

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, October 26, 1943, at 10:30 a.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Smead, Chief of the Division of
Bank Operations
Mr. Paulger, Chief of the Division
of Examinations
Mr. Leonard, Director of the Division
of Personnel Administration
Mr. Millard, Federal Reserve Examiner

In accordance with the decision reached at the meeting of the Board on October 22, 1943, consideration was first given to the situation at the Federal Reserve Bank of Boston as disclosed by the examination of the Bank recently completed by the Board's examiners. At Mr. Szymczak's request, there was read a memorandum hurriedly prepared by Mr. Morrill yesterday which summarized the information contained in the Board's files with respect to the management and personnel situation at the Boston Bank. Mr. Szymczak then called on Mr. Millard for a statement of conditions at the Bank, and a summary of Mr. Millard's statement is set forth below:

While there has been some improvement in the R.F.C. Custodial Department and in the relations of the Fiscal Agency Department with the public, the condition of the Bank in other respects has deteriorated since the previous

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examination. The Bank building is still very much overcrowded and is badly organized from the standpoint of space arrangement. Some of the service functions which occupy valuable space should be moved somewhere else so that the space might be available for the more important operations of the Bank.

In the Fiscal Agency Department, the handling of savings bond consignment accounts is set up with a complicated procedure requiring as much as four days to post what should be a simple operation. Spoiled and cancelled war bonds in large amounts are held at the Bank without being functioned and forwarded to the Treasury Department for destruction, and items received by the Fiscal Agency Department in payment for bonds are not handled currently. A large volume of interest coupons from Government bonds which were paid as of September 15 was being held at the time of the examination without having been charged to the Treasury. The war loan accounts were in very bad shape, resulting in criticisms from banks in the district for the inefficient manner in which these accounts were handled.

In the Transit Department, conditions were highly unsatisfactory because of the failure to function cash letters through the department currently. When Mr. Paddock learned of this situation, he instructed that member bank accounts be credited immediately so that there would be no question of the banks being short in required reserves, but this did not offer any solution to the problem and the department continued to run behind. It was Mr. Hult's considered opinion that the department needed at least 40 additional employees and that the department should abandon the punch-card procedure and return to the old adding-machine method of handling checks. He arranged to handle the sendings from two Boston banks in that manner and was able to keep them current with no overtime while other employees in the department continued to work nights and week-ends. The failure of the Bank to keep this department current has also resulted in criticisms on the part of member banks which have not been very complimentary to the Reserve Bank. The Chief National Bank Examiner called on me and was critical of the Reserve Bank because of the difficulty his examiners had had in reconciling the accounts of national banks at the Federal Reserve Bank, and upon being assured that the matter was being given

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consideration he said he would await the results of that consideration.

The situation in the Accounting Department is not at all satisfactory, chiefly because of the fact that employees are taken from that department to help out in the Fiscal Agency Department, with the result that the Accounting Department has not followed up exceptions which has caused no end of trouble.

The problem of management and personnel is interwoven in all of the criticisms of the Bank. It is felt that the personnel situation has deteriorated since the previous examination, the Bank having had a large turnover and a net loss of employees during that period. The Bank is understaffed by from 200 to 250 employees. An analysis of the salaries being paid shows that of the 1,360 employees 41 per cent were receiving base pay of less than \$1,000 per annum and that an additional 39 per cent were receiving base pay of \$1,500 or less. In view of a State law requiring that employees be paid weekly, the salaries were broken down on a weekly basis and there were many instances of employees who, after deductions for the retirement system, withholding tax, and war savings bonds, were receiving less than \$10 a week. While the Bank has granted a substantial number of increases in salary, these increases have been extremely small. One of the principal reasons for the Bank's personnel difficulties is the existence of restrictive rules with respect to employment which it is believed should be abandoned in times like the present. The Bank has failed to take advantage of its authority to pay overtime to heads and assistant heads of departments, which has resulted in inequities in several cases, and has also failed to increase salaries in other cases to the maximums provided under the personnel classification plan, resulting in the loss of a number of employees who had had several years' experience at the Bank.

President Paddock is very resentful of the action taken to place the Auditing Department directly under the Chairman and, while he has told Mr. Fogg, the Auditor, that he is at liberty to employ such additional help as he may need, he would be limited in that connection by certain employment policies of the Bank, among which is one to the effect that no new employee shall receive in the aggregate a larger compensation than that which he was receiving from his previous employer. This attitude on the

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part of President Paddock is reflected in the other senior officers of the Bank. Mr. Paddock completely dominates the official staff, with the result that the other officers of the Bank are almost completely without initiative and their morale is extremely low. The relations between President Paddock and Chairman Creighton are not harmonious, and it is not believed that Mr. Paddock's attitude in this particular can be changed.

A memorandum setting forth fully all of the information disclosed by the examination which it is believed should be brought to the attention of the Board in connection with the matters referred to above is being prepared and will be submitted in the course of the next week or 10 days.

Following Mr. Millard's statement there was a discussion of the actions that might be taken by the Board under the law and what its responsibilities were in the circumstances, and during this discussion Mr. Dreibelbis, General Attorney, joined the meeting.

In response to an inquiry from Mr. Ransom, Mr. Dreibelbis stated that it could not be debated that the Board had authority to remove an officer of a Federal Reserve Bank for cause but that he felt that should not be done without first giving the officer a hearing.

It was pointed out in tabulations presented by Mr. Leonard that on a comparative basis the salaries at the Federal Reserve Bank of Boston were lower than at any other Federal Reserve Bank, and it was thought that, notwithstanding the fact that the Bank had the policy of maintaining the same salary scale as the principal commercial banks in Boston, there was a question whether its salaries were not in fact lower than the salary scales of such banks.

Attention was called to the fact that Vice President Carrick

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would reach the retirement age of 65 on January 13, 1944, and that Mr. Paddock would become 65 on April 8, 1944, and the suggestion was made that the best method of meeting the situation at the Boston Bank would be for the board of directors to employ an outstanding person with the understanding that Messrs. Paddock and Carrick would retire upon reaching age 65 and that the new man would succeed to the presidency of the Bank upon the retirement of Mr. Paddock. The opinion was also generally concurred in that further steps to strengthen the management of the Bank should include the selection of a better qualified first vice president.

At the conclusion of the discussion it was agreed unanimously (1) that Mr. Millard should finish and submit to the Board as promptly as possible the memorandum referred to by him at the conclusion of his statement, (2) that Mr. Dreibelbis should prepare an opinion with respect to (a) the authority of the Board to remove an officer of a Federal Reserve Bank if in the opinion of the Board it were felt that such action was necessary and (b) the extent of the authority of the Board to vest responsibilities in a full-time Chairman at a Federal Reserve Bank in view of the statutory requirement that the President shall be the chief executive officer of the Bank, and (3) that under Mr. Szymczak's direction Mr. Paulger should prepare a draft of letter to the Boston Bank commenting on the matters at the Bank which needed correction. It was understood that when the letter was ready Chairman Eccles should call Mr. Creighton on the telephone and request an opportunity for Messrs. Eccles, Szymczak, and Millard to discuss the report of examination

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at an early meeting of the board of directors of the Bank.

The meeting then recessed and reconvened at 2:30 p.m. with the same attendance as at the morning session except that Mr. Paulger was not present.

Reference was made to the memorandum prepared by Mr. Leonard under date of October 21, 1943, and discussed at the meeting of the Board on October 22, with respect to salary increases proposed by the Federal Reserve Bank of San Francisco for Mr. Holman, General Auditor, Mr. Wheeler, Director of Research, and Messrs. Ambrose, Davis, and Shaw, Managing Directors of the Los Angeles, Portland, and Seattle Branches, respectively. In this connection Mr. Szymczak read a memorandum addressed to him by Mr. Myrick, Assistant to the Chief of the Division of Bank Operations, under date of October 25, 1943, relating to the policy of the San Francisco Bank with respect to increasing the functions of the branches, in which it was indicated that the Bank had decentralized the fiscal agency and other operations to the fullest extent practicable but without a commensurate decentralization of authority and responsibility.

There was agreement with the opinion that, if responsibility for independent decisions in the operation of the branches were placed in the officers of the branches to the same extent as was being done in the branches of some of the other Federal Reserve Banks, such as

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Detroit, Pittsburgh, and Cincinnati, there would be ample justification for establishing higher salary scales for the position of managing director at the branches of the San Francisco Bank. It also appeared from the discussion that Mr. Ambrose recently had been discharging his responsibilities as Managing Director of the Los Angeles Branch much more satisfactorily than had been the case in earlier years.

At the conclusion of the discussion, Mr. Szymczak moved that a draft of letter to President Day be prepared along the lines suggested during the discussion for consideration by the Board, in which it would be stated that in the circumstances set forth in the letter the Board would be willing to approve the proposed salary increases for Messrs. Holman, Wheeler, Ambrose, Davis, and Shaw.

This motion was put by the chair and carried unanimously.

At this point Messrs. Smead, Leonard, Dreibelbis, and Millard withdrew from 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 October 25, 1943, were approved unanimously.

Memorandum dated October 23, 1943, from Mr. Leonard, Director of the Division of Personnel Administration, recommending that Mrs. Helen Braden, who has been serving as substitute nurse, be appointed

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as nurse in charge of the Emergency Room on a temporary basis for an indefinite period, with basic salary at the rate of \$1,860 per annum, effective as of the date upon which she enters upon the performance of her duties and subject to passing satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated October 21, 1943, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss Helen L. Richards be appointed as a clerk-typist in that Division on a temporary basis for an indefinite period, with basic salary at the rate of \$1,560 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated October 21, 1943, from Mr. Morrill, recommending that Solomon L. Lee, Robert E. Betz, and Horace E. Taylor be appointed as laborers in the Secretary's Office on a temporary basis for an indefinite period, with basic salary at the rate of \$1,200 per annum each, effective as of the respective dates upon which they enter upon the performance of their duties after having passed satisfactorily the usual physical examination, with the understanding that if anything derogatory should develop in the investigation of their references their services may be terminated immediately.

Approved unanimously.

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Memorandum dated October 25, 1943, from Mr. Morrill, recommending that Miss Anne McCrory be appointed as a cafeteria helper in the Secretary's Office on a temporary basis for a period of not to exceed 60 days, with basic salary at the rate of \$1,080 per annum, effective October 25, 1943.

Approved unanimously.

Memorandum dated October 16, 1943, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending, for the reasons stated in the memorandum, that Mrs. Anna G. Beers, a clerk-stenographer in that Division, be granted an extension for a period of not to exceed three months from October 16, 1943, of the leave without pay approved by the Board on September 20, 1943, and that the Board continue to make its contributions to the retirement system on Mrs. Beers' behalf during her absence provided she continues her own contributions for the same period.

Approved unanimously.

Letter to the board of directors of "The North End Bank & Trust Company", Bridgeport, Connecticut, stating that, subject to conditions of membership numbered 1 to 6 contained in the Board's Regulation H and the following special condition, 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:

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- "7. At the time of admission to membership, such bank shall have a paid-up and unimpaired capital of not less than \$200,000."

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 North End Bank & Trust Company', Bridgeport, Connecticut, 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 Bank Commissioner for the State of Connecticut, for his information.

"It is assumed that you will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's regulations, the savings accounts listed on page 16(a) of the report of examination for membership.

"The Board, in accordance with the policy set forth in its letter X-9143, dated March 8, 1935 (F.R.L.S. #3722), has prescribed standard condition numbered 6, since it is not believed consistent with the principles of sound trust administration to permit the deposit of trust funds in a bank's commercial or savings departments unless the bank is authorized by State law to deposit securities with the trust department for their protection."

Letter to Mr. Hardy, Assistant Cashier of the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to your letter of October 19, 1943, requesting that the Board designate a person to represent the Federal Reserve Bank of San Francisco in the mutilation of a plate bearing the facsimile signature and title of H. N. Mangels, Cashier, which has been used in the signing of checks drawn in disbursement of proceeds of redeemed United States Savings bonds. The Board has

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"designated Mr. John DeLaMater of the Division of Bank Operations to represent your Bank in the mutilation of the plate, and is today informing the Treasurer of the United States of this appointment.

"Advice will be furnished you when the mutilation of the plate has been witnessed."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. S. C. C. C.
Chairman.