

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, May 11, 1937, at 10:45 a. m.

PRESENT: Mr. Eccles, Chairman
 Mr. Ransom, Vice 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. Goldenweiser, Director of the Division
 of Research and Statistics
 Mr. Smead, Chief of the Division of Bank
 Operations
 Mr. Dreibelbis, Assistant General Counsel
 Mr. Chase, Assistant Counsel
 Mr. Chamberlin, Federal Reserve Examiner

There was presented a memorandum dated May 11, 1937, from Mr. Broderick reading as follows:

"Mr. Harrison, President of the Federal Reserve Bank of New York, recently discussed informally with some of the Members of the Board the action taken by his board of directors on April 29 with respect to the salaries of the lower paid employees of the bank. Mr. Harrison states that his directors have been concerned for some time about the adequacy of salaries paid by the bank, particularly to the lower salaried employees, and that they have come to the conclusion that there should be an increase at this time in the general level of salaries paid to the lower salaried employees. Among the considerations that have led to this conclusion are the belief that salaries paid by financial institutions are substantially below salaries paid by industrial corporations in the Metropolitan area and the current tendency to award a relatively larger proportion of the earnings of business to the lower paid employees in order that the whole standard of living of this group of workers may be raised. The specific proposals of the directors are set forth on pages 3 and 4 of the attached letter

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"from President Harrison, dated May 7, 1937. In general it is proposed to grant a flat increase of \$120 per annum in the salaries of all clerical employees receiving salaries between \$1,200 and \$2,580 per annum; to grant employees in the so-called group of 'automatics' a flat increase of \$60 per annum and to increase the maximum salary of that group from \$1,200 to \$1,320 per annum; to grant an increase of \$100 per annum to a number of clerical employees receiving \$2,600, and to all mechanics of the building department, protection men and porters, and to the 4 higher paid employees of the food supply unit, and an increase of \$60 per annum to the charwomen and to 40 lower paid employees in the food supply unit.

"These changes will necessitate a change in the maximum salary provided in the bank's personnel classification plan for a large number of positions, which changes will have to be approved by the Board of Governors before they become effective. These changes are set forth in summary form in the attached letter from Mr. Rounds, dated May 10.

"I concur in the opinion expressed in the attached memorandum from Mr. Smead, dated May 10, that when the directors of a Federal Reserve bank reach the conclusion that an upward adjustment should be made in the salaries of employees it would seem to be the function of such directors to determine, in the light of existing conditions, whether they should grant flat increases in salaries to certain groups of employees or make such adjustments as are deemed desirable in the salaries of individual employees, provided, of course, that any adjustments made come within the maximums provided in the personnel classification plan for the positions occupied.

"After reviewing the statements contained in President Harrison's letter of May 7 and hearing the views of certain of his directors, I am convinced that the proposed salary adjustments are reasonable and that they should be approved. I therefore, recommend that the Federal Reserve Bank of New York be advised that the Board approves the changes in the personnel classification plan of the bank set forth in Mr. Rounds' letter of May 10 with the understanding that the necessary revised pages of the personnel classification plan will be forwarded to the Board at an early date."

The letters received from Mr. Harrison under date of May 7 and from Mr. Rounds under date of May 10, 1937, were read and the proposed increases in salaries were discussed.

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At the conclusion of the discussion Mr. Broderick's recommendation was approved unanimously.

Mr. Ransom referred to the pending question of revision of Regulation A, Advances to and Rediscounts for Member Banks by Federal Reserve Banks, and stated that the memorandum prepared by Mr. Daiger in connection with the revision of the regulation had been circulated among the members of the Board and that he would appreciate it if the members of the Board and senior staff could have a meeting for an informal discussion of the regulation.

It was understood that an informal meeting of members of the Board and the senior staff would be held on June 10, 1937, for the purpose referred to by Mr. Ransom.

There was presented a draft of a letter prepared in the office of Counsel, to Vice President Gidney of the Federal Reserve Bank of New York, reading as follows:

"Careful consideration has been given to your letter of March 29, 1937 regarding the question whether Mr. Thatcher M. Brown, who is a partner in the firm of Brown Brothers, Harriman & Company, New York, New York, may also serve as a member of the board of trustees of United States Trust Company, New York, New York, in view of the provisions of the Clayton Act.

"Although the information which you have submitted shows that the firm does no trust business and that the trust company is engaged almost exclusively in trust business and certain related activities, it shows that both organizations receive deposits of banks, receive demand deposits of corporations and individuals, and make loans on stock and bond collateral. In the circumstances, it would seem to be very difficult to reach the conclusion that the exception in section 3(d)(4) of the Board's Regulation L is applicable, in view of the footnote to that section, even though, as explained in your letter, the deposits of the trust company are largely inactive, consisting principally in reserve

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"accounts and accounts carried for persons with whom it has fiduciary relations, as contrasted with the deposits of the firm which are active, and in spite of certain other such differences discussed in your letter.

"The above exception and the corresponding exception in section 2(d)(6) appear to be of limited applicability, and the Board could not decide that the exception is applicable in the present case without reaching a conclusion in conflict with that which it has previously reached in several other similar cases arising in other cities."

The letter had been circulated among the members of the Board and Mr. Broderick had attached a note stating that he did not agree with the conclusion reached in the letter.

In connection with a discussion of the matter it was stated by counsel that the specific question involved was whether the case came within the exception contained in subsection 3(d)(4) of Regulation L, which provides that any private banker may be at the same time a director, officer or employee of one member bank not engaged in a class or classes of business in which such private banker or a firm of private bankers of which he is a member is engaged; that the two organizations were engaged in some of the same classes of business; and that the Board could not rule that the exception was applicable in the present case without taking a position inconsistent with that taken in certain other cases.

Mr. Broderick stated that, on the basis of his personal knowledge of the character of the business of the two institutions, he was of the opinion that there was no competition between them, that they served entirely different classes of customers, and that he did not share the opinion that this case did not come within the exception in

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subsection 3(d)(4) of Regulation L. He quoted a portion of Mr. Gidney's letter of March 29, 1937, which stated that, as a practical matter, the lines of demarcation of the business of the two organizations were as clear as could reasonably be expected between any two institutions in the same city. In this connection counsel stated that under the Clayton Act as amended by the Banking Act of 1935, competition was no longer the test.

At the conclusion of the discussion, Mr. Szymczak moved that the proposed letter to Mr. Gidney be approved.

Mr. Broderick moved as a substitute for Mr. Szymczak's motion that the Federal Reserve Bank of New York be advised that this case comes within the class of exceptions set forth in subsection 3(d)(4) of Regulation L.

Mr. Broderick's motion was put by the chair and lost, Messrs. Broderick and McKee voting "aye" and Messrs. Eccles, Ransom and Szymczak voting "no".

Mr. Szymczak's motion was then put by the chair and carried, Mr. Broderick voting "no".

Consideration was given to a reply dated April 20, 1937, from Mr. Thomas, Chairman of the Federal Reserve Bank of Kansas City, to the Board's letter of April 5, 1937, with respect to recent amendments to the by-laws of the bank.

During the discussion which followed, Mr. Ransom moved that the Board take the position that, in the interest of sound procedure, the chairman of the board of directors of a Federal reserve bank, and

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in his absence or disability the deputy chairman, and in the absence or disability of both the third Class C director, should serve as chairman of the executive committee of the bank, and that, as it was expected that President Hamilton would be in Washington during the early part of June to attend a Presidents' Conference, action on Mr. Thomas' letter be deferred, with the understanding that the by-laws of the bank would be discussed with President Hamilton in the light of the Board's position with respect to the chairman of the executive committee.

Carried unanimously.

Mr. Ransom stated that in accordance with Chairman Eccles' recent statement to representative Patman that the Board, through its staff, would be pleased to give such information or such drafting service as it could in connection with the redrafting of the bill which was recently introduced by Representative Patman for the purpose, among others, of constituting the Board of Governors of the Federal Reserve System as a governmental agency to be designated as the Monetary Authority, Messrs. Wyatt and Dreibelbis had conferred with Mr. Herbert Brougham, expert adviser to the committee organized by Representative Patman in connection with the legislation, and with Representative Binderup on the drafting of a revised bill, that the questions now remaining in connection with the bill have to do almost exclusively with questions of policy which do not involve legal considerations, and that a question was presented as to what the position of the Board would be if a further conference were requested. Chairman Eccles stated that, when he discussed the matter with Representative Patman, Representative Binderup was also present, and that he

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(Chairman Eccles) had made it very clear that the staff of the Board would be available to give whatever assistance it could by way of furnishing information or drafting service but would not be expected to express opinions on any matters of policy that might arise, and he suggested that the same understanding be had in connection with any further conferences on the matter.

Reference was made to memoranda dated April 28 and May 6, 1937, from the Division of Examinations with respect to the application of the Jefferson-Gravois Bank of St. Louis, Mo., a State member bank, for permission to exercise trust powers; the reason for the application being that, without realizing that the permission of the Board to exercise trust powers should have been obtained, the bank had undertaken to act as executor or agent in four accounts. The memoranda stated that the bank, which had carried out a rehabilitation program in 1934 resulting in the sale of \$300,000 of capital notes to the Reconstruction Finance Corporation and \$100,000 of such notes locally, had at the present time an impairment of its common capital amounting to approximately \$173,000, but that the net sound capital was equal to 12% of its deposits; that, while the bank's asset condition was not satisfactory, it was showing definite improvement with favorable prospects for successful operation in the future and should be able over a period of years to eliminate the existing capital impairment without further adjustment of its capital; and that in view of all the circumstances it was felt that the Board would be warranted in approving the application.

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Messrs. Ransom and McKee had considered the matter and had questioned the advisability of approving the application in these circumstances.

At the conclusion of a discussion, Mr. Ransom moved that the member bank be advised, through the Federal Reserve Bank of St. Louis, that the Board had deferred action on the application pending the removal of the capital impairment, but that during the interim the Board would interpose no objection to the member bank continuing to administer the four trusts now on its books.

Carried unanimously.

At this point Mr. Vest, Assistant General Counsel, entered the room.

There was then presented a memorandum dated May 10, 1937, from Mr. Vest in which he referred to the negotiations which had been had with the Treasury Department with respect to the replacement by the Treasury of the existing stocks of unissued Federal reserve notes of the 1928 series with notes of the 1934 series. The memorandum submitted copies of drafts of letters prepared by the Treasury to be sent to the President of the Senate and the Speaker of the House of Representatives transmitting a resolution which would authorize the destruction of the stocks of 1928 series notes and their replacement with an equal number of Federal reserve notes of the 1934 or a later series; the cost of replacement to be paid from the miscellaneous receipts covered into the Treasury by reason of the reduction of the weight of the gold dollar. The drafts had been sent to the Board informally by Mr. C. V. Opper, Assistant General Counsel for the Treasury Department, for suggestions

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or comment before their transmission.

After discussion, upon motion by Mr. Ransom, Messrs. Smead and Vest were requested to confer with Mr. Opper regarding the contents of the proposed drafts of letters; to advise him that the Board had no suggestions to make regarding the proposed resolution; and to suggest that someone from the Treasury Department, possibly the Acting Director of the Budget, take the letters and resolution personally to the proper members of the Senate and the House of Representatives and explain the underlying situation to them in order that there might be no misunderstanding of the matter.

Consideration was also given to a draft of a letter to Mr. Harrison, Chairman of the Presidents' Conference, enclosing copies of the Board's letter of March 31, 1937, to President Peyton of the Federal Reserve Bank of Minneapolis and of Mr. Peyton's reply of April 7, 1937, relating to the question whether a national bank may pledge Federal reserve bank cashier's checks with its trust department as security for trust funds deposited by it in its commercial department. The draft of letter to Mr. Harrison requested that Mr. Peyton's suggestion, that consideration be given to the amendment of Regulation F, Trust Powers of National Banks, to approve the use of Federal reserve bank cashier's checks as collateral security for such funds, be placed on the program for discussion at the next meeting of the Presidents' Conference. Mr. Ransom suggested that instead of sending the proposed letter to Mr. Harrison the Board determine whether it would be willing to amend the Regulation as suggested and, if so, that it then ask the Federal reserve banks for their views as to whether the amendment should be made.

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Upon motion by Mr. Ransom, it was decided to proceed in accordance with his suggestion.

At this point Messrs. Thurston, Wyatt, Paulger, Goldenweiser, Smead, Dreibelbis, Vest, Chase and Chamberlin 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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on May 10, 1937, were approved unanimously.

Telegram to Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Nardin, Chairman of the Federal Reserve Bank of St. Louis, prepared for the signature of Chairman Eccles, and reading as follows:

"Reference is made to our recent conversations regarding the Board's present policy with respect to the approval of salaries of officers and employees of Federal reserve banks who have attained the age 65 and particularly to the approval of a salary for Mr. James G. McConkey, Vice President and General Counsel of your bank, for a further period in accordance with your letter of March 9, 1937. As you know, the Board has given this question a great deal of thought, not only in the light of the general questions of policy involved, but also particularly in view of the situation which you have described in connection with the management problems of the Federal Reserve Bank of St. Louis.

"In your letter of March 9 you raised a question of consistency between the position taken by the Board and the

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"provisions of the rules and regulations of the retirement system of the Federal reserve banks. This system was adopted voluntarily by the Federal reserve banks with the approval of the Board and under the rules of the system all officers and employees are subject to automatic retirement at the age of 65, except that extensions may be obtained at the request of Federal reserve banks and with the approval of the retirement committee for periods of a year at a time, not exceeding five years. It seems clear from the way the rules were drawn that it was contemplated that only exceptional cases requiring special circumstances would justify such extensions and therefore the Board's letter of January 21, 1937, X-9798, which took the position that, except in particular cases involving exceptional circumstances, the Board would not approve a salary beyond the end of the calendar year in which the officer or employee attains the age of 65 years, is wholly consistent with the spirit of the policy thus evidenced by the rules of the retirement system. In adopting the position taken in that letter, the Board felt that it could not properly discharge its responsibility for approving the payment of salaries without satisfying itself that the circumstances of the particular case justified retention beyond the end of the year. The Board also had in mind the desirability of having a general policy for the system under which the number of cases requiring special consideration would be reduced to a reasonable minimum, especially since the system as a whole is somewhat over-staffed and the existence of such a policy on the part of the Board might tend to relieve the directors of the banks from some of the pressure to retain older officers because of long service and personal friendships. A policy of prompt retirement should also have an encouraging effect upon the younger men who are ambitious and worthy of advancement, and where such men are not already available the injection of new blood into the system is likely to be beneficial.

"Before reaching its conclusions in the matter the Board had the benefit of continued observations of the operation of the Federal Reserve System as a whole and of the personnel engaged therein. The Board considered the experience of other large organizations which have adopted policies of retirement at stated ages, as well as the experience of insurance companies that underwrite retirement or similar policies of insurance. In addition, it took into account legislative policies as reflected in recent laws relating to retirement. In the light of all this information, it concluded that ordinarily retirement at the age of 65, as provided in the rules which had been adopted

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"by the Federal reserve banks for their retirement system, would best serve the interests of all the Federal reserve banks. It was apparent, however, that the Board could not define in advance the circumstances which would justify exceptions but, on the other hand, it was not contemplated that the facts that physical and mental abilities seem unimpaired or that there would be a substantial reduction of income should be deemed sufficient in and of themselves to constitute such exceptional circumstances. If they were sufficient, retirement at 65 might become the exception rather than the rule. Coupled with the fact that the retirement system had been in effect since March, 1934, the Board felt that by making an announcement in January of this year as to a policy which would permit, if desired by the Federal reserve banks, the retention of employees past the age of 65 until the end of the year, a reasonable opportunity would be given for all necessary adjustments. It may be added in this connection that the other Federal reserve banks are adjusting themselves to this policy. As it has not appeared that the Federal Reserve Bank of St. Louis could not meet the situation as to its legal work by the end of this year without the necessity of retaining Mr. McConkey in his present position for a further period, and in view of the fact that he has already had two extensions of a year each, the Board feels that the circumstances are not such that it should at this time approve his salary for an additional period.

"You have brought to the attention of the members of the Board certain circumstances with respect to the problem involved in replacing Mr. Wood at the Federal Reserve Bank. In view of these circumstances, together with the fact that he will not reach the age 65 until just two days prior to the expiration of the year, the Board would be willing, if it should become advisable in the opinion of your board of directors to retain him for a further period not to exceed one year beyond the end of this year, to approve a salary for him in accordance with a recommendation to that effect."

Approved unanimously.

Telegram to Mr. Sargent, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Re letter April 30. Board interposes no objection to proposed retirement by 'Citizens State Bank', Puyallup, Washington, of \$1,300 capital debentures."

Approved unanimously.

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Letter to Mr. Young, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letters of April 20 and May 3, 1937 requesting the views of the Board upon the question whether the payment of assessments by member bank depositories of public funds under the Iowa Code of 1935, as it would be amended by a bill designated as House File 544 and Senate File 524, would constitute the payment of interest on demand deposits in violation of the provisions of Regulation Q and section 19 of the Federal Reserve Act.

"After considering this question, the Board of Governors has reached the conclusion that the payment of assessments under the Iowa Code of 1935, as it would be amended by the above-mentioned bill, would not constitute a payment of interest in violation of the law and the Board's regulation. This opinion is based upon the provisions of the bill inclosed with your letter of May 3, 1937 and it should be emphasized that changes in this bill might have the effect of causing the assessments to become interest payments."

Approved unanimously.

Thereupon the meeting adjourned.

Walter M. Miller
Secretary.

Approved:

W. C. C. C.
Chairman.