

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, April 5, 1940, at 10:30 a.m.

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

Mr. Morrill, Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Smead, Chief of the Division of
Bank Operations

ALSO PRESENT: Mr. Brainard, Chairman of the Federal Reserve Bank of Cleveland
Mr. Klages, Deputy Chairman of the Federal Reserve Bank of Cleveland
Mr. McDowell, Class A director of the Federal Reserve Bank of Cleveland

Mr. Szymczak said that he had been conferring with Messrs. Brainard, Klages and McDowell in connection with the recommendations made by the board of directors of the Federal Reserve Bank of Cleveland with respect to changes in salaries of officers of the bank for the year beginning May 1, 1940, and felt that it was desirable for the other members of the Board to hear their views.

Mr. Brainard stated that the recommendations which the directors had submitted were the result of a consideration of the matter at four meetings of the directors and its executive committee and he emphasized that the proposed increases of \$2,500 per annum in the salary of President Fleming and \$2,000 per annum in the salary of First Vice President Zurlinden were the result solely of the consideration of the matter by the directors of the bank and not the

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result of any request from either Mr. Fleming or Mr. Zurlinden. It was stated that Mr. Zurlinden would reach retirement age in 1942 and Mr. Fleming in 1945 and that both had said they desired to retire when they reach the retirement age.

Mr. Brainard added that the directors' recommendations were based upon their study of the comparative salaries of officers of commercial banks and their conception of the position of the Federal Reserve Bank of Cleveland in relation to the other eleven Federal Reserve banks, that if the Board of Governors had established maxima for official salaries in the System based upon a consideration of the relative size of the banks and other factors and the directors' recommendations would exceed those limits they would have nothing further to say, but if there were no such maximum salaries they felt the salaries at the Federal Reserve Bank of Cleveland were out of line on a comparative basis. He pointed out that Mr. Fleming's salary had not been increased since 1936 and Mr. Zurlinden's had not been increased since 1930, and said that the directors felt it would have a very excellent effect on the morale of the organization as a whole if Messrs. Fleming and Zurlinden, together with the other officers for whom increases had been recommended, were favorably considered.

Question was raised as to the relation of the consideration at this time of the salary increases recommended for officers at the Cleveland bank to the suggestion of the executive committee of the

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Chairmen's Conference that a study be made of salaries of officers of the Federal Reserve banks. Mr. Szymczak said he had discussed that subject with the Cleveland directors whose response was that they felt such a study, if instituted, would take a considerable amount of time and they would like to have their recommendations passed upon without waiting until the study could be completed.

Mr. Klages said that the directors felt that the salaries at Cleveland were out of line with those at other Federal Reserve banks the presidents of which receive \$25,000 per annum, and that raising the salaries of Messrs. Fleming and Zurlinden would broaden the possibility for advancement of officers and employees in the lower positions. He said he recognized that there must be a maximum to all salaries and that the Board could not raise salaries indefinitely, and that in his opinion the proposed salary for Mr. Fleming should be the maximum. He added that the directors had interested themselves very actively in the bank's management and had brought considerable pressure to bear on several of the officers, which the directors believed had greatly increased the activities and effectiveness of the officers' work.

Mr. McDowell suggested the idea that the Federal Reserve banks should be graded and maximum salaries established which would not be the same for all Federal Reserve banks but on some basis which reflected the difference in their relative size. He then expressed the opinion that if such maxima were established the whole

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question of salaries below the limits fixed should be placed in the hands of the board of directors of each bank for the reason that the directors could make a more effective determination of the question through their investigation and knowledge of the local situation than could be accomplished by the study which had been suggested for consideration at the Chairmens' Conference.

Members of the Board referred to the difficulties which confronted them in meeting their responsibility under the law for approval of salaries at the Federal Reserve banks both by reason of the lack of a satisfactory basis or guiding principle to be followed in passing upon individual recommendations and by reason of the various possibilities of Congressional action with respect to the Federal Reserve System including questions which may arise as to the size of salaries paid. Mention was made in this connection of bills providing for Government ownership of the Federal Reserve banks and for the extension of the Civil Service to employees of the Board of Governors, with the possible inclusion of the employees of the Federal Reserve banks. It was pointed out that the Federal Reserve banks are not private banks but are Government chartered institutions which are engaged in a public service.

Some of the members of the Board indicated the feeling that what had been said by the directors tended strongly to support the need for a study such as that which it was expected would be considered at the forthcoming meeting of the Chairmen and that if the

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Chairmen should decide to institute such a study the Board would approve it. It was also stated that it was understood that the person whose name had been suggested to conduct the study had made such studies in the past and had had a considerable amount of experience in that field and that, in addition, he proposed to employ an assistant who had made a special study of central banking. It was stated that it was realized that such a study might result in a report which neither the Board of Governors nor the Federal Reserve banks would want to follow, but that some principle might be developed by the study which could be observed as a guide in future consideration of official salaries.

Mr. Davis stated that, until it was decided whether the study should be made and, if made, until the results of the study were available, he would not be willing to consider the proposed increases for Messrs. Fleming and Zurlinden.

The discussion then proceeded to a consideration of each salary increase proposed by the Cleveland directors.

Mr. Ransom expressed appreciation of the fact that the directors had taken such an active interest in the management of the bank and in the question of salaries of officers of the bank and had taken the time to come to Washington to present their views to the Board. Following Mr. Ransom's statement, Messrs. Brainard, Klages and McDowell withdrew from the meeting.

Further discussion was had during which Mr. Szymczak pointed

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out that the increases of \$250 to a salary of \$5,750 per annum for Mr. F. E. Cobun and of \$250 to \$5,650 per annum for Mr. C. J. Bolthouse, Assistant Cashiers at the Pittsburgh Branch, would make those salaries in excess of the maxima tentatively agreed upon by the Board for such salaries and that they would be out of line with salaries for comparable positions at other Federal Reserve banks.

At the conclusion of the discussion it was agreed unanimously that Mr. Szymczak should advise the directors from Cleveland that the Board was willing to approve all of the increases recommended except those proposed for Messrs. Fleming, Zurlinden, Cobun and Bolthouse, but that if after giving the matter further consideration the directors still felt there were adequate reasons for adhering to their recommendations with respect to Messrs. Cobun and Bolthouse the Board would approve the increases recommended for those two officers.

At this point Messrs. Bethea, Carpenter, Clayton, Thurston, Wyatt, Goldenweiser, Dreibelbis and Wingfield entered the meeting.

There were presented telegrams to Messrs. Kimball and Post, Secretaries of the Federal Reserve Banks of New York and Philadelphia, respectively, Mr. McLarin, First Vice President of the Federal Reserve Bank of Atlanta, and Messrs. Dillard and Hale, Secretaries of the Federal Reserve Banks of Chicago and San Francisco, respectively, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on April 2, by the Federal Reserve Banks of New York, Atlanta, Chicago, and San Francisco on April 4, 1940, and by the Federal Reserve Bank of Philadelphia today,

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of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Ransom stated that pursuant to the action taken at the meeting of the Board on April 1, 1940, Chairman Eccles called the office of Congressman Steagall, Chairman of the Banking and Currency Committee of the House of Representatives, with respect to the present status of the Steagall and Byrnes Bills and upon being advised that Mr. Steagall was out of town talked to Congressman Williams, the ranking majority member of the Committee, and advised him that the Board might desire to call the attention of the Committee to certain aspects of these bills and express its views thereon, that Mr. Williams indicated that the Byrnes Bill was not being actively considered by the Committee and that, while he could not say definitely, he did not feel that Mr. Steagall would seek action on his bill in the near future but that Mr. Steagall would be back in Washington next week. Chairman Eccles then stated to Mr. Williams, Mr. Ransom said, that if there were any developments on the bills during Chairman Eccles absence it would be appreciated if Mr. Williams would communicate with Mr. Ransom and Mr. Williams concurred in the idea that the Board should be advised if the Committee should decide to take up either of the bills. Mr. Ransom added that Chairman Eccles said if nothing developed during his contemplated absence in the South he would endeavor again following his return from the

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Chairmens' Conference at Sea Island, Georgia, to get in touch with Mr. Steagall.

Mr. Ransom made the further statement that during the conversation between Chairman Eccles and Mr. Williams and in a subsequent conversation between Messrs. Ransom and Williams the latter stated that the House was going to take up for action next week Bill H.R. 6971 which had been on the House Calendar since August 9, 1939, and which would amend the Federal Home Loan Bank Act, the Home Owners Loan Act of 1933, and Title IV of the National Housing Act. Mr. Ransom referred to the statement submitted by the Federal Advisory Council on this bill at its meeting on November 21, 1939, with the request that the Board transmit the statement to the appropriate committees of Congress at such time as the bill comes up for active consideration in either House of Congress during the present session. Mr. Ransom said that he and Chairman Eccles felt that the Board should communicate with Mr. Brown, President of the Federal Advisory Council, by telephone and advise him of the conversation with Mr. Williams and say that in the circumstances the Board felt the statement should be sent to the Committees on Banking and Currency of the Senate and House of Representatives. Mr. Ransom suggested that it might also be said to Mr. Brown that, if the Council desired to give wider distribution to the statement, copies might be sent by the Council to the members of the Committee on

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Banking and Currency of the House of Representatives who had submitted a minority report on the bill. Mr. Ransom concluded with the statement that if there were no objection he would call Mr. Brown and advise him accordingly.

It was agreed unanimously that Mr. Ransom should proceed in accordance with his suggestion.

Mr. Ransom then referred to the report sent by the Board under date of March 17, 1939, to the Acting Director of the Budget on the bill above referred to, to the letter addressed by Chairman Eccles to Mr. Steagall, Chairman of the Banking and Currency Committee of the House of Representatives, on June 7, 1939, in which he expressed his personal views on the bill, and to the draft of the report prepared for transmission to Senator Wagner, Chairman of the Banking and Currency Committee of the Senate, but which, in accordance with the action taken at the meeting of the Board on July 7, 1939, was not sent for the reason that it did not appear that the bill would be reported out by the Committee at the last session of Congress. He said that upon receipt of the report of the proposed consideration of the House Bill next week he and Chairman Eccles felt it would be advisable to ascertain from Senator Wagner the status of the Senate bill, that Chairman Eccles called Senator Wagner but was unable to reach him and that Mr. Wyatt then got in touch with a clerk of the Senate Committee. Mr. Wyatt said that the Committee

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clerk advised that in view of the fact that the hearings on the bill which were undertaken during the last session were very brief and were not brought to a satisfactory conclusion she felt certain that the Committee would not report the bill out at this session without further hearings.

Mr. Ransom said he and Chairman Eccles were of the opinion that the Board should have ready a report which could be transmitted to the Senate Committee promptly should it be determined that the bill is going to be taken up for consideration by that Committee.

The report considered at the meeting of the Board on July 7, 1939, was read and suggestions were made as to changes therein.

At the conclusion of the discussion, it was agreed unanimously that Mr. Dreibelbis should revise the report to include certain suggested changes and furnish copies of the revised draft to all members of the Board and that if no objection were offered by any member to the revised draft it would be regarded as having been approved with the understanding that it would be held for dispatch by the Secretary's Office upon receipt of advice from Counsel's Office that it appeared that hearings were going to be held on the bill by the Senate Committee or that the bill was to be reported out without hearings.

Mr. Ransom stated that the brief submitted by the Committee on Mortgage Investment Funds of the Pennsylvania Bankers Association following the hearing of members of the Committee by the Board on December 14, 1939, on a proposal that Regulation F be amended to permit the operation of common trust funds composed principally of mortgages had been submitted to the office of the Comptroller of the

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Currency and the Federal Deposit Insurance Corporation, that it was anticipated that the report of the Comptroller of the Currency on the matter will be received next week, that the Federal Deposit Insurance Corporation apparently is not particularly interested and may not submit a report and that as there is a meeting of the Pennsylvania Bankers Association on May 24, 1940, and the Committee would like to make a report at that time, he would suggest that when the report of the Comptroller of the Currency is received the matter be brought promptly to the attention of the Board for decision and that the Committee of the Pennsylvania Bankers Association be advised thereof as much before May 24 as possible. Mr. Ransom added that he felt that the Board might properly amend Regulation F as suggested by the Committee.

It was understood that as soon as the report of the Comptroller of the Currency was received Mr. Wingfield would submit the matter promptly to the Board for action.

Reference was then made to a memorandum addressed to the Board by Mr. Smead under date of April 2, 1940, in which it was stated that at a meeting in New York on March 28-30, 1940, the subcommittee of the Standing Committee on Collections agreed upon a numbering System for checks which would facilitate their sorting and routing through the Federal Reserve collection system, that the subcommittee's report would be submitted to the Standing Committee on Collections, that if agreeable to that Committee a transit conference

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of representatives of all the Federal Reserve banks would be called for consideration of the plan, and that it was also proposed to take the matter up with the Bank Management Commission of the American Bankers Association after which the plan would be submitted to the Federal Reserve banks and the Board of Governors. Copies of the memorandum had been sent to the members of the Board before this meeting.

Mr. Smead said that the effectiveness of the numbering system would be diminished if the numbers were used by nonpar banks, that the only question for consideration at this time was whether steps should be taken to have the use of the numbers limited to banks on the par list, and that this could be accomplished effectively by having the system copyrighted so that the Federal Reserve System or the American Bankers Association, if they so desired, could discourage its use by nonpar banks, although it was not anticipated that its use by such banks would be entirely prohibited.

It was agreed unanimously that the matter should be discussed with the Bank Management Commission with a view to ascertaining whether the American Bankers Association would undertake to limit the use of the system to banks on the par list.

At this point Messrs. Bethea, Carpenter, Clayton, Thurston, Wyatt, Goldenweiser, Smead, Dreibelbis, and Wingfield left the meeting.

Mr. Szymczak reported that he had advised Messrs. Brainard, Klages, and McDowell of the Board's views with respect to the salary

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changes proposed for officers of the Federal Reserve Bank of Cleveland and that they had expressed satisfaction with the conclusion reached by the Board and had withdrawn their recommendations as to changes in the salaries for Messrs. Cobun and Bolthouse, Assistant Cashiers at the Pittsburgh Branch.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

Harold D. Hanson
Vice Chairman.