

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, May 12, 1936, at 11:30 a. m.

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

Mr. Morrill, Secretary  
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. Paulger, Chief of the Division of  
Examinations  
Mr. Smead, Chief of the Division of Bank  
Operations

Mr. Broderick stated that during his recent absence from Washington he had visited the Federal Reserve Banks of Minneapolis, Chicago and Cleveland, where he had discussed with the directors and officers the survey of the organization and personnel which had been made or was under way at the respective banks and that he had been advised that any dismissals of employees of those banks resulting from the surveys would be made over a period and an endeavor would be made to find employment elsewhere for the released employees.

There ensued a discussion of the procedure to be followed by the Board in connection with the consideration of the reports to be sent to the Board by the Federal reserve banks following the completion of the surveys made by them and of the instructions to be issued by the Board in connection with the transfer of the non-statutory functions now performed by the Federal reserve agent's department to the

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operating side of the bank. During the discussion, attention was called to the fact that at the time of the Presidents' Conference in Washington on March 16 and 17 it was anticipated that another conference would be held later at which the Presidents would discuss the problems arising at the respective banks in connection with the surveys, and the opinion was expressed that most of the banks would defer the submission of their reports until after the conference.

In this connection, Chairman Eccles stated that he had discussed with President Harrison of the Federal Reserve Bank of New York the question of a desirable date for a meeting of the Federal Open Market Committee and that President Harrison had stated that he would like to call a meeting of the Presidents' Conference to follow immediately after the meeting of the Federal Open Market Committee. Chairman Eccles also said that he had suggested to President Harrison that a meeting of the Federal Open Market Committee be held on Monday, May 25, that this suggestion was agreeable to President Harrison, and that if it met with the approval of the Board he would call a meeting of the committee on that date.

It was understood that Chairman Eccles would call a meeting of the Federal Open Market Committee to convene in Washington on May 25, 1936, at 10:30 a. m., and that he would advise President Harrison that the Board was agreeable to his calling a Presidents' conference to follow the meeting of the Federal Open Market Committee.

Reference was made to the memorandum dated March 21, 1936, from

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Mr. Morrill, which was discussed at the meeting on March 25, and which transmitted a recommendation from Mr. Miller that authority be granted to arrange with a limited number of sculptors of satisfactory standing and reputation for the submission of designs of medallions to be placed at each end of the main lobby of the Board's new building, to determine upon suitable inscriptions to be placed upon the panels in connection with such medallions, and to let all necessary contracts therefor all upon the approval of Mr. Miller.

After a brief discussion, upon motion by Mr. Broderick, unanimous approval was given to the placing of a medallion containing the head of President Wilson in bas relief in one of the panels and authority was granted in connection therewith to take the steps recommended by Mr. Miller.

It was also agreed unanimously that no decision should be made at this time with regard to the placing of a medallion in the opposite panel.

There was then presented a letter received from the Chairman of the Federal Reserve Bank of Philadelphia, under date of May 7, 1936, reading as follows. A copy of the letter had been furnished to each member of the Board following its receipt:

"At the meeting of the Board of Directors of this bank, held yesterday, Mr. Frank J. Drinnen, Federal Reserve Examiner, was elected First Vice-President of this bank, for the unexpired term ending February 28, 1941, at a salary at the rate of \$15,000. per annum, as of June 1, 1936, or such other date as it may be convenient for your Board to release him.

"Mr. W. J. Davis, at present Assistant Vice-President of this bank, was elected a Vice-President, at a salary at

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"the rate of \$12,000. per annum, effective at once. Mr. Davis will assume many of the duties formerly performed by Mr. Sinclair and some of those performed by Mr. Hutt. His increased responsibilities, in the opinion of our Board, justifies the increase in his salary from \$10,000. to \$12,000.

"The action of our Board is submitted to you for your consideration."

During the discussion which followed, it was pointed out that prior to the receipt of the letter referred to above no communication had been addressed to the Board with regard to the action of the directors of the Philadelphia bank in appointing Mr. Drinnen as First Vice President and the opinion was expressed that, inasmuch as Mr. Drinnen was a member of the Board's examining staff and was in charge of the field force, the bank should have taken the matter up with the Board to ascertain the Board's opinion of Mr. Drinnen's qualifications for the position and whether it would be convenient for the Board to release him. In this connection attention was called to certain incidents which occurred since 1931 in connection with the supervision by Mr. Drinnen of the Board's field examiners which raised a question as to his judgment of men in his organization.

At the conclusion of the discussion, it was agreed unanimously that Mr. Broderick should communicate with President Sinclair of the Federal Reserve Bank of Philadelphia and advise him (1) that the Board feels that it might be better for the bank if Mr. Drinnen were made Vice President of the bank until possibly the end of the year but that if the directors were prepared and desired to make him First Vice President the Board would approve their action; (2) that in any



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case, whether Mr. Drinnen was made Vice President or First Vice President, inasmuch as he was a member of the Board's staff, the Board would like to have a letter from the board of directors of the bank to the effect that Mr. Drinnen had been selected by the directors without any suggestion or recommendation from the Board or any member of its staff; and (3) that should the directors decide to make Mr. Drinnen Vice President or First Vice President, the Board, upon receipt of the letter referred to above, would approve a salary at a rate of \$12,000 per annum for Mr. Davis as Vice President of the bank.

Consideration was also given to a letter received under date of April 30, 1936, from Deputy Chairman Moore of the Federal Reserve Bank of San Francisco, reading as follows. A copy of the letter had been sent to each member of the Board following its receipt:

"At a regular meeting of the Board of Directors of the Federal Reserve Bank of San Francisco held this morning, there were read the Board of Governors' letter of April 24th addressed to our Board and letter of the same date from Chairman Eccles to the writer.

"In appointing Mr. Day as President, our Directors felt fully confident of his ability to administer the affairs of the bank. His salary, however, would have been fixed at an amount below \$30,000 had it not been made clear that the Board of Governors had laid down the policy of not approving any advance in the salaries of officers unless there was involved a change from one position to another with greater duties and responsibilities.

"In its letter of the 24th, the Board of Governors stated that it had occasion recently to consider the salaries fixed by Federal Reserve Banks for Presidents and First Vice Presidents who had been promoted from lower-paying positions, and took the view that they should not receive at once the same salaries as their predecessors simply by reason of their promotion. It was also stated that that position did not prevent reconsideration of the question of appropriate salaries when sufficient time had elapsed to make an adequate appraisal of the manner in which the new appointees had met their re-

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"responsibilities in the light of existing conditions. Such a policy is a logical and proper one, and, indeed, one which our Directors have always pursued and would like to have followed in the instance under consideration. In the same letter, however, the Board of Governors stated that such a view was not inconsistent with Chairman Eccles' letter of February 2, 1935, in which he stated salaries of officers should not be increased unless there was involved a change from one position to another of greater duties and responsibilities, and that the mere rendering of good service by an officer would not be grounds for an increase in salary.

"With the understanding that it will be the policy of the Board of Governors to consider favorably future recommendations of our Board for adjustment in salaries of officers when sufficient time has elapsed for an adequate appraisal of the manner in which they have met their new responsibilities, our Board today voted that Mr. Day's salary be fixed at \$25,000 per annum, from March 1, 1936, to December 31, 1936.

"Our Directors strongly believe that the salary of the President of the Federal Reserve Bank of San Francisco should not be less than \$25,000 per annum. They are mindful of the fact that a number of officers employed in secondary positions in California banks receive an annual compensation equal to or greater than that amount, and also that it has a stimulating influence on the personnel of an organization to know that it holds forth a reward somewhat commensurate with the compensation which might be obtained in other institutions.

"Our Directors were surprised to learn that the Board of Governors felt the Federal Reserve Bank of San Francisco was not entirely in sympathy with the proposal to transfer to the bank the non-statutory duties performed in the Federal Reserve Agent's department.

"At the meeting today each member of the Board expressed himself as being favorable to such action, and, in support of such recommendation, it was expected that President Day would present at the forthcoming meeting of Presidents a study of the economies, if any, which might be effected by such a move.

"At the time our Board voted a salary of \$25,000 per annum for President Day, it voted a salary of \$14,000 per annum for Vice President Hale, for the same period. Our Directors respectfully request that the Board of Governors give favorable consideration and approval."

After a brief review of the consideration which had been given by the Board to the

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question of salary for Mr. Day as President of the Federal Reserve Bank of San Francisco, Mr. Szymczak moved that the Secretary be requested to advise the board of directors of the Federal Reserve Bank of San Francisco that the Board had reviewed its previous action and the reasons therefor and saw no satisfactory reason for amending its action at this time, but that if, at the end of the current year, the directors still felt that the salary of Mr. Day should be changed, the Board would be pleased to consider the matter again on the basis of the circumstances then existing.

Carried unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on May 7 and 8, 1936, were approved unanimously and the actions recorded therein were ratified unanimously.

At this point Messrs. Thurston, Wyatt, Paulger and Smead left the meeting and consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

Letter to Mr. C. M. Woolley, Acting Chairman of the Federal Reserve Bank of New York, prepared in accordance with the action taken at the meeting of the Board on May 1, 1936, and reading as follows:

"Chairman Eccles has brought to the attention of the Board of Governors of the Federal Reserve System your letter of April 23 which sets forth the view of the directors of the Federal Reserve Bank of New York that, in addition to making a contribution to the Retirement System of whatever sum may be necessary to increase Mr. Case's annual retirement allowance to what it would be if he were 65 years of age on April 30, 1936, your bank should be authorized to pay directly to him, or at his option to the Retirement



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"System, the equivalent of one year's salary (\$50,000) rather than \$25,000 as authorized in the Board's letter of February 26, 1936.

"The Board has given careful consideration to the statements contained in your letter as the basis for the position of your directors, but feels that in authorizing the retirement of Mr. Case on the basis of the retirement allowance to which he would be entitled if he were now 65 years of age and the payment to him or to the Retirement System of an amount equal to six months' salary, it is making as liberal an allowance as would be justified in the circumstances, particularly in view of the large salary paid him as Chairman and Federal Reserve Agent at the Federal Reserve Bank of New York as compared to the salaries paid the chairmen and Federal reserve agents at other Federal reserve banks.

"According to the Board's records, Mr. Case will not be 65 years of age until August 20, 1937. His retirement on April 30 on the basis of his having already attained 65 years involves the contribution by the Federal Reserve Bank of New York of an amount in excess of \$4,000 in addition to the contribution of \$25,000 referred to above, or a total cash contribution of more than \$29,000. It is believed that this contribution is a liberal one in relation to the contributions being made in the case of other retiring chairmen and Federal reserve agents even when the importance of the position of Chairman and Federal Reserve Agent at the Federal Reserve Bank of New York is compared with the same position at other Federal reserve banks. Therefore, the Board could not comply with the suggestion of your directors that a larger contribution be authorized without reconsidering the allowances approved on behalf of the other retiring Federal reserve agents referred to, which it does not feel it would be justified in doing. Information received by the Board indicates the feeling that the allowances made on behalf of other retiring chairmen and Federal reserve agents were entirely adequate and satisfactory to all parties concerned.

"It should be borne in mind that Mr. Case's designation as Chairman and Federal Reserve Agent was not terminated because of age, but because the position of Chairman and Federal Reserve Agent at the Federal Reserve Bank of New York was to be placed on an honorary basis in the interest of economy and the elimination of a dual executive responsibility at the bank. In the case of the retirement of a person before attainment of the age ordinarily provided under a retirement system it cannot be effectively argued that the retirement allowance provided should be fixed with



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"a view to permitting retirement without too radical a revision of the individual's standard of living. In such instances it is to be expected that the individual, under ordinary circumstances, will secure other employment and may continue an active career for a number of years, thereby supplementing the retirement allowance provided and permitting the individual to make gradually any necessary adjustment in his standard of living. This is the situation in the instance of Mr. Case, as shown by the fact that immediately upon his retirement as Chairman and Federal Reserve Agent at the Federal Reserve Bank of New York he became a general partner in the investment firm of R. W. Pressprich & Co.

"While the Board appreciates very much the interest which the board of directors of the Federal Reserve Bank of New York has taken in this matter, it feels that, for the reasons stated, any amendment of its previous action would not be justified."

Approved unanimously.

Letter to Mr. Evans, Assistant Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of May 6, 1936, regarding the citation of the Forney State Bank of Forney, Texas, to show cause why its membership in the System should not be terminated, and the question raised as to who should conduct the hearing.

"In view of the serious question involved as it affects the member bank and the fact that the reallocation of the respective duties of the Federal Reserve Agent and the Federal Reserve Bank has not been completed, it is believed that it would be appropriate that Colonel Walsh, as Federal Reserve Agent, conduct the hearing. It will be appreciated if you will ascertain whether it will be possible for Colonel Walsh to do so."

Approved unanimously.

Letter to Mr. W. D. Radford, Vice President, North Shore Civic Alliance, Inc., Flushing, New York, reading as follows:

"Your letter of April 28, 1936, and the copy of your radio address inclosed, with reference to loans for small

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"industry, have been read with a great deal of interest.

"The Board of Governors of the Federal Reserve System is desirous of doing whatever it can to bring to the attention of commercial and industrial enterprises which have been unable to obtain working capital funds from the usual sources the facilities which Congress has authorized the Federal Reserve banks to make available to them under Section 13b of the Federal Reserve Act. In this connection the Board has on a number of occasions asked the Federal Reserve banks to do what they could to bring to the attention of prospective borrowers the possibility of obtaining accommodation at the Federal Reserve banks and has also asked them to communicate with financing institutions in their districts urging such institutions to bring to the attention of the Federal Reserve banks any cases where worthy enterprises in need of working capital funds have been unable to obtain credit. A copy of a radio address made by Governor Szymczak on the subject of industrial loans is inclosed.

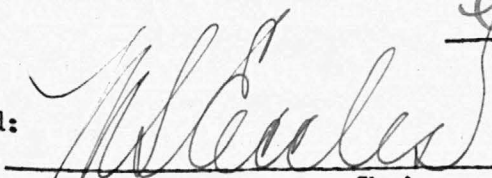
"Such information as has come to the Board indicates that in many cases small enterprises which are in need of additional funds need fixed capital rather than working capital. The Federal Reserve banks, as you will note from the inclosed regulation, which quotes the law, are authorized to make loans to commercial and industrial enterprises only for the purpose of supplying working capital funds as distinguished from capital funds. In the inclosed copy of the Board's Regulation 'S' you will find described the specific requirements of the law with which loans made under the Act by the Reserve banks must comply.

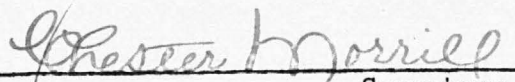
"In case you know of any particular instances in which you feel that the Federal Reserve banks can be helpful in extending credit under Section 13b of the Federal Reserve Act, the Board will greatly appreciate your bringing such cases to the attention of the Federal Reserve Bank of New York or the Federal Reserve bank of the district in which the person or persons in need of credit reside."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

  
Chairman.

  
Secretary.