C O P Y

October 11, 1921.

Dear Mr. Chairman:

In the record of the statements made by a former Comptroller of the Currency and ex-officio member of the Federal Reserve Board to the Commission on August 2nd and 3rd, there are included two addresses made by him, one in Washington on April 15, 1921 and the other in Augusta, Georgia, on July 14, 1921, in which certain allegations are made reflecting upon the intelligence and efficiency, and, by innuendo, upon the probity of members of the Federal Reserve Board. Other statements with which the Board takes issue appear in various communications to the Board which the former Comptroller introduced in his testimony.

Many of these allegations are so trivial and irrelevant as to be unworthy of notice, and others, particularly those which relate to credit policies, it is believed have been fully answered in the statements made by Governor Strong and myself before your Commission on August 4th and subsequent days, and in letters which have been introduced in the record. Having in mind the desire of the Commission to assemble as promptly as possible facts more directly related to the purposes for which it was organized, I did not deem it opportune when I was before the Commission to take up its time in answering the general charges made by the former Comptroller that the Board had approved or permitted reckless waste of money in the operations of the Federal Reserve Banks, particularly with respect to the building of the Federal Reserve Bank of New York, now in course of construction, and to the salaries paid to the officers of the Federal Reserve Bank of New York.

In each Annual Report of the Federal Reserve Board to Congress an exhibit has been made of the number of officers and employees of all Federal Reserve Banks and of their salaries.

In its Annual Report for the year 1918, the Board called the attention of Congress to the necessity of providing adequate quarters for the Federal Reserve Banks and reported purchases of building sites which had been made by ten of the twelve Banks. In each subsequent report a frank statement has been made to Congress of the progress of the building operations by the respective Banks.

When the Committees on Banking and Currency of the Senate and House of Representatives were considering, early in the year 1919, the Board's recommendation that Section 7 of the Federal Reserve Act be amended by permitting the banks to create a maximum surplus out of earnings equal to 100% of their paid-in capital, instead of 40% as previously provided, I called the attention of the Committees to the fact that all Federal reserve banks would be obliged to construct their own buildings as it was not practicable to lease adequate quarters and otherwise to provide suitable vaults for the custody of the large amounts of cash and securities held by the banks. I called attention also to the large expenditures which would have to be made in these building operations, and urged that the banks be permitted to increase their surplus in order to reduce the proportion of fixed assets represented by the buildings to their capital account. The Committees appeared to be impressed with this argument for the Act of March 3, 1919, went beyond the Board's recommendations and provided that Federal reserve banks might create a surplus out of earnings equal to 100% of their subscribed capital, plus 10% of net earnings annually, after such a surplus had been created.

As no criticism has been made to the Commission by the former Comptroller, however, of any of the Federal reserve bank buildings except that of the Federal Reserve Bank of New York, it seems unnecessary at this time to present further data relating to any of them except the one in New York. The Board understands that the Governor of the Federal Reserve Bank of New York has submitted to the Commission a full statement regarding the building operations of that bank, every important detail of which has been submitted from time to time to the Federal Reserve Board.

Since he appeared before the Commission, the former Comptroller has given to the press a letter directing his criticism especially to the salaries paid to officers and employees of the Federal Reserve Bank of New York, and this letter has recently been inserted in the Congressional Record.

Each Federal reserve bank is by law placed under the supervision and control of a board of directors who are authorized to appoint such officers and employees as are not otherwise provided for in the Federal Reserve Act and to define their duties. The law also requires that any compensation that may be provided by the board of directors of a Federal reserve bank for directors, officers or employees shall be subject to the approval of the Federal Reserve Board.

I transmit herewith copy of a letter, dated October 6, 1921, from the Governor of the Federal Reserve Bank of New York, in which he discusses not only the salaries of officers which have been specifically criticised by the former Comptroller, with the exception of his own and that of the Federal Reserve Agent, but also the increase in the number of employees and in their compensation. The Board has, in approving salaries and increases in salaries from time to time, been advised of all the facts set forth in this letter and its approval of the salaries proposed by the directors has been based upon an appreciation of these facts. This letter contains a detailed review of the principles governing the salary policies of the Federal Reserve Bank of New York, the approval of which by the members of the Federal Reserve Board is evidenced by their action in approving from time to time specific salaries and increases voted by the bank's directors. Inasmuch as Governor Strong's sense of propriety does not permit him to discuss in his letter the salaries paid the Federal Reserve Agent and himself, particular reference will be made to these salaries in this communication.

The Federal Reserve Agent is appointed by the Federal Reserve Board and his salary is fixed by the Board. All other officers and employees of the Federal Reserve Bank, except those in the Federal Reserve Agent's Department, are appointed by the board of directors and the salaries fixed by them, subject to the approval of the Federal Reserve Board.

The officers of Federal reserve banks are not officers of the United States. They are private citizens, just as officers of national banks, which are, like Federal reserve banks, chartered under an act of Congress, are private citizens.

The conduct of the business of a Federal reserve bank, and of the Federal Reserve Bank of New York especially, which is now the largest banking institution in the country, with transactions many times greater than those of the largest member banks, with great responsibilities to its member banks, to the public, and to the Treasury of the United States, requires the services in executive and other capacities of trained officials and experts who will devote all of their time to the work of the bank, not only in the ordinary routine but in the study of a great variety of technical subjects, and it is highly desirable that men be obtained who can always be relied upon to show good judgment and all other necessary qualifications.

These officers are not permitted to engage in any other business or in political activities or to hold public office. Their service in the Federal Reserve Bank is not a stepping stone to a political career nor does it afford means of outside financial profit. It would be impossible to secure the services of competent and efficient officials for the Federal reserve banks, were their salaries to be measured by the salaries paid to the political officers of the Government.

In the former Comptroller's letter, above referred to, and in his Augusta speech which is a part of the record of the Commission, he appears to take the position that the salary of a United States Senator is the standard upon which salaries of Federal reserve bank officials should be based. He did not himself, however, while he was in office, observe this principle, but on the contrary recognized the fact that in order to obtain competent national bank examiners, who, by the way, are officers of the Government, he would be obliged to pay regard to the technical skill and ability of these men and to what they could earn in the employ of private banking institutions and corporations.

These examiners are appointed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury, and their salaries are fixed by the Federal Reserve Board "upon the recommendations of the Comptroller of the Currency". The Board does not regard these salaries as excessive and in what follows no such inference should be drawn.

The report of the Comptroller of the Currency for 1920 gives in one item (page 22, second volume) the total of the "Expenses on Account of the National Bank Examining Service", which includes salaries and other expenses incurred in making examinations, including traveling expenses, but does not give any statement, either in detail or in the aggregate, of salaries paid national bank examiners. The report of the Federal Reserve Board for the same year, however, gives a complete detailed list of salaries paid national bank examiners (pages 278-280). These salaries were initiated and recommended, in each instance, by the Comptroller of the Currency, just as salaries of Federal reserve bank officers and employees are initiated by the directors of the Federal reserve banks.

The report shows that ten examiners are paid salaries equal to or in excess of that of a United States Senator, that one examiner is paid a salary in excess of that of two United States Senators, and that the aggregate of salaries paid these ten examiners is more than the salaries paid thirteen United States Senators. It shows also that the total salaries of all national bank examiners on the payroll as of December 31, 1920 aggregate $637,900, an amount equal to the salaries of eighty-five United States Senators. In addition to this, during the year 1920, two national bank examiners were, for a time, each paid a salary at the rate of $30,000 per annum, an amount equal to that paid four United States Senators, but it is only fair to state that these examiners were detailed to examine foreign branches of national banks and that these salaries were designed to cover ocean transportation and all traveling and living expenses while they were engaged in making these examinations abroad.

The foregoing comparisons are made merely to show the absurdity of attempting to draw conclusions from totally unrelated facts.

In its Annual Report for 1918, the Board said:

"It is evident that the Federal Reserve Banks, in order to insure the proper conduct of their business and to protect the interests of the Government, the member banks, and the public, must employ men of exceptional experience and ability. Experience has shown that the larger member banks are disposed to draw upon the Federal Reserve Banks for men to fill high official positions, and in order to retain the services of officers who are constantly being tempted with outside offers at high salaries, it has become necessary to recognize this competition. While the Board has in no case approved salaries for Federal Reserve Bank officers as high as those paid officers of similar rank by the larger member banks in the various Federal Reserve cities, it has approved salaries approximating the average salaries paid by the larger local banks. In the case of junior officers, heads of divisions, and clerks, the Board has recognized from the outset that the compensation paid them must be in line with that paid by the larger member banks. The Board does not believe that the Federal Reserve Banks should become training schools for future officers of member banks; it feels, on the contrary, that sufficient inducements should be offered by the Federal Reserve Banks to make service with them attractive as a career."

During the past seven years four Governors of Federal reserve banks have resigned in order to accept executive positions with other banking institutions at much higher salaries, and the same is true with respect to a considerable number of Deputy Governors and junior officers.

The Board does not regard the salaries paid the Governor of the Federal Reserve Bank of New York and the Federal Reserve Agent as being excessive. No one who is familiar with the qualifications of these gentlemen, their long experience in banking, their established position in the banking community before the Federal Reserve Bank was organized, the magnitude of their responsibilities, and the opportunities which are constantly afforded them to make other and more profitable engagements, would assert for a moment that they are being paid more than they are worth.

The only question, therefore, to be considered is - Does the business of the Federal Reserve Bank of New York require the services as its two senior officers, of men of their type? The Board believes that it does, and it believes furthermore, that it would be false economy to depend upon less able and experienced men.

I am enclosing for the information of the Commission copy of a letter from Governor Strong, which outlines the history of his connection with the Federal Reserve Bank of New York. The statements made therein were already familiar to some members of the Board who have served continously since 1914.

The directors of the Federal Reserve Bank of New York voted in September, 1917, to increase the Governor's salary from $30,000 to $50,000 per annum, and the question of approval was considered by the Federal Reserve Board. Upon being informed, however, that Mr. Strong would not then accept this increase, and in view of the fact that the country was at war, the Board took no action. The records of the Treasury Department will show what was done by the Liberty Loan Organization of the Federal Reserve Bank of New York, under the leadership and supervision of Governor Strong, in the placing of Government securities during and after the war. In the prosecution of this work, in connection with his other duties, his health broke down and necessitated his absence from the bank during the year 1920, to which reference is made in his letter.

In December 1918, the directors of the Federal Reserve Bank of New York again voted to increase the salary of Governor Strong to $50,000 per annum. The following is an extract from the minutes of the meeting of the Federal Reserve Board on December 14, 1918:

"PRESENT: The Chairman (Mr. McAdoo)
The Governor
Mr. Strauss
Mr. Miller
Mr. Hamlin
Mr. Williams
Mr. Broderick, Secretary.

"Mr. Strauss stated that he had reviewed the recommendations of the Federal Reserve Bank of New York of increases in salaries of and bonuses to its officers and employees, and submitted the following report, which was ordered spread upon the minutes of the meeting:

(Here follows report of Mr. Strauss on a letter from Mr. George F. Peabody, Deputy Chairman of the Board of Directors of the Federal Reserve Bank of New York, on the subject of increased compensation for employees of the bank).

"The Chairman expressed himself as heartily in accord with the principles propounded by Mr. Strauss. He then explained to the Board his views as to the principles that should be observed in determining compensation to officers of Federal Reserve Banks. He stated that his attitude had been that in the beginning and during the formative period of the System he advocated comparatively low salaries until the business of the banks could be established, and a fair measure obtained of their operations and a more accurate realization reached of the dimensions of the problems and responsibilities of the banks' officers, adding that last year he had opposed an increase in the salary of the Governor of the Federal Reserve Bank of New York only because the country was at war. He said, now that the business "of the banks had been well established and they were making large earnings for the Government, the time had come when the office of Governor of a Federal Reserve Bank should command on its merits a fair and just compensation, and that he would vote to fix the salary of the Governor of the Federal Reserve Bank of New York at $50,000 per annum, this salary to prevail not only for the present incumbent, but for his successors. The Chairman stated it as his view that the principle governing the fixing of salaries of officers of Federal Reserve Banks should be that the salary be made sufficiently attractive to make a man willing to adopt the Federal Reserve System as a permanent career, having its rewards in the way of promotion like any other institution. He opposed the view that the office of head of a Federal Reserve Bank should be considered on a parity with high Government office, stating that heads of Federal Reserve Banks could not be said to enjoy that magnitude of power and prestige pertaining to high Government office, while the bank officers were yet placed in a different position from those engaged in private institutions in that they were affected by the mutations of public life and controlled by a changing public Board.

"The chairman stated that he had conferred with the Secretary of the Treasury-elect, Mr. Carter Glass, who concurred in the substance of the principles recited by him, leaving it to the Board, of course, to make, under such principles, reasonable adjustments of salaries throughout the System in its discretion.

"The Chairman stated as a further principle that the salary of a Federal Reserve Agent should be at least as high as that of any Deputy Governor of the Federal Reserve Bank of which such Agent may be Chairman.

"Mr. Miller pointed out that the tremendous earnings of the Federal Reserve Banks had accrued this year largely out of Government business, and asked the Chairman if he had that factor in mind in expressing his opinion on the question.

"The Chairman replied that he did not think the percentage basis of earnings of banks is a fair guide for the measure of compensation to be paid, stating it as his judgment that the questions of salaries at the several banks should be dealt with each on its own merits with respect to the responsibility assumed by the Governor when taking office.

"Mr. Strauss stated that the Board should not consider the earnings of a bank in fixing compensation; that at future periods it might well be the business of the banks not to make money.

"The Chairman concurred in this view, stating that it might be necessary to operate a bank at a loss as a result of a general plan of combining the resources of all banks as a common fund, in which event, the responsibilities of the Governor of a bank forced to operate at a loss would be even greater than when large earnings were accruing. He said the problem was to ascertain what is a just compensation, taking into consideration all the elements of the problem - the size of the bank, the cost of living in the community, and the responsibility assumed by the chief executive officer of the bank.

"Mr. Williams pointed out that there were certain Governors of Federal Reserve Banks whom the Board felt were not the strongest men for their positions.

"The Chairman stated that if the Board undertook the reponsibility of keeping in office incompetent men as Governors of Federal Reserve Banks the salaries of such Governors should nevertheless have a relation to the responsibility assumed.

"On motion duly seconded, it was voted unanimously that the salary of the Governor of the Federal Reserve Bank of New York for the ensuing year be approved if fixed at $50,000 per annum, and that the recommendations of the Board of Directors of the Federal Reserve Bank of New York, as submitted by Deputy Chairman Peabody in his letter of December 11, 1918, as modified in principles by the memorandum submitted by Mr. Strauss, above, be approved with the understanding that the Board will review same in detail and make such adjustments as may be necessary at its meeting on Monday, December 16th.

"At this point the Chairman (Mr. McAdoo) stated that it was necessary for him to withdraw from this, the last meeting of the Federal Reserve Board which he would attend, and expressed to the members of the Board his appreciation of the work they had done during his incumbency of the office of Chairman, stating that he would always have a keen interest in the personal welfare of members of the Board, as well as in their official work."

For the further information of the Commission, and in order that it may better determine what weight, if any, should be given to the criticisms made by the former Comptroller of the salaries paid by the Federal Reserve Bank of New York, I transmit a memorandum made up from the minutes of the Federal Reserve Board showing the dates of the various meeting at which increases in salaries of officers and employees of the Federal Reserve Bank of New York were considered, and the vote of the Comptroller on these proposals. It will be noted that the minutes show, that he voted affirmatively on eighty percent of the salary increases, including those which he now criticises, that he did not vote against any of them, but was absent from meetings at which the other twenty percent were considered.

The Board requests that this letter and the memorandum attached be made a part of the record of the Commission. If the Commission desires any further statement regarding any other allegation made by the former Comptroller, which appears in the record, the Board will be pleased to furnish it without delay.

In view of the fact that the allegations made by the former Comptroller are a part of the official record of the Commission and are being constantly reiterated by him, the Board respectfully requests that the Commission make public its findings regarding them.

Very truly yours,

(Signed) W. P. G. Harding

Governor.

Hon. Sydney Anderson, Chairman,
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