

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, August 19, 1936, at 10:45 a. m.

PRESENT: Mr. Ransom, Vice Chairman  
Mr. Broderick  
Mr. Szymczak  
Mr. McKee  
Mr. Davis

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Thurston, Special Assistant to the  
Chairman  
Mr. Vest, Assistant General Counsel  
Mr. Dreibelbis, Assistant General Counsel

Mr. Ransom stated that in accordance with the understanding reached at the meeting of the Board on August 14, 1936, he had advised President Harrison of the Federal Reserve Bank of New York over the telephone of the Board's attitude with respect to the proposed salary for Mr. L. F. Sailer as Vice President of the bank for the period beginning September 1 and ending December 31, 1936, and that after several subsequent telephone conversations President Harrison had requested an opportunity to discuss the matter with the Board and had come to Washington to meet with the Board today for that purpose.

At the request of Mr. Ransom, Mr. Morrill reviewed briefly the consideration which had been given by the Board during recent years to the salary fixed by the directors of the New York bank for Mr. Sailer and during the discussion which ensued Mr. Ransom stated that while talking with Chairman Eccles over the telephone yesterday concerning another matter he had mentioned the action taken by the New York directors with regard to Mr. Sailer's salary and that the Chairman had stated again

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that although he was present at the meeting of the directors in New York when the action was taken he had made no commitment with regard thereto and that any action that the Board decided to take on the matter would be agreeable to him.

Mr. Ransom read the following letter addressed to the Board by President Harrison under date of August 18, 1936, which had been handed to Mr. Ransom by President Harrison upon the latter's arrival in Washington this morning:

"During the past few days we have had some talks over the telephone regarding my letter of July 31, 1936 advising the Board of Governors that our directors had voted, subject to the approval of the Board of Governors, to fix Mr. Sailer's salary for the period beginning September 1, 1936 and ending December 31, 1936, at the rate of \$30,000 per annum.

"In that letter of July 31, I did not comment on the reasons for the action of our directors largely because I had had several talks with Chairman Eccles about Mr. Sailer's case and had gained the impression that our proposal would be agreeable to him and probably to the Board as a whole. Furthermore, Chairman Eccles' letter of March 11, which advised us that the Board had approved Mr. Sailer's salary only until the end of August, 1936, stated that that action was taken 'for the reasons which I communicated to you during our telephone conversation of March 7.' In that conversation Chairman Eccles had made it clear to me that the action of the Board was not intended to indicate that Mr. Sailer's services with the bank should necessarily be terminated on August 31, but rather that the salary was approved only until August 31 because of the fact that by that time our directors would have to take action one way or another as to the date of Mr. Sailer's retirement from the bank.

"In my subsequent and more recent talks with Chairman Eccles, as in my talks with you over the telephone, I pointed out certain considerations which made it seem advisable to us to continue Mr. Sailer's services with the bank until the end of the calendar year. In the first place, we have adopted a general policy in the bank, now that we have a retirement

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"system, of retiring all clerical employees who shall reach the age of 65 on the first of May following. It has seemed to be a wise and workable general policy, preferable to retirement of each individual on the actual date of his 65th birthday. The only two official cases which have arisen since the adoption of this policy for employees, have been those of Mr. Dodge, our general auditor, who is 68 years of age, and Mr. Sailer. Mr. Dodge has been advised that his retirement will become effective on December 31, and the Board of Governors has approved his salary until that date. Our directors believe that similar action should be taken with respect to Mr. Sailer rather than to have him retired in August, the month of his 65th birthday, or on next May 1, as would be the case were he a member of the clerical staff of the bank.

"Generally, or in the absence of good reasons for a contrary decision, it would seem to be appropriate to continue the services of any senior officer about to be retired, until the end of the calendar year, when official readjustments and salaries normally come up for consideration, rather than to retire him during the particular month in which he happens to attain the age of 65.

"Quite apart from the general principles involved, however, both the directors and myself are desirous of continuing Mr. Sailer's services until the end of December. We are in the process of reorganization within the bank. Mr. Sailer, who is vice president in charge of the administration function, and who has for years been in charge of that function, including various questions of organization, salary, expenses, and budgets, will be particularly helpful during this period of reorganization. While no one individual's services can be said to be indispensable, nevertheless because of his long service and experience in these matters of organization, Mr. Sailer will be particularly useful and helpful to the bank and to me personally during the balance of the year.

"It is for these reasons that our directors have voted to fix his salary until the end of the year, and I know that they will appreciate the Board's approval of their action."

President Harrison was called into the meeting at this point and invited to make any comments that he might desire in connection with the proposed salary for Mr. Sailer. Thereupon Mr. Harrison discussed the points mentioned in the letter referred to above and, in addition to stating the position of his board of directors with respect

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to Mr. Sailer's retention, emphasized his own feeling that because of Mr. Sailer's ability and past experience in connection with the operations and personnel of the bank it would be especially helpful to him as President of the bank if Mr. Sailer could be retained until the end of the year in connection with the completion of the reorganization now being made of the functions and personnel of the New York bank. President Harrison also stated that he had indicated to Mr. Sailer that he would be retired as of the end of the year and that if it were now decided to retire him before that time some embarrassment would result, but that as the reorganization plan of the bank, under which all of the operating departments of the bank will be placed under Vice President Rounds, would be completed by December 31, 1936, there would be no reason for retaining Mr. Sailer after that date. He added that, in fact, he would prefer not to retain Mr. Sailer after that date because the reorganization plan in view made other provision for the performance of his duties.

Upon inquiry from Mr. McKee as to whether there had been ample time since the receipt of the Board's letter of March 11, 1936, to make the necessary reassignment of duties among the officers of the bank in contemplation of the termination of Mr. Sailer's services on August 31, Mr. Harrison stated that such rearrangement might have been possible had he realized that it was contemplated that the services of Mr. Sailer were to be dispensed with as of that date, that some time ago, in antici-

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putation of the retirement of Mr. Sailer, he had placed Mr. H. H. Kimball under Mr. Sailer for the purpose of learning his work and that Mr. Kimball is to take over the principal duties of Mr. Sailer under the supervision of Mr. Rounds upon completion of the reorganization now in progress.

Mr. Ransom pointed out that the Board had limited its approval of Mr. Sailer's salary to August 31, 1936, with the express understanding that he would be retired as of that date and that the Board had not expected a further request from the New York bank for the approval of a salary for an additional period. President Harrison stated that he had not so interpreted the Board's letter of March 11, 1936, and that, while he was willing to take full responsibility for the misunderstanding, he felt it was highly desirable that Mr. Sailer's services be retained until the end of the year for the reason previously stated.

Mr. Ransom then referred to a letter addressed to the Board by President Harrison on August 13, 1936, inclosing copies of correspondence with the Bank for International Settlements in May and July, 1936, with respect to the renewal of the central bank credits to the National Bank of Hungary which expire on October 18, 1936, and requesting approval by the Board of Governors of the action taken by the board of directors of the Federal reserve bank in authorizing the officers to convey to the Bank for International Settlements for transmission to the National Bank of Hungary and all participants in the credits, the

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views of the Federal Reserve Bank of New York which were set forth in President Harrison's letter as follows:

- "(1) that we should take issue with the implication in the Hungarian Bank's letter of July 4, that these central banks debts enjoy no priority of status.
- "(2) That a further renewal of the credits without any transfer of repayment of principal is not warranted in the face of an improvement in the economic situation in Hungary, and
- "(3) that, therefore, this bank should not now readily join with the B. I. S. and the central bank governors of the Board of the B. I. S. in the acceptance of the Hungarian proposal of July 4 as modified by the directors of the B. I. S. unless the National Bank of Hungary is prepared, in return for the creditors agreement to renew for a period of nine months, to agree that in addition to paying interest in foreign exchange for the period of the renewal at the rate of 1% per annum on both the first and second syndicate credits, it shall, on October 18, 1936, transfer to each of the creditors in foreign exchange
  - (a) the 2% amortization on the second syndicate credit placed to gold pengo blocked account on October 18, 1934, and the further 2% amortization so handled on October 18, 1935, as well as
  - (b) a further 2% amortization of the second syndicate credit to be made and transferred as above on October 18, 1936.

And, that, in the event this proposal is accepted the Federal Reserve Bank of New York without prejudice to its rights regarding future payments should agree as heretofore, to have the gold dollars due it under the proposal calculated at the gold parity of the dollar on December 17, 1931, converted into U. S. dollars, and upon receipt of the dollar proceeds, to credit as interest, a number of U. S. dollars equivalent to the number of gold dollars due for interest, and to credit as a partial repayment of principal the balance of such U. S. dollars."

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Mr. Ransom stated that he had discussed this matter with President Harrison over the telephone and he inquired of President Harrison whether he had any further information to give to the Board with respect thereto. President Harrison stated that he had sent a telegram to the other Federal reserve banks inquiring whether they approved the terms proposed by the Federal Reserve Bank of New York for the renewal of the credits and that he would advise the Board when replies were received from the Federal reserve banks. President Harrison was advised by Mr. Ransom that the Board would take no action in the matter until advice was received as to the attitude of the other Federal reserve banks.

At this point President Harrison left the meeting.

There followed a further discussion of the request of the Federal Reserve Bank of New York that the Board approve a salary for Mr. Sailer at the rate of \$30,000 per annum for the period commencing September 1 and ending December 31, 1936.

Mr. McKee moved that the Board adhere to the position taken in its letter of March 11, 1936.

This motion was put by the Chair and lost, the members voting as follows:

Mr. Szymczak	"aye"
Mr. McKee	"aye"
Mr. Ransom	"no"
Mr. Broderick	"no"
Mr. Davis	"no"

Mr. Broderick moved that, in view of the statements made by President Harrison, the Board approve a salary at the rate of \$30,000 per annum for Mr. Sailer for the

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period beginning September 1 and ending not later than December 31, 1936, with the definite understanding that Mr. Sailer will be retired on or before the latter date, that there will be no further request for approval of any compensation for him, and that this action of the Board is final.

This motion was put by the Chair and carried, the members voting as follows:

Mr. Ransom	"aye"
Mr. Broderick	"aye"
Mr. Szymczak	"aye"
Mr. Davis	"aye"
Mr. McKee	"no"

Mr. Ransom stated that a letter dated August 17, 1936, had just been received from Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, inclosing a copy of the complaint in equity filed in the District Court of the United States for the Northern District of California, Southern Division, in the case of Andrae B. Nordskog, et., Plaintiff, vs. Federal Reserve Bank of San Francisco, et. al., Defendants. He suggested that the Federal Reserve Bank of San Francisco be requested to keep the Board advised of all developments in the case and that a copy of the answer proposed to be made by the Federal reserve bank be submitted to the Board for consideration before it is filed.

Mr. Ransom's suggestion was approved unanimously.

At this point Messrs. Thurston, Vest and Dreibelbis left the meeting and consideration was then given to each of the matters herein after referred to and the action stated with respect thereto was taken by the Board:

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The minutes of the meeting of the Board of Governors of the Federal Reserve System held on August 18, 1936, were approved unanimously.

Telegram to Mr. Young, President of the Federal Reserve Bank of Boston, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

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

"Reference is made to your letter of July 13, 1936, regarding the proposed reorganization of the examining staff of the Federal Reserve Bank of Dallas.

"It has been noted that at the present time you have an examining staff consisting of four examiners and three assistant examiners; that you feel that on the basis of the present State bank membership in your district the future examination work can satisfactorily be conducted by a force of two examiners and two assistant examiners; and that you desire an expression of the Board's views as to the wisdom of a proposed plan to dispense with the services of two examiners and to release or transfer to another department one or more of the assistant examiners. You have requested also an expression of the Board's views regarding the release of Trust Examiner Neilan and the designation of Mr. Betts to perform the work in connection with the examination of trust departments of State member banks in your district.

"In Chairman Eccles' letter of March 25, 1936, the view was expressed that economies in organization should be effected wherever possible to do so without impairing the efficient operation of the Federal reserve banks. Accordingly, if after full consideration of all of the circumstances you feel that the bank examination department is overstaffed, the Board will interpose no objection to a reduction therein to a number sufficiently adequate to insure the proper functioning of the department.

"The Board has noted that there are only three State

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"member banks in your district which operate trust departments, and that you feel that, in the event that the present Trust Examiner, Mr. Neilan, is released as proposed, Mr. Betts is capable of rendering satisfactory service as trust examiner for your bank. In view of all the circumstances, the Board approves, in the event of the release of Mr. Neilan, the transfer of the trust examination work to Mr. Betts, with the understanding, of course, that the trust examination work will not be slighted under such an arrangement.

"Please advise the Board of the action taken in connection with the reorganization of the bank examination department."

Approved unanimously.

Telegram to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Board has given consideration to application of 'Cowlitz Valley Bank', Kelso, Washington, for permission to retire \$5,000 of capital debentures and, in view of the marked upward trend of deposits does not consider it advisable to approve the proposed retirement at this time, but will be glad to reconsider the matter after another examination of the bank has been made, if the situation at that time is such that you are willing to submit a favorable recommendation."

Approved unanimously.

Thereupon the meeting adjourned.

Whester Morrie  
Secretary.

Approved:

James J. Finson  
Vice Chairman.