A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks was held in Washington on Sunday, September 28, 1941, at 9:15 a.m.

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

Messrs. Roy A. Young, Sproul, Williams, Fleming, Leach, McLarin, C. S. Young, Davis, Peyton, Leedy, Gilbert, and Day, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, respectively

Messrs. John H. Williams and Rouse, Vice Presidents of the Federal Reserve Bank of New York, and Mr. Sienkiewicz, Secretary of the Presidents' Conference.

During the course of a discussion of a suggestion that consideration be given by the Presidents and the Board to the adoption of a statement favoring the adoption of a pattern of rates at which the financing of the defense program could be undertaken and which the mone-
tary authorities could support by such measures within their power as
might be necessary, there was presented a draft of statement which had
been prepared for consideration at this meeting. During the discussion
which ensued Mr. Roy A. Young left the meeting.

Several changes in the draft were sug-
gested and at the conclusion of the discus-
sion agreement was reached unanimously by
the Presidents and the members of the Board
of Governors upon the following statement
of the position of the Presidents and the
Board for the guidance of the representatives
of the System in further conferences to be
held with representatives of the Treasury,
it being understood that the statement was
not to be given to the Treasury representa-
tives:

"In the present emergency

(1) The Treasury should take further steps to obtain
the maximum amount of its borrowed funds from lenders other than
commercial banks;

(2) The Treasury and the Federal Reserve authorities
should expedite their efforts to decide what additional powers
over bank credit for the Federal Reserve System should be
recommended and we express the view that additional powers are
needed.

(3) As a complement to these steps, a pattern of rates
on U. S. Government securities should be determined jointly
by the Treasury and the Federal Reserve authorities from time
to time and should be supported by such measures as may be
necessary, including open market operations by the Federal Re-
serve System."

At this point Messrs. Goldenweiser and John H. Williams withdrew
from the meeting.

Mr. Day, as Chairman of the Presidents' Conference, stated that
at a separate meeting yesterday afternoon the Presidents voted to re-
Quest that the Board (1) rescind the position taken by it in its letter
of November 28, 1923, to the Federal Reserve Banks, that thereafter no
bonuses or compensation payments by the Federal Reserve Banks would be approved by the Board, and (2) authorize the Federal Reserve Banks to pay such compensation allowances to their employees as seemed to be desirable under existing conditions.

Mr. Day said that this action had been taken by the Presidents with a view to placing the Federal Reserve Banks in a position to meet competition by other institutions for Reserve Bank employees and to enable employees in the lower brackets of income to meet the increased cost of living. He also said that the Presidents felt that any additional compensation should not be called a bonus or regarded as salary but as an adjusted compensation that could be discontinued easily when the emergency was over, and that the extra compensation would not enter into the computation of the allowances to which the employees would be entitled upon retirement. Upon inquiry, Mr. Day added that the Presidents had discussed the basis upon which such adjusted compensation would be allowed and that although it would not necessarily be related to a cost of living index it would be necessary for the banks to adopt something in the nature of a guide.

Comments by the Presidents indicated that the problem was a pressing one at all of the Federal Reserve Banks with possibly one or two exceptions, that some of the banks had lost a substantial number of employees mostly in the lower salaried groups to other institutions and agencies, and that in order to maintain efficient organizations some recognition would have to be given to the higher salaries that were being paid generally.
Mr. Ransom raised the question whether it was a sound procedure to relate such adjustments as might be made to a cost of living index. It seemed to him that, if adjustments were increased as the index rose, the System would be contributing to the spiral that in the general economy would result in inflation. Messrs. Williams and Davis stated that the causes of present higher living costs were outside of any action that the System might take with respect to its employees, that as long as the Government was not willing to take action in the field of agricultural prices and wages which were major contributive causes of higher costs, the Federal Reserve Banks would not be contributing by the proposed action to the advance in costs, and that, therefore, there should be no hesitancy on the part of the System to meet these higher costs by compensation adjustments in order that the banks would be in a position to meet competition for their employees. It was also suggested that the Board might grant the authority requested with the understanding that the basis on which the compensation adjustments would be allowed would be for determination by the respective Banks, in consultation with the Bank if desired by it.

During the discussion it was stated by Mr. Day that it was not expected that adjustments would be made in salaries above $3,000, and it was suggested that in some of the banks the maximum salaries might be below that figure and that the Federal Reserve Banks would base their action on what appeared to be necessary to meet competition in their respective districts.
Mr. Peyton and some of the other Presidents urged that at least certain general principles should be determined as promptly as possible so that the Reserve Banks would be in a position to act. In that connection Mr. Peyton read the letter addressed to him by the Board on August 6, 1941, following his presentation to the Board of a plan which he desired to try out in the Minneapolis Bank, in which it was stated that there was a difference of opinion among the Board members as to the action to be taken.

Chairman Eccles stated that all of the members of the Board were in favor of some action to meet the situation but that the difficulty was the method by which any adjustments agreed upon should be made.

Mr. Szymczak read the Board's letter of November 28, 1923, to which reference had been made by Mr. Day, and Mr. Gilbert pointed out that the conditions under which that policy was adopted were very different from those existing today and that there was ample justification for the abandonment of the position.

All of the Presidents, except Mr. McLarin, stated that they favored action in the form of compensation adjustments rather than salary increases and several suggested that the adoption of a policy of compensation adjustments would make it possible for a Reserve Bank to say to an employee that he would be treated fairly and at the same time make it clear that the increased compensation would be continued only for the period of the emergency.

Mr. Szymczak moved that the resolution with respect to bonus payments adopted by the Board on November 28, 1923, be rescinded.
In a discussion of Mr. Szymczak's motion, the further suggestion was made that the Board and the Presidents appoint committees to work out a general policy, and Mr. Peyton suggested that the Board designate a representative to whom the Federal Reserve Banks could submit their plans.

At the conclusion of the discussion, Mr. Szymczak's motion was put by Chairman Eccles and carried by the unanimous vote of the members of the Board, with the understanding that the action did not in any way imply approval by the Board of any particular basis for determining adjusted compensation, but that the action cleared the way for the consideration of plans to be submitted by the Federal Reserve Banks.

Mr. Day stated that if the Board would designate its committee the Presidents would appoint a committee this afternoon so that immediate action could be taken.

With the approval of the other members of the Board, Chairman Eccles stated that Mr. Szymczak would represent the Board.

It was understood that the committee of Presidents would recommend as soon as possible the general principles to be adopted, and that thereafter the Federal Reserve Banks would submit to the Board any plans for compensation adjustments that they might wish to have considered in the light of the general principles agreed upon.

(Secretary's note: Following the meeting, Mr. Sienkiewicz advised that the Presidents' committee would consist of Mr. Davis as Chairman, and Messrs. Williams and Leach, as members.)

President Day then stated that the Presidents in their separate meeting yesterday appointed a committee to clarify the relative respon-
sibilities and accounting methods among the several Federal Reserve Banks and such other matters as appeared to be pertinent in connection with the foreign accounts maintained by the Federal Reserve Banks, and Mr. Sproul suggested that inasmuch as the Board has a special responsibility with respect to foreign relationships it might wish to designate a representative to sit with the committee.

By the unanimous vote of the members of the Board Mr. McKee was designated for that purpose.

Mr. Day inquired whether the Board had anything to present to the Presidents on the subject of credit control, and Mr. Ransom stated that the Board had kept in close touch with the Federal Reserve Banks on all phases of the matter and there was nothing that called for consideration at this time.

Mr. Gilbert suggested that it would be helpful if at some time in the near future a conference could be held of Federal Reserve Bank men who were administering Regulation W at the Banks for the purpose of exchanging views and discussing possible improvements in methods of procedure. Mr. Ransom stated that it was contemplated that that would be done after some of the more pressing matters had been disposed of and the Banks had gained further experience with the Regulation.

In response to a comment by Mr. Williams that there could also be discussion at such a conference of the problem of the enforcement of Regulation W, Mr. Ransom reviewed briefly the consideration that had been given to that problem and stated that, although a few cases of violation had been brought to the Board's attention, these were not suf-
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ciently numerous to cause concern at this time, but that the matter
was receiving consideration and would be taken up with the Federal Re-
serve Banks in due course.

Thereupon the meeting adjourned.

-approved:

Chairman.

Chester

Secretary.