

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, February 29, 1936, at 11:00 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Morrison

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the
Chairman
Mr. Wyatt, General Counsel
Mr. Smead, Chief of the Division of Bank
Operations

Reference was made to telegraphic correspondence yesterday with the Chairman of the Federal Reserve Bank of Philadelphia with regard to the request of the board of directors of the bank that the Board afford a committee of directors an opportunity to discuss with the Board its action in not approving the appointment of Geo. W. Norris as President and deferring action on the appointment of Wm. H. Hutt as First Vice President, the suggestion having been received from Mr. Austin that the committee of directors would be able to meet with the Board on Tuesday, March 3, at a time to be fixed by the Board.

It was agreed that the Board should meet with the committee of directors at 11:00 a. m. on March 3, 1936, and the Chairman was requested to advise Mr. Austin accordingly.

In this connection, Mr. McKee raised the question whether the Board should give further consideration at this time to the appointment by the board of directors of the Philadelphia bank of Mr. Hutt as First Vice President of the bank.

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The matter was discussed, and Mr. McKee moved that the board of directors of the Federal Reserve Bank of Philadelphia be advised that the Board disapproves the appointment of Mr. Hutt as First Vice President.

Mr. Szymczak moved as a substitute for Mr. McKee's motion that action on the appointment of Mr. Hutt as First Vice President be deferred until after the meeting of the Board with the committee of directors on March 3.

Mr. Szymczak's substitute motion was put by the Chair and carried, Messrs. McKee and Morrison voting "no".

Chairman Eccles reported that a telegram had been received yesterday afternoon from the Chairman of the Federal Reserve Bank of Chicago advising that, subject to the approval of the Board, the board of directors of the bank, at its meeting on that date, had appointed George J. Schaller as President of the bank, and Howard P. Preston as First Vice President.

Mr. Broderick stated that he felt that in view of the information that had come to the Board informally that Mr. Schaller had agreed, in the event of his appointment as President of the bank, to resign at the end of the year, the Board should obtain assurances from Mr. Schaller that he had made no such agreement directly or indirectly with the board of directors, or any individual. The matter was discussed and it was suggested that Chairman Eccles call Governor Schaller on the telephone and request him to advise the Board as to the existence of any such agreement. Chairman Eccles left the room for that purpose and upon his return stated that he had communicated by telephone with Governor Schaller who had advised

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that he had made no such agreement and would so advise the Board by telegram. Shortly thereafter a telegram was received from Governor Schaller reading as follows:

"Election as President Federal Reserve Bank of Chicago and salary as made by our board of directors are accepted without any reservation or side agreements."

Mr. McKee moved that the appointment of George J. Schaller as President of the Federal Reserve Bank of Chicago and of Howard P. Preston as First Vice President of the bank, each for a term of five years beginning March 1, 1936, be approved by the Board.

Carried unanimously.

Chairman Eccles then read a telegram which had been received during the meeting from the Chairman of the Federal Reserve Bank of Chicago stating that the board of directors of the bank had fixed the salaries of Messrs. Schaller and Preston as President and First Vice President of the bank, at the rates which they are now receiving (\$35,000 and \$25,000 per annum, respectively). However, it was the consensus that consideration of the salaries fixed for Messrs. Schaller and Preston should be deferred until the Board received advice regarding the salaries fixed for the other officers of the Chicago bank, so that the salaries of all of the bank's senior officers might be considered at the same time.

Chairman Eccles stated that action on the designation of a Chairman and Federal Reserve Agent at the Federal Reserve Bank of Chicago had been deferred pending a decision at the bank with regard to the appointment of a President to serve after March 1, 1936, and that as a President

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of the bank had been appointed and his appointment approved by the Board, he desired to recommend that Eugene M. Stevens be redesignated as Chairman and Federal Reserve Agent for the period from March 1 to April 30, 1936, inclusive, and that the Board authorize the payment to the Retirement System for the purpose of supplementing the retirement allowance to which Mr. Stevens will be entitled under that system the sum of \$6,000, or, at his election, the payment of that amount to him in cash on May 1, 1936.

Mr. Morrison moved that Mr. Eccles' suggestion be approved.

Carried unanimously.

There was then presented a letter dated February 28, 1936, from Mr. Frederic A. Delano, Deputy Chairman of the Federal Reserve Bank of Richmond, stating that, at the meeting of the board of directors of the bank on February 27, the directors took action as follows:

1. The directors at a previous meeting having appointed George J. Seay as President of the Federal Reserve Bank of Richmond for a term of five years beginning March 1, 1936, with the understanding that he would serve only one year, that action was allowed to stand.

2. Hugh Leach was appointed First Vice President of the Federal Reserve Bank of Richmond for a term of five years beginning March 1, 1936, and his salary was fixed at the rate of \$15,000 per annum.

2. R. H. Broaddus was appointed Vice President of the bank for a term of one year beginning March 1, 1936, with salary at the rate of \$14,000 per annum.

4. J. H. Walden, Jr., was appointed Vice President of the bank for a term of one year beginning March 1, 1936, with salary at the rate of \$12,000 per annum.

5. Authorized, subject to the approval of the Board of Governors of the Federal Reserve System and effective upon the official termination of the services of Mr. Seay, the payment to the Retirement System of the sum of \$12,000 for the

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purpose of increasing the retirement allowance to which Mr. Seay will be entitled under that system.

The letter also stated that in the event of the disapproval by the Board of the appointment of Mr. Seay as President, the board of directors of the bank would meet at an early date in March for the purpose of appointing Hugh Leach as President of the bank, with salary at the rate of, say, \$18,000 per annum, and naming one of the Vice Presidents as First Vice President.

Mr. McKee moved (1) that the appointment of Hugh Leach as First Vice President of the Federal Reserve Bank of Richmond for a term of five years beginning March 1, 1936, be approved, and (2) that the salaries fixed by the board of directors of the bank at the rate of \$15,000 per annum for Mr. Leach as First Vice President, at the rate of \$14,000 per annum for Mr. Broaddus as Vice President, and at the rate of \$12,000 per annum for Mr. Walden as Vice President, be approved for the period from March 1 to December 31, 1936, inclusive.

Carried unanimously.

Mr. McKee then moved that the Board adhere to the position previously taken that it will not approve for the five year term beginning March 1, 1936, the appointment of anyone as President or First Vice President of a Federal reserve bank who is 70 years or more of age or who, before the end of the five years, will have reached that age, and that the Chairman be authorized to advise the board of directors of the Federal Reserve Bank of Richmond that, in accordance with that policy, the Board regrets that it cannot approve the appointment of Mr. Seay, who is now nearly 74 years of age, as President of the Federal Reserve Bank of Richmond for a period of five years beginning March 1, 1936.

Carried unanimously.

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After a discussion of the action taken by the board of directors of the Richmond bank in authorizing the payment to the Retirement System of \$12,000 for the purpose of increasing the annuity to which Mr. Seay will be entitled, Mr. Broderick moved that the Chairman be authorized to advise the board of directors of the bank that the Board of Governors of the Federal Reserve System is in agreement with the expression of the directors that the long service of Mr. Seay as Governor of the bank fully justifies the proposed payment and that the Board is pleased to give its approval thereto.

Carried unanimously.

Chairman Eccles stated that he believed it would be advisable for the Board to make a restatement of the policies and procedure of the Board with respect to organization and personnel questions of the Federal reserve banks before acting upon further recommendations regarding appointments of Presidents and First Vice Presidents and the salaries of those and other senior officers of the banks. He said that tentative drafts of such a statement had been prepared at his request and that he had asked members of the Board to consider the matter individually.

Mr. Ransom thereupon read the following statement which he said had been revised so as to include suggestions made by other members of the Board:

"The policies and procedure adopted by the present Board of Governors of the Federal Reserve System in connection with organization and personnel questions presented for action as of March 1, 1936 are recorded herewith:

"In considering salaries of senior officers of Federal reserve banks, as recommended for the remainder of the year 1936 by their respective boards of directors, the Board of Governors has determined that a complete review of all such

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"salaries and expenses, including those of the staff of the Board of Governors, shall be instituted immediately and that such adjustments as the Board considers necessary in the interest of efficiency and economy shall be effected promptly, and wherever possible before the end of the current year.

"The Board of Governors, as constituted prior to February 1, 1936, redesignated and fixed the salaries of Chairmen and Federal Reserve Agents in office at the close of the year 1935 for the period from January 1 to February 29, 1936, in order that the present Board might designate appointees of its own selection and adopt such policies as it considered advisable in connection with the positions. The former Board also approved the salaries fixed by the respective boards of directors of the Federal reserve banks for junior officers through December 31, 1936, and the salaries for Governors, Deputy Governors and Assistant Deputy Governors only until the close of February 29, 1936, so as to afford the present Board an opportunity to consider and formulate, in connection with the changes to be made in the organization of the Federal reserve banks in conformity with the Banking Act of 1935, the policy which it would follow in approving salaries for such officers after the date indicated. In taking the action referred to above the former Board expressed the view that there should be no salary increases except in exceptional circumstances until a thorough and careful analysis had been made of the organizations of the Federal reserve banks.

"Since entering upon its duties the Board of Governors has acted upon a number of recommendations submitted by the Federal reserve banks with respect to the appointment of Presidents and First Vice Presidents and with respect to salaries of these and other senior officers. In acting upon these matters the Board was guided by the policies set out below which will also govern its future action on such matters:

"The Board continued the designations of certain Chairmen and Federal Reserve Agents at the Federal reserve banks for the period from March 1 to the close of April 30, 1936, with compensation at the salary rates now in effect, in order to enable them to give the required notice under the rules and regulations of the retirement system of the Federal reserve banks so that they may obtain, beginning May 1, 1936, a retirement allowance as provided by that system. In connection with the termination of such designations as Chairmen and Federal Reserve Agents, the Board authorized the respective Federal reserve banks to pay the present incumbents in cash on May 1, 1936, or, at their election, to the retirement system for the purpose of supplementing the retirement allowance referred to, an amount equal to six months'

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"salary, with the understanding that such payments might be varied in individual cases in accordance with age and length of service. The Board felt that it was fully justified in showing this consideration to the present incumbents in these positions in view of the faithful and valuable service they have rendered in connection with the formulation and execution of the policies under which the Federal Reserve System has operated, particularly since they had served for many years and, in some instances, from the date of the organization of the reserve bank to which they were accredited.

"The Board has initiated a procedure looking toward the placing of the Chairmanships upon a largely honorary basis. Under this procedure various non-statutory duties now performed in the office of the Chairman and Federal Reserve Agent would be placed under the President of the bank, who under the Banking Act of 1935, is selected for a term of five years by the Board of Directors of the bank, subject to the approval of the Board of Governors, and is recognized by law as the chief executive of the bank. The technical duties of the office of the Federal Reserve Agent may then be performed by an Assistant Federal Reserve Agent, making it possible for the Chairman to discharge the important responsibilities of his office without being required to devote more than a limited portion of his time to the bank. The Board believes that a more efficient organization, avoiding a dual executive responsibility at the Federal reserve banks, and substantial economies in the operation of the System may thus be effected. At the same time it would be possible to obtain the services of men who are not only well qualified but public-spirited to serve as Chairmen. In furtherance of this program, the Board considered the advisability of requesting legislation at the next session of the Congress to effect a separation of the office of Chairman from the position of Federal Reserve Agent, so as to permit the selection of a person to serve only as class 'C' director and Chairman of the Board of Directors and the appointment of a separate Federal Reserve Agent whose principal duty would be the custody of Federal reserve notes and collateral therefor.

"The Board agreed not to approve for the five-year term beginning March 1, 1936, the appointment of any one as President or First Vice President of a Federal reserve bank who is seventy years or more of age or who, before the end of the five years, will have reached that age. The Banking Act of 1935 provided for a reorganization of the Federal Reserve Board, and the President in discharging

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"his responsibility for making appointments thereunder adopted a policy of nominating for Board membership persons who were not more than sixty years of age. This Act also placed upon the Board the responsibility for approving for terms of five years the appointments of Presidents and First Vice Presidents of the Federal reserve banks, and the Board felt that in discharging this responsibility it should likewise give consideration to the factor of age, especially as the law also provided for a reorganization at the Federal reserve banks by creating the offices of President and First Vice President to come into existence on March 1, 1936. In addition, the Board was influenced by the fact that the Federal reserve banks had proposed and adopted voluntarily a retirement plan which established the plan in the permanent operation of the System not only of voluntary retirement at the age of sixty-five, but also of mandatory retirement after March 1, 1939, of officers and employees at the age of seventy years. Moreover, the Boards of Directors of the Federal reserve banks are not authorized to make appointments of Presidents or First Vice Presidents for any term less than the five years prescribed by law, and the Board is without authority to approve such appointments for a shorter term. The Board therefore felt that it would not be justified in approving the appointment of any person as President or First Vice President who would be subject under this retirement plan to mandatory retirement before the expiration of the five-year term. The Board was also of the opinion that, as the law specifically provides that these appointees are to be the chief executive officers of the Federal reserve banks, they should be younger men who could be expected to continue for the entire term for which they would be appointed an active, constructive and vigorous administration of the affairs of the banks with a high degree of efficiency, and who would be able to make such changes in the organizations of the respective banks as would enable them to meet new conditions in the most effective manner. The Board had in mind also the increased duties which would be placed under their charge when the present non-statutory functions of the Chairman and Federal Reserve Agent are placed under their supervision.

"The Board decided to request the Presidents of the respective Federal reserve banks to come to Washington, on a date to be fixed as soon as practicable after March 1, 1936, for the purpose of discussing with the Board the question of reorganizing the personnel and operating procedure of the banks with a view to economy and efficient operation, and also to consider the transfer of the non-statutory

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"duties now being performed by the Federal Reserve Agent's departments to the operating departments of the reserve banks. It is the intention of the Board, after conferring with the chief executive officers of the banks, to request them to initiate, prior to the end of the current year, such changes as in their judgment may be desirable. It was agreed that the Board would, following the conference, address a letter to all Chairmen requesting that the Boards of Directors of the reserve banks cooperate fully in effecting such personnel and organization changes as would materially reduce expenditures and promote more effective and efficient operation and that a copy of such letter be delivered to each director of the various Federal reserve banks.

"In furtherance of the program of reorganization at the Federal reserve banks, the Board concluded that it should approve all recommendations submitted by the respective Boards of Directors with respect to salaries of Presidents, First Vice Presidents, Vice Presidents and Assistant Vice Presidents, for the period from March 1 to December 31, 1936, inclusive, except that no recommendation involving an increase in salary will be approved in the absence of unusual circumstances or a change in position. The Board was influenced in reaching this conclusion by the realization that it had been functioning for less than a month and would not be in a position to pass intelligently upon individual salaries until after it had familiarized itself with the personnel and organization of the banks. Furthermore, the Board felt that as the former Board had approved salaries of junior officers and employees for the remainder of the year, a similar procedure should be followed with reference to salaries of senior executives, and that to reduce such salaries before a thorough study had been made, or to approve them for only a limited period, would not be conducive to the morale of these officials whose cooperation is essential for the successful accomplishment of the broad program herein contemplated. While recognizing that it has no statutory authority to fix salaries on its own initiative for officers and employees of the Federal reserve banks and that it can exercise only a veto power with respect to such salaries, the Board intends to study the situation with respect to possible organization changes and to cooperate fully in bringing the program to a satisfactory conclusion."

After discussion, Mr. Ransom moved that the statement be approved with the understanding that it would be incorporated in the

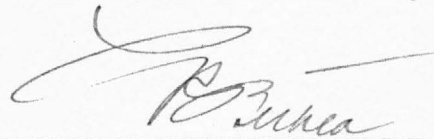
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policy record required to be kept under the provisions of the last paragraph of Section 10 of the Federal Reserve Act.

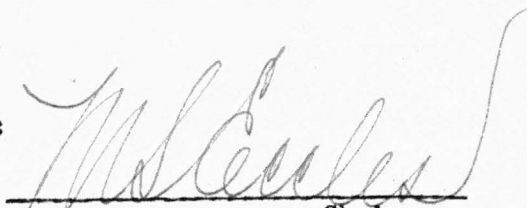
Carried, Mr. Morrison voting "no" for the reason that he did not feel that some of the salaries not yet approved by the Board could be justified.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.