

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, March 7, 1941, at 10:30 a.m.

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

There were presented telegrams to Mr. Paddock, First Vice President of the Federal Reserve Bank of Boston, Messrs. Sanford 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, Mr. Dillard, Secretary of the Federal Reserve Bank of Chicago, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, 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 Kansas City on March 3, by the Federal Reserve Bank of San Francisco on

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March 4, by the Federal Reserve Banks of New York, Atlanta, Chicago, and San Francisco on March 6, 1941, and by the Federal Reserve Banks of Boston and Philadelphia today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Chairman Eccles referred again to the letter dated February 24, 1941, delivered to him in person by Mr. Ruml, as Chairman of the Federal Reserve Bank of New York, in which it was stated that, for reasons set forth in the letter, the directors had fixed the salary of Allan Sproul as President of the Bank at \$60,000 per annum and the salary of Leslie R. Rounds as First Vice President at \$35,000 per annum for the period beginning March 1, 1941, and ending March 31, 1942.

Chairman Eccles stated that when the letter was delivered he stated to Mr. Ruml that, in view of the consideration which had been given to the question of salaries of senior officers at the Federal Reserve Bank of New York in the past and the position that the Board had taken on the matter, he felt certain that all of the members of the Board would feel, for reasons which he outlined, that the salaries proposed for Messrs. Sproul and Rounds were out of line, that the Board had never been willing to approve a salary above \$50,000 for Mr. Harrison as President of the Bank, and that, therefore, for the directors to propose a salary of \$60,000 for Mr. Sproul did not

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seem to be the cooperative thing to do. Mr. Ruml stated, Chairman Eccles said, that the board of directors of the New York Bank had never concurred in the opinion that \$50,000 was a proper salary for the President of the Federal Reserve Bank of New York, that any man who was qualified to fill the position was worth more than that in the light of the salaries being paid executive officers of other banking institutions, that, in view of the fact that Mr. Sproul had just been elevated to the position, they did not feel justified in recommending a salary of \$75,000 as they had done for President Harrison, and that to be consistent with the position that they had taken on previous occasions, which had not been changed in any way, the directors felt they should make the recommendation that they did although they did not expect the recommendation to be approved. Chairman Eccles added that he discussed with Mr. Ruml the possible public reaction to salaries of the size recommended by the directors and that Mr. Ruml expressed the opinion that that was an aspect of the matter that would have to be determined by the Board as the directors were not in a position to pass upon it.

At this point Chairman Eccles read a memorandum which had been left with him by Mr. Davis in contemplation of the latter's absence from the city today. The memorandum stated that if Mr. Davis were present at the meeting he would be in favor of a salary of \$50,000 for Mr. Sproul with a clear statement to the Federal Reserve Bank of

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New York that the Board considered that salary to be the top salary for the President of the Bank. The memorandum also stated that the reason for Mr. Davis' position was that Mr. Sproul was as valuable a man to the System as Mr. Harrison had been and he would like to start off with Mr. Sproul in his new position on the basis of close cooperation and good feeling, but that if the other members of the Board felt that it was not a good policy to approve the maximum salary of \$50,000 per annum for Mr. Sproul at present Mr. Davis would approve a salary at the rate of \$45,000 with the statement that the Board might subsequently be willing to approve a salary of \$50,000 which would be the maximum.

The whole matter was discussed in the light of the consideration which had been given to the question of salaries in the past and to the relation of any salaries that might be approved for Messrs. Sproul and Rounds to other salaries in the Bank as well as salaries paid by other banking institutions. All of the members of the Board present concurred in the opinion that a salary of \$50,000 per annum should be the maximum for the position of President of the New York Bank, and some of the members felt that the top salary should not be paid at the inception of Mr. Sproul's service. In connection with the salary for Mr. Rounds it was pointed out that Mr. Sproul as First Vice President had been receiving a salary of \$32,500 and it was agreed that his successor should not be paid a higher salary.

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During the discussion Mr. Szymczak moved that the New York Bank be advised that the Board approves a salary at the rate of \$45,000 per annum for Mr. Sproul as President, and at the rate of \$32,500 per annum for Mr. Rounds as First Vice President, for the period beginning March 1, 1941, and ending March 31, 1942, if fixed by the board of directors of the Bank at those rates.

This motion was put by the Chair and carried unanimously.

Mr. Ransom referred to memoranda addressed to the Board under date of March 1 and March 3, 1941, by the staff editorial committee on the banking studies with which were transmitted a revised version of, and draft of preface for, the banking studies prepared by members of the Board's staff. The memorandum of March 3 recommended (1) that the studies be published forthwith, (2) that 15,000 copies be published with arrangements for additional copies if there should be a demand, that in view of the size and character of the book all copies be bound in cloth, that the book be sold at \$1.50 for single copies and \$.75 for group purchases of ten or more, that free distribution of single copies be restricted to members of Congress, certain officials, the Federal Reserve Banks, teachers of economics, libraries, foreign and central banks and governments, and the press, (3) that Mr. Hammond be authorized to investigate ways and means of distributing the book through retail stores, (4) that the contract be awarded to the Waverly Press, Incorporated, whose bid was only \$33.00 higher than the lowest bid and whose experience in publishing books would be worth far more to the Board than that amount, and (5) that the Board authorize an

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addition to the printing and binding account classification of the service functions budget of the Secretary's Office of funds to cover the actual cost of publication which would be approximately \$10,700.

Mr. Ransom stated that the studies had been rewritten and revised several times, that he had been able to read only a part of the latest revision, that he had a number of suggestions which he would make to the authors if the Board was going to approve the studies, and that in the circumstances he felt that the possible positions that the Board might take were (1) not to publish the studies realizing that their preparation had been extremely helpful to the Board and the staff, (2) delay a decision with respect to publication until after the members of the Board had had an opportunity to read the latest revision, or (3) authorize the publication of the studies in their present form. He also said that because of his close contact with the studies during the period of their preparation and revision he hesitated to recommend to the Board that they be published, and that he would be glad to delay a decision until the members of the Board could read the latest draft or to take any other action that the Board might desire.

In response to a question as to what the responsibility of the members of the Board would be in the publication of the studies, Mr. Goldenweiser called attention to the fact that the proposed preface to the studies which would be signed by the staff editorial

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committee contained a paragraph reading as follows:

"In a field as controversial as this it is impossible for an author to remain entirely neutral, and it is hardly necessary to add that the points of view and the distribution of emphasis in the studies are those of the authors and do not necessarily reflect the views of the Board of Governors or of the editorial committee."

Mr. Ransom stated that, regardless of any language that might be used in the preface or elsewhere, the Board could not escape responsibility for what was said in the studies, that while the authors were directed to treat their respective subjects on a factual basis it was impossible for them to follow these instructions entirely in many of the studies, that judging from the studies that he had been able to read the editorial work was well done, but that some major changes had been made in the text of the studies since they were submitted to the members of the Board in preliminary form. He added that he wanted the members of the Board to understand that, regardless of the efforts of the authors to make the text factual, some of the material was controversial or would be so interpreted and might be given press headlines, and that although he thought the studies should be published and that they would be helpful, he felt the members of the Board should read them before publication so that they would be prepared for the comments that might be made.

At the conclusion of the discussion Mr. Szymczak moved that the publication of the studies be approved with the understanding that such further changes would be made in the studies as the members of the staff editorial committee might feel to be necessary.

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This motion was put by the Chair and carried unanimously.

Following a discussion of the remaining recommendations of the staff editorial committee, Mr. Szymczak moved that these recommendations be referred to Mr. Ransom with power to act.

This motion was also put by the Chair and carried unanimously.

Chairman Eccles stated that Mr. Nelson, Assistant Secretary, had reported that, while attending a meeting of personnel officers of the various Government organizations, he had learned that an executive order had been prepared to blanket into the civil service all positions covered by Title I of the Ramspeck Act, that at the meeting Mr. McReynolds, Administrative Assistant to the President, said he expected to have the President sign the order within a day or two, and that Mr. Nelson was unable to ascertain whether any organizations were excepted by the executive order. A memorandum prepared by Mr. Nelson on the meeting referred to is in the Board's files. Chairman Eccles also said that information obtained subsequently by a member of the staff confirmed the fact that such an order had been prepared and sent to the White House and that the Board would be covered by the order, that upon receipt of that information he called Harold D. Smith, Director of the Budget, who had promised that, in the event an executive order were proposed which would cover employees of the Board into the civil service, he would advise Chairman Eccles of the order, that he informed Mr. Smith of the further developments referred to above

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and that Mr. Smith said that, while he doubted that the Board was covered by the order, he was unable to say definitely as the order had been sent to the Attorney General with instructions to return it to the Budget Bureau before it was sent to the President. Chairman Eccles added that he referred to the letter addressed by the President of the United States to the Civil Service Commission under date of December 27, 1940, advising the Commission that it was not his intention to place the employees of the Board of Governors under civil service, and that Mr. Smith stated that, in view of the existence of that letter, it would be his judgment that the Board was excluded from the executive order and that that feeling was strengthened by the fact that the President had sent letters to the Civil Service Commission at the request of two or three other organizations that they be not covered into the civil service. Chairman Eccles made the further statement that he requested Mr. Smith to make a note of the matter and, as soon as the executive order was returned from the Attorney General, to ascertain whether the Board was excepted, and notify the Board if it were not, unless he saw fit to modify the order to exclude the Board's staff before the order was signed by the President, and that Mr. Smith replied that while he would advise the Board in the event it was not exempted from the order, he thought it was important that Chairman Eccles communicate with Mr. McReynolds inasmuch as the latter was working directly with the problem of Government personnel.

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Chairman Eccles concluded with the statement that at the first opportunity he proposed to discuss the matter with Mr. McReynolds.

Reference was then made to a letter received by the Board under date of February 27, 1941, from the Assistant Clerk of the Senate Judiciary Committee, stating that a subcommittee of the committee considering S. 674, S. 675, and S. 918, the so-called "administrative procedure bills", would conduct public hearings on the bills beginning Monday, March 31, 1941, and that, if the Board wished to testify at the hearings, it should address a written request to the subcommittee accordingly.

It was agreed unanimously that Counsel's Office should arrange to have a member of that office attend the hearings in order that the Board might be advised in the event of any developments that might call for action by the Board.

Mr. Ransom referred to bill H.R. 3565, which was introduced in the House of Representatives by Congressman Disney on February 25, 1941, and which would provide that the cost of examinations of national banks would be paid by the Federal Deposit Insurance Corporation. He stated that while no request had been received by the Board for a report on the bill he desired to raise the question whether the Board desired to submit a report. In this connection he pointed out that the legal division calls attention to the introduction of bills of interest to the Board and to the receipt of routine requests for reports on pending bills and that it was the present practice of the Board not

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to submit reports in reply to such routine requests in the absence of circumstances making the submission of reports desirable. Chairman Eccles suggested that a draft of report on the bill be prepared for consideration by the Board.

In accordance with this suggestion, Counsel's Office was requested to prepare a draft of report on the bill and to ascertain, if possible, from the Office of the Comptroller of the Currency what its position would be with respect to the bill.

At this point Messrs. Thurston, Goldenweiser, Smead, and Dreibelbis 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 meeting of the Board of Governors of the Federal Reserve System held on March 6, 1941, were approved unanimously.

Memorandum dated March 6, 1941, from Mr. Nelson, Assistant Secretary, recommending, for the reasons stated in the memorandum, (1) that Lewis W. Shollenberger, page, be promoted to the position of clerk in the Correspondence and Publications Section of the Secretary's Office and that his salary be increased from the rate of \$1,260 to \$1,440 per annum, effective March 16, 1941; (2) that Milton K. Johnston be appointed as a page in the Office of the Secretary, with salary at the rate of \$1,260 per annum, effective as of the date

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upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination; and (3) that Vincent L. Bogart be appointed for an indefinite temporary period as a page in the Office of the Secretary, with salary at the rate of \$1,260 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 Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"In accordance with the request contained in your letter of March 4, the Board approves the appointment of Harold O. Duncan as an assistant examiner for the Federal Reserve Bank of St. Louis. Please advise us of the effective date.

"It has been noted that the photograph of Mr. Duncan will be forwarded later. A photograph of a proposed appointee to the examining staff of a Reserve Bank is really needed in connection with passing upon the request for approval of the appointment, and it will be appreciated if in the future every effort be made to submit the photograph along with the other information."

Approved unanimously.

Memorandum dated February 26, 1941, from Mr. Van Fossen, Assistant Chief of the Division of Bank Operations, submitting a summary of the information contained in statements, received from the Federal Reserve Banks in compliance with the Board's existing instructions, giving the name and annual salary of each of the Banks' employees on

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January 1, 1941, and on January 1, 1940, or the initial salary if hired during 1940. The memorandum stated that the salary lists, as submitted by each Federal Reserve Bank, had been examined, and that the only salaries in excess of the maxima provided in the personnel classification plans and, therefore, requiring approval by the Board of Governors noted were as follows:

<u>Federal Reserve</u> <u>Bank</u>	<u>Employee</u>	<u>Salary Increased</u>	
		<u>From</u>	<u>To</u>
Boston	John Malvey, Assistant Supervisor, Mailing Department	\$2,000	\$2,160
	Eunice Ball, Matron, Building Maintenance Department	900	1,080
Minneapolis	H. C. Timberlake, Alternate Assistant Federal Reserve Agent	4,800	5,000

The memorandum also recommended that the Federal Reserve Banks be advised that the salaries of employees on January 1, 1941, as shown on the lists furnished the Board, had been noted without objection.

Approved unanimously.

Letter to the board of directors of "The Bank of Worcester", Worcester, New York, stating that, subject to conditions of membership numbered 1 to 3, inclusive, contained in the Board's Regulation H, 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 New York.

Approved unanimously, together with a letter to Mr. Sproul, President of the

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Federal Reserve Bank of New York, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Bank of Worcester', Worcester, New York, 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 Superintendent of Banks for the State of New York for his information.

"Since it is reported that the estimated losses classified in the report of examination for membership were eliminated during the examination, the usual condition regarding elimination of losses has not been prescribed."

Letter to the board of directors of the "DeForest-Morrisonville Bank", DeForest, Wisconsin, stating that, subject to conditions of membership numbered 1 to 3, inclusive, contained in the Board's Regulation H, 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.

Approved unanimously, together with a letter to Mr. Young, Vice 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 'DeForest-Morrisonville Bank', DeForest, 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

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"to the Commissioner of Banking for the State of Wisconsin for his information.

"Since the amount of estimated losses shown in the report of examination for membership is relatively small the usual condition of membership requiring elimination of losses has not been prescribed. However, it has been noted that a portion of the losses was charged off during the examination and it is assumed that proper provision for the remainder will be made as a matter of sound banking practice."

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

"This refers to your letter of February 21, 1941, and accompanying correspondence, with respect to the exercise of fiduciary powers by the Farmers and Merchants Bank, Provo, Utah, in violation of its condition of membership numbered 9.

"It is noted that the bank is now administering one small trust (executorship under the will of Charles E. Cloward). It is also noted that Mr. Bird, Vice President of the bank, wrote you under date of February 13, 1941, that it is their intention to discontinue the exercise of trust powers as soon as this account is closed. In this connection, Mr. Partner in his letter of January 21, 1941, states that the attitude of the Utah State Bank Commissioner has consistently been to discourage the exercise of trust powers by the smaller banks and he concurs in the recommendation that any authorization granted the bank be limited to the completion of its present obligation as executor of the Cloward estate.

"In the circumstances, the Board will interpose no objection to the bank's completion of its present obligation as executor of the Cloward estate. However, it is not felt necessary for the Board to consider any application from the bank for permission to exercise trust powers until such time as the bank may be able to make a satisfactory showing as to its need for trust powers and its qualifications for acting in fiduciary capacities.

"It is noted that this bank had previously accepted, in 1937, a small corporate trusteeship, which also constituted a violation of the condition of membership in

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"question. To that violation the Board raised no objection, with the understanding that the bank would not engage further in trust business without first obtaining the permission of the Board. Any further acceptance of trust accounts by this bank will, of course, constitute an additional violation of the condition of membership. It is hoped and expected that the bank will fully observe all of the conditions under which it was admitted to the Federal Reserve System, and that no further consideration will have to be given to this matter.

"Please advise the bank accordingly."

Approved unanimously.

Letter to Mr. Paddock, First Vice President of the Federal Reserve Bank of Boston, reading as follows:

"Reference is made to your letter of March 3, 1941, relating to a request by the 'Worcester County Trust Company', Worcester, Massachusetts, for permission to increase its investment in real estate for banking purposes by an amount not to exceed \$85,000, the funds to be used to purchase land and to erect a building in the City of Worcester for a branch office.

"In view of your recommendation and the information submitted, the Board will interpose no objection to the transaction under the condition of membership numbered 8, with the understanding that the transaction will have the prior approval of the appropriate State banking authorities."

Approved unanimously.

Letter to Mr. Nardin, Chairman of the Federal Reserve Bank of St. Louis, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of St. Louis, made as of January 3, 1941, by the Board's examiners, a copy of the report of examination was left for your information and the information of the directors. A copy was also furnished President Martin.

"The report does not appear to contain any matters requiring further comment at this time. The Board will

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"appreciate advice, however, that the report has been considered by the Board of Directors. Any comments you may care to offer regarding discussions with respect to the examination or as to action taken or to be taken as a result of the examination will also be appreciated."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. C. ...
Chairman.