A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, July 31, 1941, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szumczak
Mr. McKee
Mr. Draper

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Smead, Chief of the Division of Bank Operations

ALSO PRESENT: Mr. Peyton, President of the Federal Reserve Bank of Minneapolis

Mr. Peyton stated that he had asked for this meeting with the Board for the purpose of discussing informally a plan which he had in mind for offsetting the increase in the cost of living in Minneapolis according to the index of the Bureau of Labor Statistics by paying bonuses to employees of the Bank when and if it seems desirable to do so. He said that the local banks of Minneapolis looked to the Reserve Bank to take the initiative in matters affecting salaries and that last March he had called a meeting for the purpose of discussing with representatives of the larger banks a plan whereby bonuses would be paid to employees instead of granting them salary increases in the event the cost of living should show any material rise due to the present national emergency. He said that Mr. Powell, First Vice President, and Mr. Core, Assistant Cashier in charge of personnel, had discussed the matter again in April and studies had been made in the research department of the Bank of the cost-of-living indexes of the Bureau of Labor Statistics,
National Industrial Conference, and one or two other such organizations. He stated that he was confronted with a very difficult problem in Minneapolis of keeping his personnel intact and in his effort to figure out some plan to avoid the necessity for competitive pay increases such as took place during the World War he had conceived a plan which, in his opinion, would be fair to the employees and at the same time solve his personnel problem. He indicated that the plan was possible only because the larger Minneapolis banks were willing to go along with the proposal and in this way the banks would avoid competing with each other for personnel. He stated that the idea had been submitted to his board of directors at a meeting last month and they were in agreement with it in principle although no decision has been reached with respect to all of the details. It was not proposed, he said, that the officers of the bank would participate in the plan, at least in the beginning, and that on the basis of a vote taken at a meeting of the officers of the bank, it was thought that possibly $3,000 should be the maximum upon which bonus payments would be computed. His directors, he said, had concluded that a maximum of $2,600 would be adequate. The theory behind the plan, he said, was simply that a bonus would be paid intermittently to the employees on the basis of a percentage of the salary which they were receiving on January 1, 1941, up to but not exceeding $2,600 or $3,000, whichever amount may be decided upon, regardless of the total annual salary received by the employees, in proportion
to the increase in the cost-of-living index for Minneapolis as computed by the Bureau of Labor Statistics. Such an index, he indicated, would be based only on the necessities of life, i.e., food, clothing, shelter, and one or two other minor items. He admitted that he was not certain that the plan would work but was very desirous of trying it out in Minneapolis on an experimental basis. He said that he would be the first one to recommend its discontinuance if it proved unworkable in practice.

Chairman Eccles stated that whenever wages are increased the cost of living likewise increases, that in his judgment the minimum subsistence level was considerably below $3,000 per annum, and that necessities such as food, clothing, and shelter are just as essential as the defense program. He added that there was bound to be a shortage of certain consumer goods due to the defense effort including some food products such as canned foods, in addition to such competing luxury goods as automobiles, radios, refrigerators, etc. The main point he wished to make, he said, was that under a war economy such as prevails today it would not be possible to insure all employees that they will be protected against rising living costs without defeating our own purpose as applied to the economy as a whole.

At this point Chairman Eccles excused himself from the meeting in order to keep an appointment at the White House.

Mr. Ransom indicated that it was his view that it would be inappropriate to inaugurate a plan at the Federal Reserve Bank of
Minneapolis unless it would be proper to install a similar plan at the
other Federal Reserve Banks. He said that, if the Minneapolis Bank is
confronted with the alternatives of raising salaries or losing employees,
he thought it would be more satisfactory to increase salaries in those
cases where it is necessary in order to hold valuable employees rather
than to set up a plan affecting all employees, particularly one which
is related to the cost-of-living index. He also said that he was not
so much concerned with white collar workers as he was with the one-
third of the nation's population which in recent years has had to live
on incomes insufficient to provide a reasonable subsistence level. In
addition, he said, from a purely theoretical standpoint, there have
been proposals in Congress to hitch the dollar to the general price in-
dex and he felt that it would be unfortunate if the System appeared to
sanction such ideas through the adoption by one of the Reserve banks
of a bonus plan which would be tied to the cost-of-living index. For
these reasons, he said, he would not, on the basis of his present knowl-
gedge of the proposal, be willing to vote in favor of it. In this con-
nection, Mr. Ransom referred to Mr. Smead's memorandum to the Board
of July 30, 1941, which indicated that bonuses had been paid by the
Reserve banks during the period 1916-21 but stated that a letter had
been sent to all Federal Reserve Banks on November 28, 1923, quoting a
resolution adopted by the Board taking the position that it would not
approve bonuses or extra compensation payments of any character there-
after and expressing the opinion that the proper method of compensating
its own employees and those of the Federal Reserve Banks is by payments to them at regular intervals, i.e., weekly, semi-monthly, or monthly, of the full amounts earned by them on the basis of their fixed annual compensation. Mr. Ransom concluded by saying that to approve a plan such as that proposed by Mr. Peyton would of course have the effect of reversing the Board's present position on this subject.

Mr. Peyton stated that the proposal was based on the situation in Minneapolis, that as President of the Reserve Bank he had to take measures to hold his organization together, that he had concluded that the best way to meet the practical situation was to convince his employees that the Reserve Bank wished to be fair and to do what it could to insure them against loss in purchasing power by reason of an increase in the cost of living. He stated that he was not asking the Board to approve the proposal but merely that it interpose no objection to the Minneapolis Bank trying it out on an experimental basis. He indicated that he was desirous of ascertaining the Board's attitude on the question as promptly as possible because the commercial banks in Minneapolis were sold on the plan and would like to put it into operation around September 1. Obviously, he said, if the Reserve Bank is not going forward on this basis he would wish to advise those bankers with whom he had consulted without delay. He also said that in the event the proposal was abandoned he would feel free to increase salaries rather generally throughout the bank in order to meet the competitive situation which now exists and which will probably grow worse with the passage
Mr. McKee indicated that he thought the proposal had merit and would not be adverse to seeing it tried out on a purely experimental basis. He said, however, that he did not like the word "bonus" and suggested that an effort be made to find some other term which would not be associated with the usual bonuses paid by industrial corporations or, for that matter, by banks rather generally during the last war.

In concluding his discussion of the plan, Mr. Peyton read a draft of a resolution that Counsel for the bank had prepared outlining the plan in general language which he said he had intended to submit to his directors at the next meeting. He made it clear that he did not regard the payments contemplated by the plan as additional compensation and said that such payments would not be made on regular pay days but at irregular intervals in the discretion of the bank and with due regard to changes in the cost-of-living index of the Bureau of Labor Statistics for Minneapolis as it might be modified by the statistical department of the bank. He added that his plan would not only be much more economical than general pay increases but it would make it unnecessary for him to reduce salaries following the emergency. Moreover, he said, the important thing he sought to accomplish was to convince his employees that the Reserve bank was desirous of treating them fairly. If he is able to get this thought across, he said, he felt confident that the employees generally would be satisfied to remain in the employ of the bank despite attractive offers from the outside.
At this point Chairman Eccles returned to the meeting.

Mr. Szymczak suggested that the Board would wish to have an opportunity to give further consideration to the proposal and suggested that it be placed on the docket to be brought up for discussion at the next regular meeting of the Board.

Mr. Szymczak's suggestion was concurred in unanimously.

Mr. Peyton thereupon withdrew from the meeting.

Chairman Eccles stated that he had just returned from the White House where he and Leon Henderson, Administrator of the Office of Price Administration and Civilian Supply, had conferred with the President on the question of consumer installment credit controls. He reported the substance of the conversation which took place regarding a proposed executive order placing additional powers in the Board of Governors to control installment credit and providing for an advisory Inter-Departmental Committee consisting of the Administrator of the Office of Price Administration and Civilian Supply, the Secretary of the Treasury, and the Federal Loan Administrator. Chairman Eccles stated that in preparing a regulation on this subject it was his feeling that the Board should obtain the services of two or three men for a month or two on a loan basis who would be well qualified to assist with the practical aspects of the problem. He said, for example, that it might be well to obtain a man from the American Bankers Association and at least one from the "trade" who could work with Dr.
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Parry and the Board's Counsel in connection with the drafting of a regulation. Chairman Eccles suggested that Mr. Ransom assume general supervision over work in this field and expressed the view that it would be well to bring in a representative from each Federal Reserve Bank, within the next two weeks, after a draft of the regulation is ready, for the purpose of getting the benefit of any suggestions they might have, following which the draft could be discussed with the interested Governmental agencies.

Chairman Eccles suggestions were approved unanimously.

At this point Mr. Smead 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 July 30, 1941, were approved unanimously.

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

"The Board of Governors approves the changes in the personnel classification plans of your Head Office and Branches as requested in your letter of July 25, 1941."

Approved unanimously.

Letter to Mr. Stroud, First Vice President of the Federal Reserve Bank of Dallas, reading as follows:
"The Board of Governors approves the changes in the personnel classification plans of your Bank and Houston Branch as requested in your letter of July 25, 1941."

Approved unanimously.

Letter to the board of directors of "The Columbus Trust Company", Newburgh, New York, stating that, subject to conditions of membership numbered 1 to 6 contained in the Board's Regulation 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 New York:

"7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of $24,615 as shown in the report of examination of such bank as of June 14, 1941, made by an examiner for the Federal Reserve Bank of New York."

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Columbus Trust Company', Newburgh, 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.

"Standard condition numbered 6 has been prescribed in order that its provisions may be invoked at any time in the future, if necessary, but as in other cases and in accordance with the general authorization previously granted by the Board you are authorized to waive compliance with the
"condition until further notice insofar as the condition applies to funds which are given statutory preference in the State of New York.

"In his letter to Mr. Sheehan regarding the application, the supervising examiner for the F.D.I.C. points out the need for increasing the common stock to an amount more in keeping with the size of the bank and to the program in effect for providing for that increase. It has been noted that $48,600 is now in a reserve for increase in common stock and that the bank plans eventually to increase the common stock to $200,000. It is assumed that the Reserve Bank will, of course, keep this situation in mind in passing on future applications for retirements of preferred stock."

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

"The Board of Governors of the Federal Reserve System has considered the recommendation of the Board of Directors of your bank, contained in Mr. Diercks' letter of June 26, 1941, and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to 'Northwest National Bank of Chicago', Chicago, Illinois, to maintain the same reserves against deposits as are required to be maintained by Reserve city banks, effective with the first semi-weekly reserve computation period beginning after the date of this letter.

"Please advise the member bank of the Board's action in this matter, calling its attention to the fact that such permission is subject to revocation at any time by the Board of Governors of the Federal Reserve System."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:  
Chairman.

Approved:  
Secretary.