

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, March 27, 1940, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman  
 Mr. Ransom, Vice Chairman  
 Mr. Szymczak  
 Mr. Davis  
 Mr. Draper

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. Wingfield, Assistant General Counsel  
 Mr. Cagle, Assistant Chief of the Division of Examinations  
 Mr. Williams, Assistant Counsel  
 Mr. Morse, Senior Economist in the Division of Research and Statistics

There was presented a draft of letter to Mr. Berle, Assistant Secretary of State, which had been prepared in accordance with the action taken at the meeting of the Board on March 26, 1940, with respect to the proposed Inter-American Bank.

The letter was approved unanimously in the following form, with the understanding that copies thereof would be sent to the Secretary of the Treasury and the President of the Export-Import Bank:

"The Board is informed that, at a meeting concerning the Inter-American Bank proposal which took place at the Treasury Department on the morning of Friday, March 22, there was considerable discussion of the suggestions contained in the Board's letter of March 8, 1940, that:

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"1. The by-laws of the Bank should be amended so as to permit it to accept without restriction the direct obligations, guaranties, and endorsements of central banks; and

"2. The by-laws should expressly recognize the possibility of designating central banking authorities to appoint the director and exercise the continuing functions of government in relation to the Bank.

"Upon further consideration of the subject, the Board believes that the desired objective would be accomplished by a modification of the first proposal in the following respects: (a) that the proposed amendment be limited in its application to loans and other extensions of credit having maturities not exceeding two years, and (b) that such a course of business should not be engaged in if the government of the country involved interposes an objection. Any modification of the by-laws which would make it possible for the Inter-American Bank to make such loans and extensions of credit without the guaranty or other obligation of a government would serve the purpose.

"With reference to the second proposal contained in the Board's letter of March 8, the Board believes that it would be sufficient to cover the matter by a statement incorporated in the permanent minutes of the Inter-American Financial and Economic Advisory Committee, to the effect that any government which desires to do so is free to designate its central banking authority to appoint the director and represent the government in its relations with the Bank."

Mr. Morse withdrew from the meeting at this point.

Mr. Ransom referred to the consideration given by the Board at its meetings on February 27 and 29, 1940, to certain provisions of the bill being prepared by the Securities and Exchange Commission for the purpose of regulating investment trusts and stated that the bill had been introduced in the Senate and House of Representatives as the Investment Company Act of 1940 and that he would like to have Mr. Wingfield review the important provisions of the bill for the information of the Board.

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Mr. Wingfield said the bill regulated in considerable detail the practices of investment trusts, particularly with reference to requiring financial responsibility, information to shareholders, the use of proxies, and self-dealing between investment companies and officers and directors of the companies, and that the bill would affect banks in two or three respects, particularly in that some undetermined number of bank holding companies would also be investment trusts and as such would come under the provisions of the bill and be subject to supervision by the Securities and Exchange Commission. He added that, while the bill exempts banks which are holding company affiliates and common trust funds from its provisions, it does not contain the provision suggested by the Board that bank holding companies which had obtained voting permits from the Board should not be subject to additional regulation by another Government agency, the reason apparently being that the purpose of the holding company legislation is to protect banks and depositors of banks the stock of which is held by holding companies, whereas the purpose of the investment trust bill is to protect investors in the obligations of investment trusts. One of the members of the staff of the Securities and Exchange Commission had pointed out, Mr. Wingfield said, that the bill does give the Securities and Exchange Commission the authority to exempt companies from the provisions of the bill when deemed desirable in the public interest but that that provision might be

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modified. The members of the staff of the Securities and Exchange Commission had informally suggested, therefore, that it might be desirable to attempt to work out a specific amendment that would avoid duplication of supervision so far as practicable.

It was stated that hearings on the bill before the Senate Committee on Banking and Currency are scheduled to begin on April 2, 1940, and consideration was given to the question whether the Board should address letters with respect to the proposed legislation to the Chairmen of the Congressional Committees to which the bill had been referred.

Upon motion by Mr. Ransom and by unanimous vote, Mr. Wingfield was requested to prepare for consideration by the Board a draft of letter to the Chairmen of the Banking and Currency Committees of the Senate and House of Representatives which would cover certain points referred to during the discussion.

Further reference was then made to the Steagall Bill, H.R. 8638, introduced in the House of Representatives by Representative Steagall on February 23, 1940, and which was discussed at the meeting of the Board on March 19, 1940, and to the Byrnes Bill, S.1318, which passed the Senate on June 13, 1939, and which would amend Section 12B of the Federal Reserve Act to provide that inter-bank deposits should be excluded in determining the assessment base of any insured bank. Mr. Ransom suggested that the Board consider whether it should ask for a hearing on the Steagall Bill and the position the Board would take in the event a hearing was granted. Certain of the provisions

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of the two bills were again discussed and there was unanimous agreement that the provisions of the bills relating to the composition of the board of directors of the Federal Deposit Insurance Corporation and the proposed changes in the assessment base were questions which should not be considered separately but should be made a part of the study contemplated by the Wagner Resolution of the entire banking structure.

Mr. Draper moved that Messrs. Goldenweiser and Wyatt, in collaboration with Mr. Morrill, be requested to prepare a draft of letter to the Chairmen of the Banking and Currency Committees of the Senate and House of Representatives along the lines suggested during the discussion.

Mr. Draper's motion was put by the chair and carried unanimously.

Chairman Eccles stated that consideration was being given by Congress to certain proposed legislation in the field of agricultural credit which he felt was of primary concern to the Board because of the possible future effects of the legislation on the banking and credit structure of the country. He referred specifically to the Jones Farm Credit Act of 1940 on which hearings are being held at the present time. He said that while the bill would result in a relatively small saving to farmers in interest charges it might have very serious effects on country banks throughout the United States without contributing materially to the solution of the major problems with which agriculture is confronted at the present time.

In the discussion which ensued the members of the Board concurred in Chairman Eccles' opinion that the questions presented by

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the Jones Bill were such that the Board would be justified in presenting those questions to the appropriate Congressional committees. It was agreed that as hearings were being held on the Jones Bill at the present time the Board should not delay any communication to be submitted by it until a study could be made which would suggest answers to the questions to be raised but that only a preliminary study should be made which would present the important questions involved and that those questions should be submitted to the Congressional committees.

At the suggestion of Mr. Davis, Mr. Morrill was requested to discuss the matter with Messrs. Goldenweiser, Smead, Paulger and Wyatt and request such members of the staff as may be necessary to assist in the preparation of a draft of statement for consideration by the Board.

At the request of the Board, Mr. Davis agreed to work with the staff in the preparation of the statement.

At this point Messrs. Carpenter, Thurston, Wyatt, Paulger, Goldenweiser, Wingfield, Cagle and Williams left the meeting.

There was presented a memorandum addressed to the Board of Governors by the Staff Personnel Committee which referred to the request made by the Board that the Staff Personnel Committee make a thorough study of the problem of salaries and classification throughout the Board's staff including a survey of the various divisions and to recommend to the Board a permanent plan to be followed in the future. The memorandum stated that in order to obtain the information on which to base its recommendations the Staff Committee appointed a

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committee on personnel classification to allocate all positions in the Board's organization below those of assistant chiefs of divisions and exclusive of those in the Board members' and Fiscal Agent's offices, to services and grades under the Civil Service Classification Plan, that following the receipt of the classification committee's report the Staff Committee formulated the following recommendations for submission to the Board looking to the adoption of a permanent procedure and salary policy which would have general applicability to the Board's organization as a whole:

1. That the Board consider the Civil Service Classification Plan and Pay Scale as a guide in acting upon salaries with respect to all positions in the Board's organization below those of Assistant Chiefs of Divisions and exclusive of those in the Board Members' and Fiscal Agent's Offices.

2. That the Board accept the allocation of positions to services and grades as set forth in Table I of the report of the Committee on Personnel Classification dated February 1, 1940, copy of which is attached, and such modifications thereof as may be made from time to time by such committee, as a guide in considering recommendations as to salary changes.

3. That the Board authorize the Staff Personnel Committee to continue the present Committee on Personnel Classification as a permanent standing committee to allocate and reallocate positions in the Board's organization below those of Assistant Chiefs of Divisions and exclusive of those in the Board Members' and Fiscal Agent's Offices, and to fix titles therefor, on the basis of job descriptions approved by the head of the division concerned, with the understanding that wherever there is a difference of opinion between a division head and the Committee the matter will be decided by the Staff Personnel Committee. (It is contemplated that the membership of the standing Committee on Personnel Classification will be the same as that of the existing committee and that the chairman of the permanent committee will have



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authority, subject to the consent of the division head concerned, to call on other members of the staff to serve as alternates for the regular members and to designate a member of the staff to serve as secretary of the committee. It is also contemplated that the contact representatives designated by the division heads for their respective divisions at the meeting of the Staff Personnel Committee on July 25, 1939, will continue to be available for consultation with members of the standing committee in order to facilitate its work.)

4. That the Board adopt the following procedure to govern the submission and consideration of recommendations with regard to salary changes:

- a. Division heads may recommend salary adjustments to the Board at any time throughout the year as the need therefor arises, with the understanding that a complete annual review or check-up will be made at least once during each calendar year for the purpose of insuring that all employees within the respective divisions receive proper consideration. (The selection of a date on which to make the annual check-up in a particular division will be left to the discretion of the division head and, therefore, such date will not only vary as between divisions but may vary from year to year within divisions. The date selected for this purpose will not be made known to employees. Although such reviews will probably necessitate the submission of some salary recommendations, it is expected that the recommendations submitted throughout the year will largely take care of the salary problem. On the other hand, due to the accumulation of recommendations held in abeyance for the past several months pending the formulation of a general salary policy, it is anticipated that a substantial number of recommendations will be submitted immediately following the adoption of such a policy. The procedure outlined in this paragraph would involve no change in the presently authorized procedure whereby division heads submit recommendations from time to time for salary changes involved in promotions or demotions on an individual basis as they arise, except that such recommendations in the future will be related to the Civil Service Classification Pay Scale. It is proposed, therefore, to adopt the term "salary adjustments" to refer to salary increases or decreases within the range of the grade to which the



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position involved has been allocated.)

- b. All memoranda containing recommendations under a above will, as in the past, be routed to the Secretary's Office for submission to the Board and be routed first to those members of the Board who are members of the Personnel Committee and therefore have a special interest in all salary recommendations from a budgetary standpoint. It is expected that all such memoranda will comply with the requirements of the Board heretofore made, that they will set out in a comprehensive way the reasons for the recommendations contained therein, and that in each case there will be a specific statement of the comparable Civil Service rating and salary scale.

5. That the Board adopt the following principles for the guidance of division heads as the basis for the submission of recommendations for salary changes where they do not involve promotions or demotions, that is to say, where they do not involve changes in duties or responsibilities which would result in the position occupied being allocated to a higher or lower grade under the Civil Service Classification Plan.

- a. In the interests of furthering an efficient career system, maintaining a high morale, and recognizing merit, the division heads should be permitted to recommend from time to time adjustments in salary up to the maximum of the range specified for the position for employees who discharge the duties and responsibilities of their positions with greater than average ability and efficiency. Such increases should ordinarily be limited to one or two steps in the Civil Service Classification Pay Scale in one calendar year and the resulting rates should be in accordance with such pay scales.
- b. Recommendations for increases in salaries of employees who are compensated at levels below the minimum of their respective grades for corresponding positions in the Classified Civil Service will be confined to reasonable amounts which will not necessarily close the gaps between their present salaries and the minimums for the corresponding grades immediately.
- c. Salary adjustments which are not in accordance with a and b of this paragraph should be concurred in by the Staff Personnel Committee

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before submission to the Board through the usual channels.

6. That approval of these recommendations be deemed to supersede any existing instructions of the Board in conflict therewith.

Upon motion by Mr. Ransom, the recommendations were approved unanimously, with the understanding that the memorandum from the Staff Personnel Committee would be submitted to Mr. McKee for approval upon his return to Washington next week and that, if he offered any objection, the matter would again be taken up by the Board.

Mr. Ransom's motion was carried unanimously.

Thereupon the meeting adjourned.

Chester Marley  
Secretary.

Approved:

W. S. ...  
Chairman.