

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, March 3, 1936, at 11:15 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.

ALSO PRESENT: Mr. J. B. Henning, Class "A" Director of the Federal Reserve Bank of Philadelphia
Mr. Joseph Wayne, Jr., Class "A" Director of the Federal Reserve Bank of Philadelphia
Mr. H. L. Cannon, Class "C" Director of the Federal Reserve Bank of Philadelphia
Mr. Roland Morris of the firm of Duane, Morris and Heckscher of Philadelphia, Counsel for the committee of directors

Chairman Eccles stated that the committee of directors of the Federal Reserve Bank of Philadelphia was present for the purpose of presenting to the Board information in connection with the appointment of Mr. Geo. W. Norris as President of the Federal Reserve Bank of Philadelphia for a term of five years beginning March 1, 1936, and that the Board would be glad to give the committee as much time as it desired for that purpose.

At the request of Mr. Wayne, Mr. Morris read the following memorandum which had been prepared for submission to the Board:

"It is not necessary for me to enlarge on the facts submitted in the resolution of the Board of Directors of the

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"Federal Reserve Bank of Philadelphia. I can only confirm what we all in Philadelphia know that Mr. Norris is in full mental vigor and physical health and continues as he has always been for the past sixteen years an ideally efficient executive. I can state without reservation that it is the unanimous wish of our business and banking community that Mr. Norris might be permitted to continue his service for the period provided in the retirement system which was approved and adopted by the Board on March 1, 1934. The Framers of the retirement system recognize that you have that optional retirement at sixty-five and compulsory retirement at seventy was a wise provision for permanent adoption in the future. They also recognized, however, what I submit that you gentlemen have overlooked that there were officers and employees in the system at the time who had reached or passed these years and that it would be not only unfair to have to force their immediate retirement under this general rule adopted for the future but that it would deprive the system of employees of experience whom it would be difficult to replace on short notice. It is for this reason that they approved the wise provision that officers or employees over sixty-five at that time might be retained for a period not exceeding five years if the directors of their respective banks thought them sufficiently valuable to be willing to go to the trouble of making annually written requests for their retention. Under this provision as approved by the Federal Reserve Bank the employees of the Board as well as substantially all of the officers and employees of the bank entered the system and have since then made their contributions on this basis. It would probably be extreme to claim that this situation constituted a legal contract but I most earnestly submit that it did create an obligation which as a matter of fair dealing should not be ignored. I ask you to consider the situation before us today. In your letter of February 27th addressed to Mr. Austin you have stated a policy under which, if I am correctly informed, the chief executives of four banks are to be summarily dismissed notwithstanding the fact that in three cases their directors are entirely satisfied not only that they are fully competent to perform their duties but that it will be impossible to secure at short notice substitutes as satisfactory. I respectfully submit that this is an unjustified reflection on these directors who are charged by law with supervision and control of their banks and who should be in the nature of things the best judge of the qualifications of these men.

"There is nothing in the Act or in the statements or debates preceding its passage to indicate the intention or expectation of the Congress that your veto power would be un-

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"necessarily or capriciously exercised. It is a fair inference that that power was ledged with you in order that unfit or superannuated officers might be disposed of without imposing that disagreeable necessity upon directors who had been for long periods in close association with such officers.

"In the particular case in which we are interested you have of record the considered judgment of eight of the nine directors of the Philadelphia Bank as to Mr. Norris' physical and mental fitness, and their belief that it will not be possible to fill his place at short notice with anyone as well qualified to perform the duties of the office. It seems to me that in over-ruling them you are assuming a grave and unnecessary responsibility. I do not question your technical legal right to do it, but I do submit for your careful consideration the question whether it is wise or expedient, and in this connection I shall call your attention to a feature which I think you may well take into consideration. Mr. Norris' retention is desired not only by the directors of the Philadelphia Bank, but as I have said, by the banking and business interests of that district. His sudden and unexpected discharge from the duties which he has been so satisfactorily performing for nearly sixteen years will, I am confident, evoke protests and criticisms which it will be impossible for him or the directors to prevent or silence. It is, of course, entirely within your power to ignore these protests. But is it wise?

"I therefore beg of you in the interests of our community which so needs just now the experience which Mr. Norris has acquired and the confidence which his years of service have inspired and in the interest of the bank whose directors have spoken so earnestly in the resolution submitted that you so modify the policy now suggested that the election of Mr. Norris be approved so that he may serve out the period contemplated in the regulation of March 1, 1934, as formally approved by your board."

Mr. Eccles stated that the points covered by the memorandum had been given careful consideration by the Board in determining the general policy that it would not approve the appointment of men as Presidents and First Vice Presidents of Federal reserve banks who were 70 years of age or who, before the expiration of the five year term, would have reached that age; that it was the view of the Board and its counsel

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that legislation passed by Congress would supersede any conflicting arrangement made under the Retirement System of the Federal reserve banks; and that, therefore, if Mr. Norris' appointment were approved, he would be able to serve five years from March 1, 1936, whereas under the rules and regulations of the Retirement System he would be required to retire in three years from that date.

Mr. Wayne stated that the directors of the reserve bank felt that if the Board refused to approve the appointment of Mr. Norris, it would, in a sense, be acting contrary to the Retirement System.

Mr. Eccles reviewed the reasons for the adoption of the provision contained in the regulations of the Retirement System which permits the retention of employees for five years after March 1, 1934, regardless of age, and stressed the fact that the fundamental principle of the Retirement System is one of compulsory retirement at age 70.

Upon inquiry by Mr. McKee as to how the directors regarded Mr. Norris, Mr. Cannon stated that he was very familiar with the feeling toward Governor Norris in Delaware and that he was of the opinion that it would be impossible to find a man who could serve the people in that territory in as satisfactory a manner as Governor Norris had done. He added that he felt it was his duty, as a director of the Federal Reserve Bank of Philadelphia, to endeavor to obtain for the bank the services of the best man for the position of President; that in his opinion there was no one in the third district who could be compared with Mr. Norris; that there had been no diminution in Mr. Norris' energy

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or mental ability; and that he regarded Mr. Norris as the ablest man available for the position.

Mr. Henning stated that there were 367 banks in the group which he represented as a Class "A" director of the Federal Reserve Bank of Philadelphia; that Mr. Norris was personally acquainted with more bankers in that group than any other person connected with the Federal Reserve Bank of Philadelphia; that there was practically no banker in the group who questioned his ability or thought that he was undesirable for the position because of his age; and that he (Mr. Henning) would not be able to satisfactorily explain to the bankers in the group why Mr. Norris was not made President of the bank. He also stated that he felt he was expressing the sentiment of the bankers in the district when he said that, because of Mr. Norris' ability, there was no other man in the district they would rather have in the position of President.

Mr. Wayne stated that the directors did not know where they could turn for a man to replace Mr. Norris and that it would be very difficult to explain why he was not appointed.

Mr. Morrison pointed out that if the Board should make an exception to its general policy in this case, it would have to do so in the case of other men who had reached the age of 70 years, and that, therefore, the problem resolved itself to the question whether the position of the Board in refusing to approve the appointment of men who had reached the age of 70 years was a sound policy.

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Upon inquiry from Mr. Szymczak as to the opinion of the directors concerning Mr. Hutt, former Deputy Governor of the Philadelphia bank, Mr. Wayne stated that the directors felt he was a good man, and that he had been groomed for Mr. Norris' position.

The committee of directors and Mr. Morris then withdrew from the meeting and the Board considered the statements made by the directors. It was the consensus of the Board that, since Section 9 of the rules and regulations of the Retirement System provided that the establishment of the system should not be held or construed as a contract entitling any employee to be continued in the employment of an employing bank or as conferring any legal rights upon any employee or other person or interfering with the right of an employing bank to discharge any of its employees or to treat them without regard to the existence of the Retirement System, there was no foundation for the argument that the existence of the Retirement System created even a moral obligation to retain Mr. Norris. The Board also felt that the directors had submitted no new information which would be considered as a basis for a change in the general policy adopted by the Board and that the committee should be so advised.

Upon the return of Messrs. Henning, Wayne, Cannon, and Morris to the meeting, Chairman Eccles stated that the Board had previously given full consideration to the points covered by the statements made by the directors and did not feel that they constituted a sufficient basis for a change in the general policy which had been adopted, and

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that it regretted that it could not approve the appointment of Mr. Norris as President of the Federal Reserve Bank of Philadelphia. He pointed out that it was necessary for the Board, in the discharge of its responsibilities, to consider questions before it on the basis of national policy; that there had been other cases before the Board which involved the same considerations as were present in the case of Mr. Norris and where the individuals proposed as presidents of Federal reserve banks were as highly regarded as Mr. Norris; and that the Board believed that, for reasons previously communicated, it would not be justified in making an exception to the policy. He assured the directors that there was no personal element involved in the Board's action, as the policy had been uniformly applied in all instances.

At the suggestion of Mr. Broderick, Chairman Eccles reviewed the proposal being considered by the Board that the non-statutory duties now being performed by the chairman and Federal reserve agent be transferred to the operating side of the bank, and stated that as the Board had a responsibility in connection with the satisfactory performance of these duties, it was particularly interested in taking steps to insure a continuity of energetic and efficient management in the banks.

Mr. Wayne referred to the fact that at the time of the banking holiday the Federal Reserve Bank of Philadelphia had outstanding loans to closed banks in the amount of \$30,000,000, and stated that 88% of this amount had been collected, and that most of the remainder consisted of loans to banks in Atlantic City which were regarded as in-

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volving a major element of risk when made and which were made with the knowledge of the members of the Federal Reserve Board.

Mr. Cannon inquired whether the record referred to by Mr. Wayne was as satisfactory as that made by other Federal reserve banks, to which Mr. Smead replied that the record of some of the banks in this respect was better than the record at Philadelphia, while in other instances it was not as satisfactory.

Upon inquiry by Chairman Eccles, Mr. Smead said that some of the departments of the Federal Reserve Bank of Philadelphia were operated at a high cost, and that from the standpoint of efficient operation, the Federal Reserve Bank of Philadelphia was not outstanding. He also pointed out that Mr. Norris had very largely dominated the other officers of the bank and that, in these circumstances, it was difficult to form an opinion as to the ability of these officers.

Chairman Eccles asked whether Mr. Hutt was considered by the directors as a strong enough individual for appointment as President of the bank, and Mr. Wayne stated that, while he was not as outstanding a man as Governor Norris, he had had good experience and training and that he might be the next choice of the Philadelphia board.

Mr. Wayne then inquired as to the status of Mr. Hutt as an officer of the bank, and Chairman Eccles replied that as the Board had deferred action on his appointment as First Vice President he could not be regarded as an officer of the bank, and that Mr. Sinclair, who had been appointed as Vice President and whose salary had been approved by

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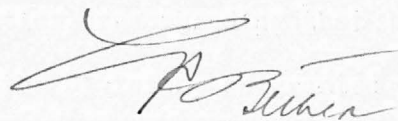
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the Board, would be considered by the Board as the executive officer in charge of the bank.

Mr. Cannon inquired whether the committee might assume from what had been said that the Board felt that if Mr. Hutt were appointed to succeed Mr. Norris his appointment would not be approved by the Board. Chairman Eccles said that the Board had not discussed that point, but, upon request of the board of directors of the bank, it would be glad to consider the matter and to express an opinion.

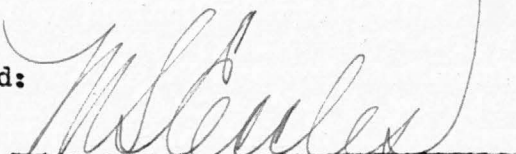
Mr. Wayne asked if there would be objection on the part of the Board to the appointment of Mr. Hutt as a Vice President of the bank pending the selection of a President, and he was advised that the appointment of Mr. Hutt as a Vice President would not be subject to approval by the Board, although it would be necessary for the Board to pass upon the salary fixed for him in that capacity.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.