

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, October 9, 1940, at 2:35 p.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Davis  
Mr. Draper

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Thurston, Special Assistant to the Chairman  
Mr. Wyatt, General Counsel  
Mr. Smead, Chief of the Division of Bank Operations  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Vest, Assistant General Counsel

There was presented a draft of a letter to Vice President Gidney of the Federal Reserve Bank of New York, reading as follows:

"In your letter of September 12, 1940, you ask that the Board give consideration to the question whether Mr. George W. Bauer or Mr. Jeremiah D. Maguire would be 'a director, officer or employee' within the meaning of the Clayton Act, under proposed arrangements which may be summarized as follows. Mr. Bauer would be appointed investment consultant to the board of directors of The First National Bank of Roselle at an annual fee of \$500; his connection with the bank would be limited to being present at directors' meetings when requested; and he would have no authority with regard to the management of the bank. Mr. Maguire has been requested to attend all meetings both of the board of directors and of the executive committee of The Continental Bank & Trust Company of New York in an advisory capacity without having any right to vote. Both of these gentlemen were formerly directors of the respective banks and severed

10/9/40

-2-

"their connections in view of the provisions of the Clayton Act.

"You point out that the two cases are essentially similar to that involving Mr. W. Chester Braswell with respect to which the Board wrote your bank on August 1, 1935, and add that you feel that the same conclusion should be reached, namely, that neither Mr. Bauer nor Mr. Maguire should be considered a 'director, officer or employee' within the meaning of the Clayton Act.

"It is clear that neither of these gentlemen would be a director or an officer, and it seems equally clear that neither of them would be an employee in the usual sense of that word. Of course each case of this kind must rest on its own facts considered in the light of various tests which have been applied by the courts, including the question whether the employment is continuous or is merely to do a single act, whether a salary is paid or merely fees for particular acts, and whether the employer has control of the employee's time and of the manner in which the work shall be done, the latter question being probably the most important. In the light of these tests, a person not otherwise connected with a bank who merely furnishes expert advice on questions which are presented to him by the management of the bank from time to time, would not usually be an employee, and, therefore, the Board sees no reason to differ with your view regarding the present cases."

After a discussion of the question whether the ruling proposed in the letter would be contrary to the spirit of the Clayton Act, there was agreement that no other ruling was justified under the law and the letter was approved unanimously.

Mr. Morrill stated that the Division of Bank Operations had been advised informally by a member of the staff of the Comptroller of the Currency that the Comptroller had informed State banking departments that he contemplated no immediate call on national banks for reports of condition, and that thereupon Mr. Smead

10/9/40

-3-

had prepared a draft of telegram to the Presidents of all Federal Reserve Banks advising them accordingly and stating that if any State banking department or State member bank should inquire, the Federal Reserve Bank might advise that the Board of Governors contemplated no immediate call for condition reports.

In connection with the discussion of this matter reference was made to the letter addressed by the Board to the Comptroller of the Currency on August 12, 1940, which stated that the Board would appreciate being advised more particularly as to the reasons why his office wished to omit the fall call this year and offered the suggestion that it would be helpful if arrangements could be made for representatives of the Comptroller and the Board of Governors to confer before decisions are reached as to future calls. It was stated that no reply had been received from the Comptroller and the opinion was expressed by some of the members of the Board that another letter should be sent to the Comptroller asking for a reply.

All of the members present concurred in the opinion that a letter should be addressed to the Comptroller of the Currency asking for a reply to the letter of August 12, 1940, and Mr. Davis moved that Mr. Smead be requested to prepare such a letter.

Mr. Davis' motion was put by the chair and carried unanimously.

The question whether the telegram referred to above should be sent to the

10/9/40

-4-

Presidents of the Federal Reserve Banks was referred to Mr. Davis for determination in consultation with Mr. Smead.

In accordance with the decision reached at the meeting of the Board held on October 1, 1940, there had been sent to each member of the Board before this meeting a copy of a memorandum dated October 2, 1940, from Mr. Vest setting forth the legal rights and obligations of the Board of Governors under the contract entered into with Dr. Cret, the Board's architect, under date of July 8, 1940.

Mr. McKee moved as a basis for discussion that the Board terminate its relations with the architect and make such payment to him for his services as was called for by the contract.

There ensued a discussion of the various actions that the Board might take under the contract with the architect and the possible circumstances under which the Board would be justified in proceeding with the actual construction of the addition to the present building. During the discussion Mr. Davis stated that he had been advised that Mr. Holabird of the architectural firm of Holabird and Root, one of the participants in the competition on the existing Board building, had seen the preliminary plans prepared by Mr. Cret for the alteration and addition and had stated it would be unthinkable for the Board to have a competition to select an architect for the preparation of final plans and specifications, that he thought

10/9/40

-5-

Mr. Cret had worked out a very interesting and useful plan, that it was natural to expect that Mr. Cret would be the architect for this work, and that other architects would be reluctant to enter such a competition.

In this connection Chairman Eccles stated that the fees of architects who would be invited to enter into a competition are standardized at the same rates, and that inasmuch as Mr. Cret was more familiar than anyone else, by reason of his experience with the existing building, with the problems that would attend the construction of either the alteration or the addition, his services would be more valuable to the Board than those of any other firm.

Mr. McKee suggested that the addition would be a different type of building from the present one and would not be a monumental structure and there was a question whether Mr. Cret was as able to design a structure of this kind without running the costs abnormally high.

Mr. Davis stated that Mr. Holabird had made the statement that in the preparation of the preliminary plans Mr. Cret had done good work in relating the proposed addition to the existing building and that the addition could not be designed entirely independently of the existing structure.

In a further discussion, the statement was made that there had been no dissatisfaction expressed with Mr. Cret's work on the

10/9/40

-6-

existing building or with his design of the proposed addition and that the question was whether in the circumstances, the Board would be justified in proceeding with the completion of detailed plans and specifications, whether it should sever relations with the architect, as the contract gives it a right to do, and pay him for the services rendered, or whether an arrangement should be made under which the architect would suspend further work until after the presidential election when the legislative situation and the possible need for an addition to the existing building could be more readily determined. In the course of the discussion the possibility not only of concentrating bank supervisory agencies in this locality, but also of taking care of the National Defense Advisory Commission as an alternative, was mentioned.

At the conclusion of the discussion Chairman Eccles suggested that the best solution of the matter for the present would be to request the architect or his representative to come to Washington for a frank discussion of the situation as it now appears to the Board with a view to working out an arrangement under which a payment would be made to the architect for the work already done and he would suspend further work for a period of, say, six weeks, with the understanding if at the end of that period the Board should decide to proceed with the completion of detailed plans and specifications, the payment made would apply as

10/9/40

-7-

a credit on the total compensation to the architect called for by the terms of the contract.

Mr. Draper moved as a substitute for Mr. McKee's motion that Messrs. Eccles, McKee, and Morrill be appointed a committee to confer with the architect as suggested by Chairman Eccles.

Mr. Draper's motion was put by the chair and carried unanimously, with the understanding that the negotiations with the architect would apply both to the proposed addition and to the alteration of the present building.

There was then presented for consideration the following draft of a letter to President Sinclair of the Federal Reserve Bank of Philadelphia which had been prepared in accordance with the action taken at the meeting of the Board yesterday:

"Reference is made to your letter of October 2, 1940, submitting a request of the Girard Trust Company, Philadelphia, Pennsylvania, for permission to take over the assets of two affiliated real estate holding companies, i.e., the 1400 South Penn Square Corporation and the Chestnut Street Realty Company, both of Philadelphia, Pennsylvania, which are to be dissolved.

"Without passing upon the question whether approval is necessary under the provisions of section 24A of the Federal Reserve Act, the Board, in accordance with your recommendation, approves the transaction as outlined in your letter and the data transmitted therewith. This approval is given with the understanding that approval to the transaction is obtained from the Secretary of Banking of Pennsylvania and that in the transaction the bank will not acquire any securities which are ineligible for purchase by a member bank.

10/9/40

-8-

"The proposed transaction has been approved since it does not represent any expansion of real estate holdings but merely a simplification of relationships through the transfer of properties from indirect to direct ownership by the bank and retirement of bonded indebtedness. The Board wishes it to be distinctly understood, however, that its approval of the proposed transaction is not to be regarded as approval of the bank's total investment in fixed assets, which is considered to be out of line with the bank's capital position, nor of the bank's dividend policies which have permitted the disbursement of dividends over the past years in amounts which cannot be regarded as anything except unduly liberal in view of the bank's investment in real estate and the operating costs and earning power of the bank. Unless and until the bank's capital is increased through the introduction of new funds or the real estate holdings materially lightened by disposal of the properties, it would seem incumbent upon the directors to use every effort to increase the capital account from earnings, which in turn would require careful control of expenses and material curtailment of dividends.

"It is requested, therefore, that you discuss this situation frankly with the management of the bank and advise the Board as to the results of your discussion."

Approved unanimously.

Consideration was given to the recommendation submitted to the Board by the Federal Advisory Council at the meeting on October 8, 1940, on the subject of financing the defense program.

The Secretary was requested to prepare for consideration by the Board a draft of letter to the Secretary of the Treasury transmitting the recommendation for his consideration and stating that the subject was one to which the Board had previously given consideration, and that it was continuing its study of the question presented in the recommendation and hoped to have an



10/9/40

-9-

opportunity to discuss it further with the Treasury.

Upon motion by Mr. McKee, Chairman Eccles was authorized to appoint a committee of three (which could include one or more members of the staff) to meet with the committee appointed by the Federal Advisory Council for the purpose of conferring on the statement prepared by the Council and the Board's answer on the subject of the "easy money" policy.

Mr. Szymczak submitted a memorandum reading as follows:

"There is attached hereto a memorandum dated October 7, 1940, from Mr. Cherry of Counsel's office in which he sets forth the insurance and other benefits accruing to persons drafted into the military or naval service and their dependents, and certain provisions with respect to the reemployment of persons drafted for military or naval service.

"It will be noted from this memorandum that the Selective Service Act of 1940 provides that any person called for training and service who leaves a position, other than a temporary one, with the United States Government or with a private employer and who upon discharge from service is still qualified to perform the duties of such position and makes application for reemployment within 40 days after he is relieved from such training and service shall be restored to such position or to a position of like seniority, status and pay, unless in the case of a private employer the employer's circumstances have so changed as to make it impossible or unreasonable to effect such reemployment.

"There are at present 130 men in the employ of the Board between the ages of 21 and 35 and of these 73 are married. Nineteen of the Board's employees are members of one of the reserve components of the land or naval forces of the United States. Some of these men are already inquiring as to what their status will be if they are called for military service. At their recent conference the Presidents of the Federal Reserve banks discussed the question as to what should be done for Federal

10/9/40

-10-

"Reserve bank employees called to service and appointed a committee consisting of Mr. Peyton, Chairman, Mr. Young and Mr. Sinclair with power to work out with the Board of Governors a uniform policy as to the granting of leaves of absence and payment of salaries to Reserve bank employees who enter military service.

"With respect to the Board's employees, it is recommended that all male employees between the ages of 21 and 35, other than those, if any, having temporary appointments, be advised:

"1. That if called for military or naval service they will be placed in an indefinite furlough status during such service.

"2. That if they make application for reemployment within 40 days after their release from active military duty or service and are then not physically disabled and are qualified to perform the duties of their former positions, they will be reemployed and restored to membership in the Retirement System without loss of credit for service previously rendered.

"3. That, if and when they are reemployed as above described within two years after they entered the military service, the Board will pay into the Retirement System for their benefit an amount sufficient to give them the same service credit based on the Board's contributions for the period of military service or duty as they would have earned if there had been no interruption in their service, and that similar payment by the employee to the Retirement System shall be optional with the employee.

"4. That they will be granted such annual leave as may be due them and in addition will be paid an amount equal to one month's salary at the time they enter into military or naval service.

"5. That on furnishing the Board with evidence that they have taken out life insurance, as provided for in the Selective Service and Training Act of 1940, they will be reimbursed by the Board for the premium paid on such insurance up to \$2,500.

"It is understood that the premium on the insurance referred to above will be about 67 cents a month for each \$1,000 of insurance in the case of a man 25 years of age.

10/9/40

-11-

"It is also recommended that the Committee of the Presidents' Conference Committee above referred to be notified of the action taken by the Board with respect to its employees and that the Board have this matter placed on the docket for review on or before one year from this date."

Upon inquiry as to the need for action by the Board at this time, Mr. Morrill stated that one of the Board's employees who is a reserve officer had been notified by his commanding officer that he could expect a call to service at any time and might have to report for duty by November 1, and that the employee wished to know whether he would be granted leave of absence during the period of his service and be permitted to return to his old position at the end of the period.

Several inquiries were made by members of the Board as to the policy being adopted by other Government agencies, whether the Board would be justified in adopting a more liberal policy than is adopted by such agencies, the number of employees who would be affected, and the cost to the Board if Mr. Szymczak's recommendation were adopted, and it was understood that a copy of the recommendation would be sent to each member of the Board, that he would submit promptly to Mr. Szymczak any questions in connection with the matter on which additional information was desired, and that after all of the information had been obtained the recommendation would be presented again for consideration by

10/9/40

-12-

the Board. It was also understood Mr. Szymczak would call Mr. Peyton, chairman of the special committee appointed by the Presidents Conference to consider this matter, and request him to obtain from the Federal Reserve Banks information which would be helpful in considering the memorandum submitted by Mr. Szymczak if it were applied to employees at the Federal Reserve Banks.

It was agreed that, pending the determination by the Board of a policy with respect to its employees, any interested employee, upon inquiry, could be advised that he would be granted a leave of absence without pay during the period of his military service and would be reinstated in the same job or one of equal status if he continued to be qualified to fill it, upon application within 40 days after his honorable discharge from the service.

Mr. Wyatt referred to the fact that the draft regulations make provision for the deferment for periods of six months at a time of the military service of persons engaged in occupations necessary to national health, safety, and interest, and stated he felt that three of the employees in his office who would be subject to the draft were in a position to render much more valuable service in their present positions than they would be in any branch of the military service, which presented the question what the policy of the Board would be with respect to asking for deferment in such cases. No final decision was reached on this matter but the members of the Board indicated that any cases that arose

10/9/40

-13-

should be considered on their merits and that the Board should not ask for deferment unless it were clearly justified.

Mr. Davis stated that the National Defense Commission was working on a plan designed to prevent situations arising during the emergency period which would result at the end of the period in a private contractor for defense equipment having the ownership without cost to him of facilities constructed or acquired during the emergency and paid for directly or indirectly by the Government and that inasmuch as the problem was one in which the Board had an interest, he would like Mr. Vest to analyze the draft of plan for the purpose of suggesting any changes that would make it more effective in achieving the objectives sought.

The members of the Board present were in agreement that Mr. Vest should be requested to analyze the draft of plan.

At this point Messrs. Thurston, Wyatt, Smead, Dreibelbis, and Vest 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 October 8, 1940, were approved unanimously.

10/9/40

-14-

The minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on October 8, 1940, were approved unanimously.

Letter to the board of directors of "The First State Bank", Gladewater, Texas, stating that, subject to conditions of membership numbered 1 to 3 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 Dallas.

Approved unanimously for transmission through the Federal Reserve Bank of Dallas.

Letter to the board of directors of "The Silverton Bank", Silverton, Ohio, stating that, subject to conditions of membership numbered 1 to 3 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 Cleveland.

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Silverton Bank', Silverton, Ohio, 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

10/9/40

-15-

"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 Ohio for his information.

"It has been noted that the Federal Deposit Insurance Corporation supervising examiner has suggested that in view of the bank's proportionately small amount of common capital in relation to deposits, no further retirements of debentures should be permitted unless the common capital is simultaneously increased by like amounts. While there appears to be no question as to the adequacy of the capital account as a whole, it does seem that the bank has outgrown its permanent capital. Therefore, until there has been a substantial increase in the common stock, it is suggested that approvals of retirements of preferred stock be conditioned upon corresponding increases in the common stock.

"It is assumed, of course, that your office will follow to a conclusion the matter of the bank's reducing to within statutory limits the excess balance with a non-member bank and, in view of the large amount involved, advice concerning the matter will be appreciated."

Telegram to Mr. Logan, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Relet October 4. Board approves action taken by your board of directors on October 3 in authorizing officers your Bank to make loans on gold to Banco Central de Reserva de El Salvador up to an amount not to exceed \$2,000,000 at any one time outstanding, each such loan to have a maturity of not more than three months, to mature not later than January 31, 1941, to bear interest at the discount rate of your Bank, and to be secured by refined gold bars earmarked in vaults of your Bank in name of Banco Central de Reserva de El Salvador having a value equivalent to at least 111% of amount of such loan.

"Participation in loan or loans by other Federal Reserve Banks is approved and they are being advised accordingly by letter."

Approved unanimously.

10/9/40

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved: W. S. ...  
Chairman.