute a part of the invested assets of the respective banks, the funds for their acquisition or construction were not provided by a Congressional appropriation, the title is vested in the Federal Reserve Bank and not in the United States, and they are subject to state and local taxation. ("Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom shall be exempt from Federal, State and local taxation, except taxes upon real estate". Sec. 7)

At the instance of the Federal Reserve Board a bill was introduced during the third session of the 65th Congress to amend Section 7 of the Federal Reserve Act by permitting Federal Reserve Banks to create a maximum surplus out of earnings equal to 100% of their paid-in capital, instead of 40% as originally provided. When the Committees on Banking and Currency of the Senate and House of Representatives were considering this bill early in the year 1919, the Governor of the Federal Reserve Board called the attention of the Committees to the fact that all Federal Reserve Banks would be obliged to acquire or construct their own buildings as it was not practicable to lease adequate quarters and otherwise provide suitable vaults for the custody of the large amounts of cash and securities held by the banks. Especial attention was called to the large expenditures which would have to be made in providing buildings and one argument made in favor of the bill was that the banks should be permitted to increase their surplus in order to reduce the proportion to the banks' capital account of the fixed assets represented by the buildings. The Committees were so impressed with this argument that the bill as reported, which became the Act of March 3, 1919, amending Section 7, went beyond the Board's recommendations and provided that Federal Reserve Banks might create a surplus out of earnings equal to 100% of their subscribed capital, plus 10% of the net earnings annually, after such a surplus had been created.

There does not appear to be any specific requirement anywhere in the Federal Reserve Act that the Board should approve the expenditures made by the Federal Reserve Banks in their building operations, but under its power of general supervision the Board informed the banks that they would be required to submit for the consideration of the Board all options for the purchase of real estate, all plans and specifications for buildings and vaults, and that they should not enter into any contracts involving expenditures for these purposes until authorized to do so by the Board.

In order that the Board might be in position more intelligently to pass

upon these various matters, it decided to employ a consulting architect who should devote his entire time to Federal Reserve Building projects. In the interest of economy it was determined to engage as consultant the same architect who had already been employed in a similar capacity by the Federal Reserve Bank of New York. Mr. Alexander B. Trowbridge, of the firm of Livingston and Trowbridge, Architects, of New York City, was induced to sever his connection with his firm and to enter into the employ of the Federal Reserve Board as Consulting Architect, at an annual salary of \$6,666.66, which has not been increased. This is one-third of his total salary of \$20,000, the other two-thirds being paid by the Federal Reserve Bank of New York.

He began his work in April 1919. At that time only one Federal Reserve bank building - that at Atlanta - had been completed (page 38 annual report for 1919); and the working plans and specifications for the Richmond and Dallas buildings were finished. Since then, the Consulting Architect has appeared as consultant in connection with the projects for New York, Boston, Chicago, Kansas City, Cleveland, San Francisco, Minneapolis and St. Louis, and with the new vault at Philadelphia, the bank there being the only one which is housed in a purchased building. He has also been consulted in connection with the additions to the Atlanta bank, the Annex buildings in Richmond and New York, and with branch banks in Buffalo, New Orleans, El Paso, Houston, Louisville, Nashville and Oklahoma City.

As Consulting Architect he has

- (1) Discussed with bank officers the property under consideration for purchase, and advised as to its advantages and disadvantages.
- (2) Advised bank officers in the matter of selecting an architect.
- (3) Consulted with the banks and their architects as to the size, design and planning of the proposed buildings, during the preliminary stages.
- (4) When working drawings and specifications were completed, examined them for the purpose of detecting and having eliminated any wasteful or extravagant features.
- (5) Advised the banks and their architects as to the best methods of vault construction, so as to obtain the maximum amount of protection for the money expended.
- (6) Consulted with and advised the banks in connection with the selection of contractors.
- (7) Assisted the banks in drawing up contracts, both by preparing contracts and by studying and analyzing contracts prepared by others for the signatures of the banks.
- (8) Acted as arbiter in case of disputes where contractors claimed extras which the banks did not consider justified.
- (9) Advised as to the necessity for changes, additions and omissions during the course of construction of the buildings.
- (10) Reported to the Federal Reserve Board from time to time, in connection with the above activities.

There has been no attempt to exercise centralized control. The services have been advisory and not mandatory in character. It has been possible through a tactful presentation, to apprise the bank officers and their architects

of the wishes of the Federal Reserve Board to keep designs simple and to avoid the use of meaningless ornament and costly material. Good material simply designed and detailed has been recommended. The underlying purpose of the Board in the employment of a Consulting Architect has been to secure well constructed, serviceable buildings of dignified aspect but without any display of costly finish which is unnecessary and in questionable taste.

The Board has recognized the necessity of adequate provision for future growth and can cite numerous instances in growing cities where great expense has been incurred because of short-sightedness in omitting preparation of this kind. The office of the Consulting Architect has at all times been open to Bank officers and their architects. A great many conferences of importance have taken place there and the Consulting Architect has personally visited a number of the Banks and has conferred with Building Committees in their own cities.

All of this has been done at a very small expense to the Federal Reserve System. The Consulting Architect has given up his private practice and has devoted all of his time to the work of the Board. His staff consists of one assistant, his secretary and stenographer, with occasional help from a draughtsman who is in the employ of the Federal Reserve Bank of New York. It is estimated that the total sum paid in salaries to the Consulting Architect and his staff during the two and one-half years he has been in the Board's service amounts to one-twentieth of one per cent of the approximate amount of all sums set apart for Federal Reserve Bank buildings during that period.

There are attached hereto (Exhibit B) tables relating to the real estate purchased by the Federal Reserve Banks and the building operations which have been engaged in. These tables show for each Federal Reserve Bank the original investment in property purchased, the amount expended in remodeling and in the construction of new buildings, the amounts charged off on account of depreciation and amortization and the book value of bank premises accounts as of September 30, 1921. Explanatory data have also been added showing the dates on which real estate was purchased by each Federal Reserve Bank, the number of square feet of ground purchased, amounts paid therefor, the cost of building operations to date, and the estimated cost to complete buildings in course of construction. It will be noted from these tables that the total amount expended for banking houses by all Federal Reserve Banks and Branches to the end of September, 1921 was \$36,158,000, or about 60% of the amount of franchise taxes paid to the Government at the end of 1920 and about the same proportion of the amount which it is estimated will be paid to the Government at the end of the year 1921.

It should be borne in mind, however, in considering building operations that the Federal Reserve Banks in acquiring building sites and constructing bank buildings are making capital expenditures and consequently these operations do not diminish in any way the amount of franchise taxes payable to the United States Government. The amount of the franchise tax is adversely affected only to the extent that the Federal Reserve Banks are authorized to charge depreciation and amortization allowances on their bank premises to current net earnings.

As the Federal Reserve Bank of New York has engaged in the largest and most expensive of all the building projects, and as it has been made the subject of especial criticism, the Board submits herewith (Exhibit C) copy of a statement which has already been submitted by the Governor of that bank to the Joint Commission of Agricultural Inquiry of Congress. This statement sets forth in minute detail all facts regarding the acquisition of the real estate, employment of architects, preparation of plans and specifications, letting of contracts, and scope of the building. There are appended also tables showing the large volume of routine operations of the bank, which call for the employment of a large force of employees, whose number in turn renders a large building necessary.

The Board wishes to add that like care has been taken in the preparation of plans and specifications for all other Federal Reserve Bank buildings, but elaborate statements giving details of all Federal Reserve Bank buildings are not included in this response to the Senate because of the added length such statements would give to this communication.

SALARY POLICY OF FEDERAL RESERVE BANKS.

There have been prepared for use in this communication certain tables which appear as Exhibit D. These tables show the number of officers and employees of all Federal Reserve Banks, with officers' salaries in detail and employees' salaries in the aggregate, and, in addition, the general expenses in the administration of each Federal Reserve Bank. They also give for purposes of comparison, data as to the increase in the routine operations of the banks. In connection with these tables, the Board begs to remark that the officers of Federal Reserve Banks are not officers of the United States Government or of any of its departments. Each Federal Reserve Bank is now the largest banking institution in its district and the conduct of the business of a Federal Reserve Bank which has transactions many times greater than those of the largest of its member banks, with great responsibilities to the member banks, to the public, and to the Treasury of the United States, requires the services in executive and other capacities of trained and competent officials, who will devote all of their time to the work of the bank, not only in the ordinary routine but in the study of a great variety of technical subjects. It is essential that the services be obtained of men who can be relied upon to measure up to their duties and responsibilities.

The officers and employees of Federal Reserve Banks are not permitted to engage in any other business, to take part in political activities nor to hold public office. Their service in the Federal Reserve Bank is not a stepping-stone to a political career nor does it afford means of outside financial profit. The directors of Federal Reserve Banks have repeatedly pointed out to the Board that it would be impossible to secure the services of competent and efficient officials for the Federal Reserve Banks were their salaries to be measured by the salaries paid to the political officers of the Government.

With few exceptions, all officers and employees of the Federal Reserve Banks are dependent upon their salaries for livelihood. During the year 1919 the rate of compensation at Federal Reserve Banks was generally advanced, both as to officers and employees. This was due to greater competition for services, increased cost of living and to a very great increase in the volume of transactions. In its annual report for 1918 (page 29) the Board discussed

the necessity, particularly with respect to junior officers and employees, of paying salaries approximating the salaries paid by the large member banks in the cities where the Federal Reserve Banks are located. Experience has shown that many of the larger member banks are disposed to draw upon the Federal Reserve Banks for men to fill high official positions. During the past six years five Governors of Federal Reserve Banks have resigned in order to accept executive positions with other banking institutions at much higher salaries than they were receiving at the Federal Reserve Banks and the same is true with respect to a considerable number of Deputy Governors and junior officers. In order to retain the services of officers who are constantly being tempted with outside offers at high salaries, it has become necessary to recognize this competition, and while the Board has in no case approved salaries for senior officers of Federal Reserve Banks as high as those paid officers of similar rank by the larger member banks in the principal cities of the country, it has recognized from the outset that the salaries paid junior officers, heads of departments and clerks must be in line with those paid by the larger member banks in the various Federal Reserve cities. If, in order to reduce expenses, the policy should be adopted of making the Federal Reserve Banks mere training schools for bank officers, it does not seem possible, because of the frequent changes involved, that the banks would have the degree of efficiency in administration and smoothness of operation which they would have if the compensation paid be sufficiently liberal to retain the services of trained and capable men.

The Board does not for a moment believe that the directors of any Federal Reserve Bank, in fixing salaries or in authorizing expenditures in developing the business, have been actuated by the slightest desire to deprive the Government of the revenue which it is entitled to receive under the terms of Section 7 of the Federal Reserve Act, and most assuredly the Federal Reserve Board would not be a party to any such undertaking.

In this connection the Board invites attention to the views of a former Secretary of the Treasury, and ex-officio chairman of the Federal Reserve Board, Hon. W. G. McAdoo. At a meeting of the Federal Reserve Board on December 14, 1913, he advocated approval of a salary of \$50,000 per annum which the directors of the Federal Reserve Bank of New York had voted for the Governor of that institution and stated that his attitude had been that during the formative period of the Federal Reserve System comparatively low salaries should be paid until the business of the banks could be established and a fair measure obtained of their operations and a more accurate realization reached of the dimensions of the problems and responsibilities of the banks' officers, stating that previously he had opposed an increase in the salary under consideration only because the country was at war. He said, now that the business of the banks had been well established and they were making large earnings for the Government, the time had come when the office of Governor of a Federal Reserve Bank should command on its merits a fair and just compensation, and that he would vote to fix the salary of the Governor of the Federal Reserve Bank of New York at the amount proposed by the directors of the bank, to wit, \$50,000 per annum. He stated it as his view that the principle governing the fixing of salaries of officers of Federal Reserve Banks should be that the salary be made sufficiently attractive to make a man willing to adopt the Federal Reserve System as a

permanent career, having its rewards in the way of promotion like any other institution. He opposed the view that the office of head of a Federal Reserve Bank should be considered on a parity with high Government office, stating that heads of Federal Reserve Banks could not be said to enjoy that magnitude of power and prestige pertaining to high Government office, while the bank officers were yet placed in a different position from those engaged in private institutions in that they were affected by the mutations of public life and controlled by a changing public Board.

There is transmitted herewith as Exhibit E, copy of a letter, dated October 11, 1921, touching upon the subject of salaries, which was addressed by the Governor of the Federal Reserve Board to the Chairman of the Joint Commission of Agricultural Inquiry of the United States Congress.

Since the close of the year 1918, three other distinguished men have filled the office of Secretary of the Treasury. In view of their votes and expressed opinions on questions relating to the salaries paid officers of Federal Reserve Banks the Board has no reason to believe that they take the view that there has been "an amazing waste of public money" in the increase of salaries to officers and employees of Federal Reserve Banks or that by reason of such increase "the Treasury of the United States has been deprived of a vast sum of money."

It will be noted from the tables above referred to (Exhibit D) that the salaries of the Presidents of the larger banks in New York City are in several cases from 75% to 100% in excess of the salary paid the Governor of the Federal Reserve Bank and that in the case of three of these banks there is a Vice President whose salary exceeds that of the Governor of the Federal Reserve Bank of New York. It is proper to state that while the senior officers of the Federal Reserve Bank have never received any extra compensation or bonuses, very substantial bonuses have been paid to the higher officers by some of the national banks in various parts of the country. For example, the examination report for 1920 of Bank "A" of New York City shows that the Chairman of the Board received a bonus of \$35,000, the President a bonus of \$30,000, one of the Vice Presidents a bonus of \$25,000, and other officers received smaller amounts in proportion to salaries paid, while all the senior officers of Bank "F" received a bonus equal to 25% of their annual salaries.

The salaries paid Vice Presidents of the larger national banks and trust companies in New York City are much in excess of those paid to the Deputy Governors and Controllers of the Federal Reserve Bank of New York, the highest salary paid to a Deputy Governor of the Federal Reserve Bank of New York being \$30,000, while the salaries of Vice Presidents of the six New York City banks listed in Exhibit D range from \$30,000 to \$75,000 per annum.

If the average annual salaries paid are considered, it will be found that the Federal Reserve Bank of New York, with 40 officers and with a total official payroll as of October 1, 1921 of \$509,800 per annum, paid its officers an average annual salary of \$12,745, while the average annual salary paid to officers of the six National banks listed in Exhibit D, some with a larger and others with a smaller number of officers than the Federal Reserve Bank, ranged from \$11,466 to \$28,792, the average annual salary paid by Bank "E" being

considerably more than twice that paid by the Federal Reserve Bank of New York. While the average annual salary paid by Bank "A" appears as \$11,466, or slightly less than that paid by the Federal Reserve Bank, it will be found, as above stated, that the Chairman of the Board of that bank received a bonus of \$35,000, bringing his total compensation for the year up to \$100,000; the President, a bonus of \$30,000; and Vice President, a bonus of \$25,000; and other officers smaller amounts in proportion to their salaries. If bonus payments were included in arriving at average annual salaries, the average salary paid by Bank "A" would be materially in excess of that paid by the Federal Reserve Bank of New York.

As will be seen from the tables included in Exhibit D, extra compensation or bonus payments made by the Federal Reserve Banks have in most cases been limited to officers and employees receiving \$5,000 per annum or less. In a few cases bonuses have been paid to officers receiving somewhat higher salaries, but in only two instances have bonuses been paid to officers receiving more than \$7,500 per annum. It is proper to state that the bonuses which have been paid to junior officers and employees have been approved by the Board upon representations from the respective boards of directors of Federal Reserve Banks that their object in recommending the bonuses was to enable the recipients to meet abnormal costs of living, without making specific increases in salary. Bonuses have been paid with the understanding that such policy was temporary only and that the payment of bonuses would eventually be discontinued. During the present year they have all been materially reduced and in some cases abolished entirely.

The following table brings out clearly the difference in the average salaries, exclusive of bonuses, paid by the Federal Reserve Banks and by the larger member banks in the Federal Reserve Bank cities:

Average Annual Salaries Paid to Officers by Each Federal Reserve Bank and by Three of the Larger Member Banks in Each Federal Reserve Bank City as of October, 1921.

| (Bonus excluded) | | |
|---------------------------|-----------|-------------|
| Federal Reserve District: | F.R. Bank | Member Bank |
| Boston | \$ 9,679 | \$14,745 |
| New York | 12,745 | 17,331* |
| Philadelphia | 10,125 | 15,733 |
| Cleveland | 7,792 | 10,061 |
| Richmond | 6,696 | 6,473 |
| Atlanta | 5,677 | 7,828 |
| Chicago | 7,934 | 15,440 |
| St. Louis | 7,078 | 11,675 |
| Minneapolis | 6,478 | 10,821 |
| Kansas City | 6,147 | 10,313 |
| Dallas | 5,512 | 8,767 |
| San Francisco | 6,459 | 11,409 |
| System - | 7,743 | 13,092 |

(*) Six National Banks.

It will be seen from this table that the average salary of officers in all Federal Reserve Banks is \$7,743, while the average salary paid by the larger member banks in Federal Reserve Bank cities is \$13,092, or 69 per cent. in excess of that paid by the Federal Reserve Banks.

With reference to the statement frequently made that salaries paid by the Federal Reserve Bank of New York increased 50 per cent between the years 1918 and 1920, while at the same time the number of officers and employees increased only 10 per cent, the Board would state that during this period the total salaries of officers and employees increased by \$1,534,443, of which amount \$1,336,443 represented the increase in salaries paid to employees and only \$198,000 the increase in salaries paid to officers. In explanation of the higher aggregate salaries paid to employees of the Federal Reserve Bank of New York, which increased 47 percent during the two years as compared with an increase in number of only 10 per cent, there is given below a table showing the average annual salary paid to employees by that bank, as of the last day of December of each year from 1915 to 1920, both inclusive, and as of July 1, 1921, as well as by each other Federal Reserve Bank.

AVERAGE SALARIES PAID TO EMPLOYEES OF EACH FEDERAL RESERVE BANK
(including branches)

(Bonus excluded)

| BANK | D e c e m b e r 3 1 | | | | | | July 1 |
|---------------|---------------------|--------|---------|---------|---------|---------|---------|
| | 1915 | 1916 | 1917 | 1918 | 1919 | 1920 | 1921 |
| Boston | \$1,086 | \$ 985 | \$ 991 | \$ 929 | \$1,184 | \$1,271 | \$1,401 |
| New York | 1,152 | 934 | 1,003 | 1,095 | 1,206 | 1,456 | 1,471 |
| Philadelphia | 1,000 | 838 | 796 | 983 | 1,133 | 1,258 | 1,266 |
| Cleveland | 1,242 | 885 | 1,020 | 1,183 | 1,206 | 1,360 | 1,383 |
| Richmond | 1,044 | 691 | 794 | 996 | 1,030 | 1,190 | 1,233 |
| Atlanta | 1,005 | 869 | 1,053 | 998 | 1,054 | 1,149 | 1,281 |
| Chicago | 1,142 | 949 | 1,120 | 1,094 | 1,115 | 1,310 | 1,408 |
| St. Louis | 1,068 | 986 | 953 | 1,028 | 1,051 | 1,214 | 1,326 |
| Minneapolis | 1,289 | 881 | 942 | 646 | 1,091 | 1,262 | 1,288 |
| Kansas City | 936 | 961 | 1,063 | 1,024 | 1,194 | 1,209 | 1,442 |
| Dallas | 1,382 | 1,017 | 919 | 1,110 | 1,168 | 1,270 | 1,447 |
| San Francisco | 1,496 | 925 | 1,144 | 1,227 | 1,268 | 1,366 | 1,521 |
| SYSTEM - | \$1,128 | \$ 912 | \$1,004 | \$1,062 | \$1,163 | \$1,319 | \$1,402 |

It will be observed that the average salary paid to employees by the Federal Reserve Banks was very low in 1913, being practically on a level with salaries paid bank employees prior to the War, when prices were about one-half of what they were in 1919 and 1920 when the increase in the average salary paid to employees took place.

An investigation made by the Federal Reserve Bank of New York in 1919 showed that the average annual salary, including bonus, paid to employees by the bank was \$1,440, while the average annual salary, including bonus, paid to

employees by ten of the large New York City banks ranged from \$1,620 to \$2,265. In fact, it was found that in six of the banks the average salary paid employees was in excess of \$2,100. It was represented to the Board that if the Federal Reserve Bank of New York was to retain its employees it would have to increase salaries to a level more nearly approaching salaries paid for similar work by other banks in New York City. The fact that the average salary paid employees by the Federal Reserve Bank at the end of 1918 was only \$1,095, when the cost of living index as published by the Bureau of Labor Statistics of the Department of Labor was 77 per cent above the pre-war level, gradually increasing to 119 per cent in December 1920, would seem to justify the increase in salaries granted employees during the years, 1919 and 1920.

In order that the Senate may be informed as to whether the number of officers of Federal Reserve Banks has increased relatively more than the number of employees, and whether the number and salaries of officers and employees of the Federal Reserve Banks have increased more rapidly than the volume of business, and routine operations of those banks, the following table is submitted showing the changes in personnel and salaries, the growth in the principal items of assets and liabilities of the Banks and the increase in the volume of their operations by years from 1915 to 1920.

INDEX OF GROWTH, 1915-1920, IN NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES, AND IN BUSINESS TRANSACTED, FOR EACH F. R. BANK

(1915 = 1)

| Federal Reserve Bank | Officers | | : Officers and Employees | | : Assets and liabilities | | : Volume of dis- count and open market opera- tions | | : Trans- actions through Gold Settle- ment Fund | |
|----------------------|----------|------------|--------------------------|------------|--------------------------|-------------------------------|---|-----|---|--|
| | Number | Sal- aries | Number | Sal- aries | Earning: Assets | F. R. notes in: circula- tion | | | | |
| Boston | 3 | 4 | 39 | 21 | 20 | 31 | 225 | 37 | | |
| New York | 5 | 5 | 40 | 29 | 95 | 12 | 989 | 88 | | |
| Philadelphia | 3 | 3 | 19 | 15 | 35 | 32 | 281 | 38 | | |
| Cleveland | 5 | 4 | 31 | 21 | 39 | 33 | 244 | 238 | | |
| Richmond | 5 | 5 | 22 | 16 | 17 | 10 | 77 | 60 | | |
| Atlanta | 4 | 4 | 11 | 9 | 18 | 10 | 66 | 41 | | |
| Chicago | 9 | 5 | 35 | 25 | 47 | 203 | 281 | 45 | | |
| St. Louis | 5 | 3 | 22 | 14 | 42 | 17 | 224 | 36 | | |
| Minneapolis | 3 | 3 | 23 | 13 | 23 | 6 | 107 | 111 | | |
| Kansas City | 7 | 5 | 22 | 20 | 21 | 11 | 113 | 70 | | |
| Dallas | 5 | 4 | 20 | 13 | 14 | 5 | 53 | 53 | | |
| San Francisco | 8 | 5 | 51 | 26 | 93 | 53 | 263 | 74 | | |
| SYSTEM | 5 | 4 | 28 | 20 | 39 | 18 | 314 | 50 | | |

From this table it will be seen that while both the number and salaries of officers of the New York Federal Reserve Bank were five times as large in 1920 as they were in 1915, the number of officers and employees combined was 40 times as large and the aggregate salaries paid officers and employees 29 times as large in 1920 as they were in 1915, thus indicating that the number of officers increased relatively much less than the number of employees and that in consequence of the decrease in the ratio of officers to employees the aggregate salaries paid to officers and employees increased much less relatively than their number.

The table below shows the gradual increase in the average number of employees per officer for each Federal Reserve Bank.

AVERAGE NUMBER OF EMPLOYEES PER OFFICER FOR EACH
FEDERAL RESERVE BANK (INCLUDING BRANCHES)

| Federal Reserve Bank | December 31 | | | | | | July 1, |
|----------------------|-------------|------|------|------|------|------|---------|
| | 1915 | 1916 | 1917 | 1918 | 1919 | 1920 | 1921 |
| Boston | 4 | 13 | 34 | 52 | 62 | 59 | 51 |
| New York | 10 | 18 | 68 | 115 | 92 | 78 | 76 |
| Philadelphia | 14 | 21 | 31 | 46 | 58 | 83 | 85 |
| Cleveland | 7 | 12 | 25 | 44 | 41 | 47 | 39 |
| Richmond | 6 | 15 | 17 | 31 | 30 | 36 | 36 |
| Atlanta | 6 | 10 | 25 | 19 | 18 | 18 | 23 |
| Chicago | 12 | 21 | 39 | 40 | 44 | 47 | 39 |
| St. Louis | 9 | 12 | 17 | 25 | 33 | 42 | 38 |
| Minneapolis | 6 | 17 | 24 | 32 | 40 | 45 | 38 |
| Kansas City | 12 | 12 | 24 | 33 | 33 | 38 | 36 |
| Dallas | 7 | 12 | 27 | 39 | 29 | 31 | 27 |
| San Francisco | 5 | 11 | 22 | 26 | 22 | 36 | 38 |
| SYSTEM | 8 | 15 | 31 | 45 | 44 | 47 | 44 |

The earning assets of the Federal Reserve Bank of New York, composed largely of bills discounted for member banks, were 95 times as large in 1920 as in 1915; Federal Reserve circulation 12 times as large; the volume of discount and open-market operations, which were very heavy in 1919 and 1920, - 989 times as large; and transactions through the Gold Settlement Fund, maintained in Washington by the Federal Reserve Board for the purpose of settling inter-bank transactions, - 88 times as large. For all Federal Reserve Banks combined, total earning assets were 39 times as large in 1920 as in 1915; Federal Reserve circulation 18 times as large; total discount and open-market operations, 314 times as large, and transactions through the Gold Settlement Fund, 50 times as large, while the number of officers was 5 times and their aggregate salaries four times as large at the close of 1920 as they were at the end of 1915; and the number of officers and

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employees combined, 28 times and the salaries of all officers and employees combined, 20 times as large.

The table given below shows that the average number of employees per officer in six New York City banks ranged from 14 to 57, while the number of employees per officer in the Federal Reserve Bank of New York, exclusive of the Buffalo Branch, was 80. The proportion of the total payroll represented by officers' salaries in the six member banks ranged from 20 per cent to 38 per cent, while the proportion obtaining at the Federal Reserve Bank of New York was 10 per cent. It will be noted also from this table that if officers' salaries are related to total resources, the proportion for the larger New York City member banks ranges from about 3 to 15 times as high as that obtaining at the Federal Reserve Bank.

COMPARISON OF PERSONNEL OF FEDERAL RESERVE BANK OF
NEW YORK WITH PERSONNEL OF SIX OF THE LARGE NEW
YORK CITY MEMBER BANKS ABOUT THE END OF 1920.

| | : :Number of :officers | : :Number of :employees | : :Average :number of :employees :per of- :ficer | : :Percent of :total pay- :resented by :officers' | : :Percent of :officers' :salaries :to total :resources |
|--|------------------------------|-------------------------------|---|---|--|
| Federal Reserve Bank (Excluding Buffalo Branch) | 34 | 2,734 | 80 | 10 | .024 |
| Bank 1 | 74 | 4,259 | 57 | 25 | .36 |
| Bank 2 | 122 | 3,222 | 26 | 21 | .22 |
| Bank 3 | 32 | 946 | 29 | 38 | .27 |
| Bank 4 | 14 | 726 | 51 | 20 | .068 |
| Bank 5 | 37 | 1,093 | 29 | 30 | .15 |
| Bank 6 | 73 | 1,054 | 14 | 32 | .29 |

If the ratio of total salary payments to total resources of each Federal Reserve Bank be compared with corresponding percentages for all National banks in each Federal Reserve District, it will be found that the percentages for the Federal Reserve Banks are materially less than those for the National banks, as will be seen from the following table:

RATIO OF TOTAL SALARY PAYMENTS TO TOTAL RESOURCES AT FEDERAL RESERVE BANKS
AND AT ALL NATIONAL BANKS

| Federal Reserve District | Federal Reserve Bank per cent | National Banks per cent |
|--------------------------|----------------------------------|----------------------------|
| Boston | .19 | .71 |
| New York | .23 | .59 |
| Philadelphia | .24 | .67 |
| Cleveland | .21 | .72 |

Continued:

RATIO OF TOTAL SALARY PAYMENTS TO TOTAL RESOURCES AT FEDERAL RESERVE BANKS
AND AT ALL NATIONAL BANKS

| Federal Reserve District : | Federal Reserve Bank : | National Banks |
|----------------------------|------------------------|----------------|
| : | per cent. : | per cent. |
| Richmond | .31 | .82 |
| Atlanta | .26 | 1.00 |
| Chicago | .23 | .77 |
| St. Louis | .37 | .90 |
| Minneapolis | .30 | 1.03 |
| Kansas City | .36 | 1.03 |
| Dallas | .47 | 1.18 |
| San Francisco | .31 | 1.00 |
| TOTAL | .25 | .79 |

NOTE: Based on salaries paid by Federal Reserve Banks during 1920 as related to their condition on June 25, 1920; and on salaries paid by national banks during the year ended June 30, 1920 as related to their resources on June 30, 1920. Figures for Federal Reserve Banks include head office and branches.

The Fiscal Agency work of the Federal Reserve Banks assumed very large proportions during the war and has continued on a large scale since. As an example of the volume of such transactions by the Federal Reserve Banks, it may be stated that during the four years ended December, 1920 the Federal Reserve Bank of New York alone paid 37,816,000 Government checks and warrants, handled 159,530,000 pieces of Liberty Bonds, coupons, and thrift securities in its Government bond department, received over 90,000,000 payments on Liberty Bonds sold, issued and redeemed \$27,238,000,000 of certificates of indebtedness, and handled \$49,394,000,000 of deposits and withdrawals of collateral pledged as security for Government war loan deposits with depositary banks. The statement given below, which is taken from the records of the Treasury Department, shows that for the period beginning with the first Liberty loan in 1917 and ending June 30, 1921, the twelve Federal Reserve Banks, in the discharge of their fiscal agency functions, handled nearly one billion pieces of Government securities valued at more than \$286,000,000,000.

LIBERTY BONDS, VICTORY NOTES, CERTIFICATES OF INDEBTEDNESS, TREASURY
NOTES AND WAR SAVINGS SECURITIES HANDLED BY THE TWELVE FEDERAL RESERVE
BANKS, APRIL, 1917 to JUNE 30, 1921.

| | NUMBER OF PIECES : | AMOUNT |
|--|--------------------|----------------|
| Stock shipped to F.R.Banks by Treasury Department | 332,492,222 | 86,864,790,706 |
| Stock returned by F.R.Banks unissued | 39,404,439 | 7,117,492,880 |
| Delivered to public | 285,946,770 | 79,594,958,704 |

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Continued:

LIBERTY BONDS, VICTORY NOTES, CERTIFICATES OF INDEBTEDNESS, TREASURY
NOTES AND WAR SAVINGS SECURITIES HANDLED BY THE TWELVE FEDERAL RESERVE
BANKS, APRIL, 1917 TO JUNE 30, 1921.

| | Number of pieces | Amount |
|--|------------------|-----------------|
| Received from public for exchange, conversion, redemption, etc. | 144,202,924 | 57,494,860,598 |
| Returned to Treasury Department can- celled, account exchanges, conversions | 133,602,847 | 55,041,636,342 |
| TOTALS | 935,649,202 | 286,113,739,230 |

The Board transmits herewith as Exhibit F copy of a letter addressed to it by the Governor of the Federal Reserve Bank of New York, under date of October 6, 1921, in which he discusses in detail some of the operations of the bank and the reasons which actuated the directors in voting the increases in salary for officers and employees which have been approved by the Board. Much publicity has been given recently to a statement purporting to show the present salaries of certain officers of the Federal Reserve Bank of New York as compared with their initial salaries at the time of employment and with salaries obtained by them previous to their engagement by the Federal Reserve Bank.

The Board invites particular attention to the discussion of this matter in Exhibit F and desires to point out that in the case of nine of these officers whose salaries have been especially criticized their connection with the Federal Reserve Bank of New York has extended over a period of seven years, two of them have been with the bank six years, six - four years, one - three years, four - two years and two for one year. Seven of these men who entered the service of the Bank seven years ago at salaries ranging from \$1,500 to \$6,000 per annum have been advanced from time to time on their merits and are now receiving salaries ranging from \$8,000 to \$22,000 per annum.

In all other Federal Reserve Banks there have been similar instances of deserved promotion. It seems to the Board that the directors of the Federal Reserve Banks should be commended rather than condemned for a policy which recognizes merit and promotes loyal and efficient employees.

There is also transmitted, as Exhibit G, copy of a letter, dated October 26, 1921, signed by each of the nine directors of the Federal Reserve Bank of New York which presents the views of these directors as to their duties and responsibilities and reviews the salary policy of that bank.

FRANCHISE TAXES PAID TO THE UNITED STATES.

In reply to that part of the Resolution of the Senate which calls for information as to "how much of the net earnings have been paid to the United States as a franchise tax", the Board would state that until March 3, 1919 Section 7 of the Federal Reserve Act provided that "after all necessary expenses of a Federal Reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, all the net earnings shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per centum of the paid-in capital stock of such bank".

Until the year 1917 the earnings of the Federal Reserve Banks were comparatively small and it was not until June 30, 1918 that all accrued dividends had been paid by all Banks. As the net earnings of the Federal Reserve Banks were not sufficient during 1914, 1915 and 1916 to enable them to pay all accrued dividends no franchise taxes were paid to the United States for those years. During the year 1917, however, six of the Federal Reserve Banks had earnings sufficient to pay all accrued dividends and they paid a franchise tax to the Government at the end of the year amounting to \$1,134,234 and carried a like amount to their surplus accounts (annual report for 1917 - page 28). At the end of the year 1918, all accrued dividends having been paid, all the Federal Reserve Banks were prepared to pay franchise taxes to the United States amounting in the aggregate to \$26,728,440 (annual report for 1918 - page 29) but in view of legislation then pending the Treasury Department agreed to withhold demand for these franchise taxes until the adjournment of Congress on March 4th. The Act of March 3, 1919 amended Section 7 of the Federal Reserve Act so that it now reads: "After the aforesaid dividend claims have been fully met, the net earnings shall be paid to the United States as a franchise tax except that the whole of such net earnings, including those for the year ending December thirty-first, nineteen hundred and eighteen, shall be paid into a surplus fund until it shall amount to one hundred per centum of the subscribed capital stock of such bank, and that thereafter ten per centum of such net earnings shall be paid into the surplus". In conformity with the law as thus amended, the Federal Reserve Bank of New York paid into the Treasury at the end of the year 1919 as its franchise tax the sum of \$2,703,894 (annual report for 1919 - page 37). The other Federal Reserve Banks paid no tax as they had not then accumulated the maximum surplus allowed by law. At the end of the year 1920 nine Federal Reserve Banks paid to the United States as a franchise tax the sum of \$60,724,742 (annual report for 1920 - page 90). The Federal Reserve Banks of Cleveland, St. Louis and Dallas paid no tax as they had not yet accumulated the maximum surplus.

The following table shows the amount of franchise taxes paid to the United States by each Federal Reserve Bank as of December 31, 1917, 1919 and 1920.

FRANCHISE TAXES PAID TO THE UNITED STATES GOVERNMENT

| Federal Reserve Bank | 1917 | 1919 | 1920 | TOTAL |
|----------------------|--------------------|--------------------|---------------------|---------------------|
| Boston | \$ 75,000 | - - | \$ 2,473,499 | \$ 2,548,599 |
| New York | 648,363 | 2,703,894 | \$39,318,511 | 42,671,768 |
| Philadelphia | - | - | 363,662 | 363,662 |
| Richmond | 116,472 | - | 204,585 | 321,057 |
| Atlanta | 40,000 | - | 2,136,288 | 2,176,288 |
| Chicago | 215,799 | - | 10,394,480 | 10,610,279 |
| Minneapolis | 37,500 | - | 524,234 | 561,734 |
| Kansas City | - | - | 2,240,228 | 2,240,228 |
| San Francisco | - | - | 3,069,255 | 3,069,255 |
| TOTAL | \$1,134,234 | \$2,703,894 | \$60,724,742 | \$64,562,870 |

During the past year the Federal Reserve Banks have set up a reserve for franchise tax, the total of which was on October 27, 1921 \$53,938,000 (weekly statement Federal Reserve Banks combined, October 27, 1921). This tax reserve is adjusted weekly and the total amount shown to be due the Government at the close of business December 31, 1921 will be paid to the Treasury on January 2, 1922.

The Board trusts that this communication contains the information desired and will cheerfully furnish at any time any additional facts which may be called for by the Senate.

Respectfully submitted,

W. P. G. HARDING,

G o v e r n o r .

The President of the Senate,