

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, February 28, 1941, at 10:45 a.m.

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

Mr. Morrill, Secretary
 Mr. Wyatt, General Counsel

In response to a question from Mr. McKee, Mr. Wyatt reported that his opinion as to the legality of Mr. Lewis' telephone vote for Mr. Schram had not changed since yesterday and that he was satisfied as to the correctness of the opinion which he had expressed.

Mr. Wyatt then withdrew.

There was presented a memorandum dated February 19, 1941, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending, for the reasons stated in the memorandum, that salaries of employees in the Division of Research and Statistics be increased as follows, effective March 1, 1941:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Helen R. Grunwell	Chief Draftsman	\$2,400	\$2,600
Helen A. Lupton	Draftsman	2,100	2,300
Grace R. Sahn	Draftsman	2,000	2,200
Barbara S. Depenbrock	Draftsman	1,620	1,800
Cecil Melanson	Draftsman	1,440	1,500

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Upon motion by Mr. Ransom and with the concurrence of the other members of the Personnel Committee, the recommendation was approved unanimously.

There ensued a discussion of the action taken by the board of directors at the Federal Reserve Bank of Chicago with respect to the appointment of a President of the Bank, and Chairman Eccles suggested that the matter should be handled in such a way as to avoid any unnecessary embarrassment to Mr. Schram, and that a decision should be reached today on the course of action the Board would take.

Mr. Szymczak reported that Mr. Gregory had said to him that Messrs. Lewis and Cummings had stated last summer that they would not take action on the appointment of a President of the Chicago Bank until they had first contacted the Board. Mr. Szymczak added that he had also been assured by Messrs. Lewis and Cummings that they would discuss the whole situation with the Board before taking action.

While the discussion was in progress the following telegram dated February 27, 1941, from Mr. Gregory, was brought into the room and read:

"Chicago Board today elected Emil Schram President by vote of five to four. One of the five affirmative votes was cast by long distance telephone by Mr. Lewis. If this vote is not legal the vote stands four to four with no election. Salary voted in \$35,000. By vote of five to three Howard Preston was elected First Vice President at present salary Young was elected second Vice President by unanimous vote at increase of \$3000. Dean Phillips was retained as Economic Adviser on month by month basis at \$250 per month. All this of course subject to your approval."

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There was a further discussion of the question of the action to be taken by the Board and reference was made to the question of what, if anything, should be said to the press. Mr. Thurston was called into the meeting and advised that the Board had decided that if further inquiries were received from the press, the statement to the press should be as follows:

"The Board of Governors has no announcement to make at this time."

Chairman Eccles stated that he understood from the discussion that he should call in Mr. Schram and review the whole history of the matter with him pointing out that he had an opportunity to withdraw his name in order to avoid embarrassment to himself. Chairman Eccles also referred to the question whether he should see the President, and said if the opinion should prevail that he should see the President he would rather do that before he saw Mr. Schram.

After further lengthy discussion, it was agreed unanimously to leave the decision on the question whether the Chairman should call Mr. Schram first, or try to see the President first, entirely to the Chairman to determine.

Thereupon, the members of the Board unanimously instructed the Secretary to prepare a telegram to the Chicago Bank along the lines suggested during the discussion.

There were then presented telegrams to Messrs. Sanford and Hays, Secretaries of the Federal Reserve Banks of New York and Cleveland, respectively, Mr. Leach, President of the Federal Reserve Bank

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of Richmond, Messrs. Dillard, Stewart, and Powell, Secretaries of the Federal Reserve Banks of Chicago, St. Louis, and Minneapolis, respectively, Mr. Stroud, First Vice President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on February 25, by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, and Dallas on February 27, 1941, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

There was also presented a letter dated February 27, 1941, from Mr. Brainard, Chairman of the Federal Reserve Bank of Cleveland, in which it was stated that the board of directors of the Bank had appointed M. J. Fleming as President and F. J. Zurlinden as First Vice President of the Bank, each for a term of five years beginning March 1, 1941, with salary until May 1, 1941, at the respective rates they are now receiving, subject to approval by the Board of Governors.

The following telegram to Mr. Brainard was approved unanimously:

"Your letter February 27. Board of Governors has approved appointment of M. J. Fleming as President and F. J. Zurlinden as First Vice President of Federal Reserve Bank of Cleveland, each for term of five years beginning March 1, 1941. No announcement of appointments being made here.

"As you were advised in letter April 10, 1940, Board approved salaries of Messrs. Fleming and Zurlinden to May 1, 1941 and, therefore, no further action on salaries is required by Board at this time."

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Reverting again to the Chicago situation it was agreed, upon the Chairman's suggestion, that if he (Chairman Eccles) wished to do so he should try to advise the President of the whole situation before he talked to Mr. Schram, but that, nevertheless, he was free to talk to Mr. Schram if he did not get in touch with the President.

Mr. Davis left the room at this point and the following telegram dated February 27, 1941, from Mr. Nardin, Chairman of the Federal Reserve Bank of St. Louis, was read:

"The Directors of the Federal Reserve Bank of St. Louis in regular meeting this morning elected Chester C. Davis President of the Bank for a term of five years from March 1, 1941 with salary at the rate of \$25,000 per year to May 31, 1941 with the understanding that he will take up the work of the office as soon as he is able to free himself from his present position. The Board of Directors of the St. Louis Bank ask approval by your Board of Mr. Davis election at the proposed salary. We will appreciate early action and prompt notice to us as we desire to make the announcement as soon as possible. We also elected Mr. Davis to membership for this section on the Open Market Committee. We will advise Chicago of our action and request that they take similar action as soon as we have your approval. Reply Western Union."

The developments which had come to the attention of the Board with respect to this appointment, including particularly the facts that the initiative in this matter had been wholly from within the board of directors of the St. Louis Bank, that the first information that Mr. Davis had received about the matter, of which he had advised the Chairman, was a telephone call from Chairman Nardin of the Federal Reserve Bank of St. Louis who informed Mr. Davis that the board of directors of the Federal Reserve Bank of St. Louis would unanimously

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and enthusiastically elect him as President if he would cooperate with them by accepting the position; that the proposal had come as a surprise to Mr. Davis because he had not known that his name was under consideration; that Mr. Davis had specifically requested that the matter be kept confidential until he could discuss it with his wife and also inform the President; that Mr. Davis had decided, after having discussed the matter with his wife and with the President, that he would accept the position in view of the circumstances stated by Mr. Nardin, and that he had so advised Mr. Nardin.

The members of the Board present unanimously expressed themselves as deeply regretting the loss which the Board would suffer in its deliberations and actions through the departure of Mr. Davis, even though he continued in the System as President of the Federal Reserve Bank of St. Louis, but that there appeared to be no way in which they could avoid this loss in justice to Mr. Davis.

Mr. McKee stated that Mr. Davis had asked him to say to the Board on the subject of his appointment as President of the Federal Reserve Bank of St. Louis, that he wanted the members of the Board to think of the matter as though they were considering Mr. "X" and not Mr. Davis, and to be guided by what they thought were the merits of the case, that with respect to the question of salary the Board should be guided by what is now being paid to the President of the Federal Reserve Bank of St. Louis, that he did not want any Board

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member to give any thought in considering the question of his appointment to the fact that there might be an increase in salary involved over what he is now receiving as a member of the Board. Mr. McKee stated that he asked Mr. Davis one question, and that was whether he thought the salary should be more than had been paid in the past; that Mr. Davis answered emphatically "no"; that what he was talking about was what the salary is now.

Thereupon, upon motion by Mr. McKee the following telegram to Mr. Nardin was approved unanimously:

"Your wire 27th to Chairman Eccles was presented at Board meeting today, Mr. Davis being absent and not voting. Appointment by your board of directors of Chester C. Davis as President of the Federal Reserve Bank of St. Louis for a term of five years from March 1, 1941 was unanimously approved by Board of Governors. Salary fixed by your board of directors at rate of twenty five thousand dollars per annum to May 31, 1941 was also unanimously approved by Board of Governors. Board asked me to advise you however that these actions were taken with the greatest of reluctance and regret because it feels keenly the prospective loss of the services of Mr. Davis as a member of this Board."

At this point Mr. Davis returned to the meeting.

Further reference was made to the letter received by the Board from Mr. Ruml, Chairman of the Federal Reserve Bank of New York, under date of February 24, 1941, advising that the directors had appointed Allan Sproul as President and Leslie R. Rounds as First Vice President of the Bank, each for a term of five years beginning March 1, 1941, and had fixed their salaries at \$60,000 and \$35,000 per annum, respectively, for the period from March 1, 1941, to March 31,

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1942, subject to approval by the Board of Governors. Mr. Szymczak said that he was not prepared to vote on the salaries fixed for Messrs. Sproul and Rounds in their new positions as he had not had an opportunity until this morning to see the copy of the letter from New York which had been sent to his office during his absence from the city.

Thereupon the following telegram to Mr. Ruml was approved unanimously.

"Your letter February 24. Board of Governors has approved appointment of Allan Sproul as President and Leslie R. Rounds as First Vice President of Federal Reserve Bank of New York, each for term of five years beginning March 1, 1941. No announcement of appointments being made here. You will be advised in a later communication regarding salaries."

There was then presented a telegram to Mr. Gregory, Deputy Chairman of the Federal Reserve Bank of Chicago, which had been prepared by Mr. Morrill in accordance with the request of the Board during this meeting.

The telegram which read as follows, was approved unanimously:

"Your wire 27th to Chairman Eccles was presented at meeting of Board of Governors today. Board understands that on motion to elect Emil Schram as President vote of directors present was four to four, that on being called on the long distance telephone Mr. Lewis who was absent stated that he voted for Mr. Schram, that the Chairman of the meeting ruled that such a vote would not be legal, and your wire states that if this vote is not legal the vote stands four to four with no election. Board of Governors on advice of its counsel has decided that there was no election of a President by the board of directors of Federal Reserve Bank of Chicago at the meeting referred to in

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"your wire. Therefore no action was taken by Board of Governors on question of approval of President and no action was taken on salary rate for President as stated in your telegram. With respect to election of First Vice President as stated in your telegram Board of Governors deferred action. With respect to election of Young as Vice President this requires no action by Board of Governors. Action on salary proposed for Young has been deferred by Board. With respect to retention of Dean Phillips as economic adviser on month by month basis at two hundred fifty dollars per month Board has approved this compensation until March 31, 1941."

At this point Mr. Thurston left the meeting and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on February 27, 1941, were approved unanimously.

Memorandum dated February 18, 1941, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that, for the reason stated in the memorandum, Charles R. Harley be appointed as an economic assistant in the Division of Research and Statistics, with salary at the rate of \$2,000 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Letter to the board of directors of the "Park Savings Bank", Milwaukee, Wisconsin, stating that, subject to conditions of membership numbered 1 to 3, inclusive, contained in the Board's Regulation

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H and the following special conditions, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

- "4. Such bank shall make adequate provision for depreciation in its furniture and fixtures.
- "5. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$4,150, as shown in the report of examination of such bank as of January 27, 1941, made by an examiner for the Federal Reserve Bank of Chicago."

Approved unanimously, together with a letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Park Savings Bank', Milwaukee, Wisconsin, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of Banking for the State of Wisconsin for his information.

"In view of the circumstances in this case, and in accordance with the recommendation of the Reserve Bank, a condition of membership regarding provision for depreciation in furniture and fixtures has been prescribed. In connection with the condition, it is assumed, of course, that the Reserve Bank will endeavor to see to it that the bank carries out the terms of the resolution of the board of directors formulating a plan of amortizing the amount of the loss in the furniture and fixtures account classified in the latest F.D.I.C. report of examination, which resolution was adopted following the F.D.I.C. examination and apparently expresses the understanding had with the supervising examiner's office on the matter.

"It has been noted that the management is rated 'Unsatisfactory' by the F.D.I.C., that the supervising examiner advised that his office had in the past attempted to

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"effect a change in the executive management but without success, and that your examiner who made the examination for membership expressed reservations as to the ability of the principal executive officer. On the other hand, the State department is said to feel that since the reorganization of the bank in 1932 the managing officers have done good work both with respect to assets of the bank and the assets trusted for the waiving depositors. The Board has approved the application with the understanding that the Reserve Bank will give the bank close supervision and further the efforts which have been made toward obtaining a more effective administration of its affairs."

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. C. Coates
Chairman.