

At a meeting of the Federal Reserve Board, held in the office of the Board on December 13, 1918, at 11 A.M.,

PRESENT: The Chairman
The Governor
Mr. Strauss
Mr. Miller
Mr. Hamlin
Mr. Broderick, Secretary.

The minutes of the meeting of the Board held on December 11th were read, and on motion approved.

The minutes of the meetings of the Gold Export Committee, held on December 12th and 13th, were presented and approved, and the action therein set forth ratified.

The Governor called attention to the provision of the by-laws of the New Orleans Branch of the Federal Reserve Bank of Atlanta, under which the Board designates the Chairman and Deputy Chairman of the Board of Directors of that Branch.

On motion, duly seconded, Mr. James E. Zunts was designated Chairman, and Mr. P.H. Saunders, Vice-Chairman, of the Board of Directors of the New Orleans Branch of the Federal Reserve Bank of Atlanta, for the period of one year, beginning January 1, 1919.

Letter dated December 9th, from J. L. Rawlins, tendering his resignation as a director of the Salt Lake City Branch of the Federal Reserve Bank of San Francisco, effective December 31, 1918.

Accepted with regret. Voted to refer to Mr. Miller the question of securing a suitable list of candidates from which to elect a successor to Mr. Rawlins.

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Discount rate sheets from various Federal Reserve Banks. No changes recommended.

Noted.

Proposed circular letter to Federal Reserve Agents, providing for the discontinuance of mail reports of discount rates.

Approved as amended.

The Governor reported the following rediscount transactions pursuant to authority heretofore vested in him:

December 11th, by Federal Reserve Bank of Chicago, for Federal Reserve Bank of Dallas, \$5,000,000 member bank 15 day paper, secured by Government obligations, at 4%.

December 11th, by Federal Reserve Bank of St. Louis for Federal Reserve Bank of Dallas, \$2,500,000 member bank 15 day paper, secured by Government obligations, at 4%.

Noted.

(At this point the Secretary of the Treasury joined the meeting and assumed the chair).

General discussion then ensued as to the policy to be pursued by the Board in the determination of salaries to be paid to Federal Reserve Agents and Governors of Federal Reserve Banks.

Voted to defer action until the meeting of the Board to be held on Saturday, December 14th, at 11 A.M., at which meeting Mr. Carter Glass, the incoming Secretary of the Treasury, will be present.

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(The Secretary of the Treasury withdrew from the meeting, and the Governor resumed the chair).

Recommendations by the Secretary, under date of December 12th, and memorandum of General Counsel of same date, as to treatment of extraordinary charges against earnings of Federal Reserve Banks at the close of business December 31, 1918 (See auxiliary minute book as of this date).

Approved.

Voted that the report be adopted with the addition of the following paragraph:

"7. Surplus and Franchise Tax.

After dividends and all allowable charge-offs have been made, one half the remainder, up to 40% of capital paid in, to be credited to surplus account and the balance credited to an account to be opened under the title "Reserve for Franchise Tax", to remain in such account until demand therefor is made by the Government, of which due notice will be given you by the Federal Reserve Board,"

and that the Governor advise the Governors of all Federal Reserve Banks accordingly.

Memorandum by General Counsel dated December 12th, recommending that the application of the Federal Reserve Bank of New York for permission to write down on December 31, 1918, the value of its real estate to \$1 be disapproved.

Voted that the Governor advise the Federal Reserve Bank of New York that the Board would not approve the writing down of the value of

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its real estate to a figure below a fair valuation thereof.

Letter dated December 11th from Governor of the Federal Reserve Bank of Philadelphia, requesting authority to declare a dividend at the rate of 6% per annum for the period July 1 to December 31, 1918.

Approved.

Letter from the Federal Reserve Bank of Philadelphia, dated December 11th, containing recommendations as to payments of bonuses to employees was presented. Considerable discussion of this question ensued, but no conclusion reached.

It was voted that Mr. Miller instruct the Division of Analysis and Research to study the employment situation, and to submit to the Board a scientific plan to aid in determining the future policy of the Board in regard to extra compensation of employees by reason of increased cost of living.

(At this point Mr. Miller withdrew from the meeting).

Application of the Superior Savings & Trust Company, Cleveland, Ohio, for authority to accept drafts and bills of exchange up to 100% of its capital and surplus, under the provisions of Section 13 of the Federal Reserve Act.

Approved.

Memorandum by General Counsel dated December 12th, in re exercise of trust powers by Citizens National Bank of Tipton, Indiana, criticized by the office of the Comptroller

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of the Currency.

Referred to Mr. Hamlin.

Memorandum by General Counsel dated December 12th, in re proposed Savannah agency of the Federal Reserve Bank of Atlanta.

Noted.

The Governor reported the purchase on December 13th of special 2% certificates of indebtedness of the United States for the Federal Reserve Bank of Philadelphia, for \$500,000 for deposit with the Comptroller of the Currency as collateral for Federal Reserve Bank notes.

Approved.

Letter addressed by the Governor, under date of December 4th, to the Governor of the Federal Reserve Bank of Dallas, in re eligibility of note, the proceeds of which have been used for commercial, industrial and agricultural purposes.

Noted.

Memorandum dated December 10th, from Chief Clerk, Treasury Department, submitting topical arrangement of reconstruction and readjustment activities of agencies of the Government, prepared by Council of National Defense.

Referred to Mr. Strauss.

On motion duly seconded, it was voted that the

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employees of the Federal Reserve Board who can be spared be excused for the day at 12 o'clock noon, on Tuesday, December 24th, and Tuesday, December 31st.

REPORTS OF COMMITTEE NO. 1:

Dated December 13th, recommending admission of State institutions as set forth in the auxiliary minute book as of this date, subject to the conditions stated in the individual reports attached to each application.

Approved.

Dated December 12th, recommending approval of the application of John E. White of Worcester, Mass., for permission to serve at the same time as Director and President of Martha's Vineyard National Bank, Tisbury, Vineyard Haven, Mass., and Worcester Bank & Trust Company, Worcester, Mass.

Approved.

CHANGES IN STAFF:

Dated December 13th, recommending appointment of Samuel Quinn as Head Doorman in the office of Division of Foreign Exchange, at a salary of \$1,020 per annum, effective December 16th.

Approved.

At 1:30 P.M., an adjournment was taken to 11 A.M.,

December 14th.

The Board reconvened at 11:10 A.M., December 14, 1918.

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PRESENT: The Chairman
The Governor
Mr. Strauss
Mr. Miller
Mr. Hamlin
Mr. Williams
Mr. Broderick, Secretary.

Mr. Strauss stated that he had reviewed the recommendations of the Federal Reserve Bank of New York of increases in salaries of and bonuses to its officers and employees, and submitted the following report, which was ordered spread upon the minutes of the meeting:

"December 14, 1918.

"I have considered Mr. George Peabody's letter of December 11th, and the report attached thereto, having reviewed them with Mr. Broderick, who knows most of the men personally.

"I think issue should be taken with the statement of Mr. Peabody's report that in general the Directors of the Bank feel the need of these salary increases in order to protect the organization against the loss of important men, if by that he means that the Bank must be prepared to pay its officers salaries equivalent to what the most successful private institutions are prepared to pay.

"I believe the compensation of the officers cannot be based on what private institutions might be willing to pay for the purpose of securing their services. The basis, in my judgment, should be an amount which will permit the man to live in a manner commensurate with his position, to care for his family, and to make satisfactory savings in such a manner as to enable him to look to employment in the bank and in the Federal Reserve System as a permanent career. In determining what these figures are, the amounts paid by private institutions are an important guide. Not necessarily the amounts paid to the best paid officers, but the general level of payments is a guide to what is necessary in any particular community for the purpose of conforming to the standard laid down above. On this basis, I think

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the recommendations as to amounts contained in Mr. Peabody's letter can be justified.

"So far as concerns the extra compensation payments to employees, I think the bank should be informed that it is the desire of the Board, upon the return of normal conditions, to have salaries readjusted on a basis that will not require the payment of extra compensation; that the extra compensation payments are regarded by the Board as extraordinary payments necessary in fairness to permit the employees to cope with the difficult conditions involved by the high cost of commodities at the present time. In determining what these extra compensations shall be, regard must be had to the conditions in each community, as the salary plus extra compensation should together make up a sum sufficient to comply with the standard set forth above. On this basis, the extra compensations proposed by the Committee of the New York Federal Reserve Bank are, I think, reasonable, especially when it is borne in mind that the extra compensations now proposed, when combined with those paid during the first six months of the year, will average the same as the amounts proposed by several other banks as extra compensation in their districts.

"The 10% proposed by the New York Committee on all salaries above \$5,000 to employees below the rank of Cashier should, I think, be eliminated, leaving the 15% extra compensation on salaries up to \$5,000, irrespective of the title of the office of the incumbent.

"The reason for suggesting the elimination of the 10% extra compensation on salaries above \$5,000, up to the rank of Cashier, is that the four men who fall within this classification have all received important increases during the present year, and that three of them will receive further substantial increases under the proposed schedule of readjusted salaries. An increase for the fourth individual affected is withheld by the New York Committee on the ground that his work must first be made more satisfactory."

The Chairman expressed himself as heartily in accord with the principles propounded by Mr. Strauss. He then explained to the Board his views as to the principles that should be observed in determining compensation to officers of Federal Reserve Banks. He stated that his attitude had been that in

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the beginning and during the formative period of the System he advocated comparatively low salaries 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, adding that last year he had opposed an increase in the salary of the Governor of the Federal Reserve Bank of New York 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 \$50,000 per annum, this salary to prevail not only for the present incumbent, but for his successors. The Chairman 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

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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.

The Chairman stated that he had conferred with the Secretary of the Treasury-elect, Mr. Carter Glass, who concurred in the substance of the principles recited by him, leaving it to the Board, of course, to make, under such principles, reasonable adjustments of salaries throughout the System in its discretion.

The Chairman stated as a further principle that the salary of a Federal Reserve Agent should be at least as high as that of any Deputy Governor of the Federal Reserve Bank of which such Agent may be Chairman.

Mr. Miller pointed out that the tremendous earnings

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of the Federal Reserve Banks had accrued this year largely out of Government business, and asked the Chairman if he had that factor in mind in expressing his opinion on the question.

The Chairman replied that he did not think the percentage basis of earnings of banks is a fair guide for the measure of compensation to be paid, stating it as his judgment that the questions of salaries at the several banks should be dealt with each on its own merits with respect to the responsibility assumed by the Governor when taking office.

Mr. Strauss stated that the Board should not consider the earnings of a bank in fixing compensation; that at future periods it might well be the business of the banks not to make money.

The Chairman concurred in this view, stating that it might be necessary to operate a bank at a loss as a result of a general plan of combining the resources of all banks as a common fund, in which event, the responsibilities of the Governor of a bank forced to operate at a loss would be even greater than when large earnings were accruing. He said the problem was to ascertain what is a just compensation, taking into consideration all the elements of the problem - the size of the bank, the cost of living in the community, and the responsibility assumed by the chief executive officer of the bank.

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Mr. Williams pointed out that there were certain Governors of Federal Reserve Banks whom the Board felt were not the strongest men for their positions.

The Chairman stated that if the Board undertook the responsibility of keeping in office incompetent men as Governors of Federal Reserve Banks the salaries of such Governors should nevertheless have a relation to the responsibility assumed.

On motion duly seconded, it was voted unanimously that the salary of the Governor of the Federal Reserve Bank of New York for the ensuing year be approved if fixed at \$50,000 per annum, and that the recommendations of the Board of Directors of the Federal Reserve Bank of New York, as submitted by Deputy Chairman Peabody in his letter of December 11, 1918, as modified in principle by the memorandum submitted by Mr. Strauss above, be approved with the understanding that the Board will review same in detail and make such adjustments as may be necessary at its meeting on Monday, December 16th.

At this point the Chairman stated that it was necessary for him to withdraw from this, the last meeting of the Federal Reserve Board which he would attend, and expressed to the members of the Board his appreciation of the work they had done during his incumbency of the office of Chairman, stating that he would always have a keen interest in the personal welfare of members of the Board, as well as in their official work.

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At 11:30 A.M., the Chairman withdrew from the meeting, and the Board took a recess until 12 o'clock noon, to enable members to attend ceremonies by Treasury employees in honor of the retiring Secretary of the Treasury.

The Board reassembled at the expiration of the recess:

PRESENT: The Governor
Mr. Strauss
Mr. Miller
Mr. Hamlin
Mr. Broderick, Secretary.

The Secretary recommended the appointment of Mr. Val J. Grund as Assistant Federal Reserve Examiner at a salary of \$2,500 per annum, effective January 2, 1919.

Approved.

Letter dated December 13th, from Chairman of the Board of the Federal Reserve Bank of Richmond, requesting approval of the Board of the following scale of extra compensation or bonuses to employees of the Federal Reserve Bank of Richmond and its Baltimore Branch:

On salaries of less than \$1,500, 15% of the amount actually received by employees during the calendar year with a minimum of \$10.

On salaries of \$1,500 and over, 10%, but with an adjustment between salaries between \$1,500 and \$2,100, so that no one receiving such a salary will receive a smaller extra compensation or bonus than is paid to one receiving less than \$1,500.

Approved.

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(At this point Mr. Williams joined the meeting).

Report by Secretary, dated December 12, 1918, making recommendations for the payment of extra compensation to employees of Federal Reserve Banks during the year 1918. (See auxiliary minute book as of this date).

Approved.

Voted that the Governor telegraph the Chairman of the Board of Directors of each Federal Reserve Bank except Boston, New York and Dallas, advising of the extra compensation plan adopted by the Board, and stating that such plan represents the maximum in each class that the Board is willing to approve, but that the Federal Reserve Banks are, of course, at liberty to make adjustments in individual cases below such maximum in their discretion.

The Governor stated that he was in receipt of request from the Federal Reserve Bank of Chicago that Board permit that bank to declare in advance a bonus policy for the year 1919; also a request from the Federal Reserve Bank of Boston, that it be permitted to announce on January 1, 1919, a bonus for the succeeding six months of the year 1919.

Considerable discussion was had on this subject.

(At this point Mr. Miller withdrew from the meeting).

Voted that the Federal Reserve Banks of

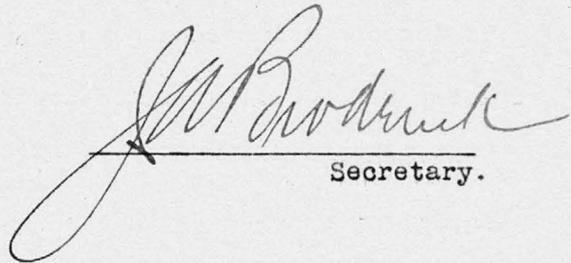
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Boston and Chicago be instructed not to make in advance definite commitments for extra compensation to employees or increases in salaries for the ensuing year, and that the banks be advised that it is the Board's intention to consider in June, 1919, the question of whether or not employees of Federal Reserve Banks will be entitled to receive extra compensation.

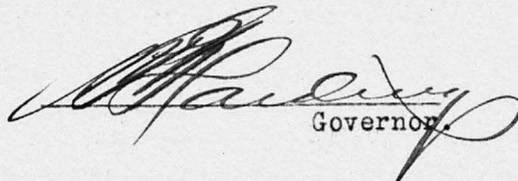
The Governor then asked consideration of the question of salaries to be paid junior officers of the Federal Reserve Bank of New York during the year 1919.

Voted that, effective January 2, 1919, the salary of Mr. R. H. Treman, Deputy Governor of the Federal Reserve Bank of New York, be approved if fixed at \$25,000 per annum, upon the understanding that for such periods as he may act as Governor of the Bank in the absence of the Governor, his compensation shall be at the rate of \$30,000 per annum.

At 1:10 P.M., the meeting adjourned.


Secretary.

Approved:


Governor.