

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, November 14, 1940, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
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. Dreibelbis, Assistant General Counsel

Reference was made to a memorandum dated November 7, 1940, from Mr. Nelson, Assistant Secretary, recommending that Section 11, Part II, and Section 1, Part VI of the Board's leave regulations be amended to read as follows:

"PART II, Sec. 11. The minimum charge for absence on account of sickness shall be one-half of a regular work day, which minimum charge shall likewise apply on Saturdays or other days on which 4 hours constitute a full work day; and additional sick leave authorized on the same day shall be charged in multiples of one-half hour.

"PART VI, Sec. 1. When justifiable in the opinion of the head or assistant head of the office or division, compensatory leave may be granted for overtime in excess of one hour beyond the regular work day prevailing, except that employees coming under Group II of the Board's regulation governing hours of duty may be granted compensatory leave for all overtime, provided such overtime was necessary in the judgment of the head or an assistant head of the office or division. Compensatory leave for overtime must be taken as soon as the work in the office

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"or division will permit, and such leave may not be used for the purpose of accumulating annual leave."

The reasons for the proposed changes were discussed, and upon motion by Mr. McKee the amendments were approved unanimously, effective immediately.

There was then presented a memorandum dated November 8, 1940, from Mr. Szymczak which referred to the action of the Board on October 29, 1940, approving a procedure for the Federal Reserve Banks in connection with employees of the Banks called into military service, and recommended that the Board adopt a similar procedure with respect to its employees entering the service including those who are members of a reserve component of the military or naval service. The memorandum submitted a draft of statement setting forth the proposed procedure and stated that the recommendation contemplated the payment of one month's unearned salary except that, in the case of a temporary employee or where the employee had had less than one year's service, it was recommended that consideration be given in each individual case to whether and to what extent such payment should be made. The memorandum stated further that it was believed that, as a matter of policy, the Board's employees should receive the same treatment as was accorded to employees of Federal Reserve Banks and that, if the recommendation contained in the memorandum were approved, the Board's employees would receive the same treatment as was given to employees of the various Government departments and agencies except as follows:

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- "1. They will receive one month's unearned salary in lieu of being granted all accrued annual leave. In this connection, annual leave, with some exceptions, may be granted in the case of Government employees, and a bill has already passed the Senate and is now pending in the House which would entitle all Government employees called into the military or naval service to payment for all accrued annual leave plus fifteen days of military leave. If this bill is enacted into law, the Board's payment of one month's salary under this recommendation should be treated as a credit or offset against any payment other than accrued leave to which he might be entitled under such a law. If an employee has not received his accrued annual leave upon entering military service, he will be granted such accrued leave in accordance with the leave regulations if and when he is reemployed by the Board.
- "2. The Board's employees will be reimbursed for premiums on National Service life insurance equal in principal amount to two years' salary if a multiple of \$500, and, if not, to the next higher multiple of \$500, with a maximum of \$5,000. Employees of the various Government departments and agencies will not receive a similar benefit.
- "3. The Board will make payments to the Retirement System to cover the cost of giving employees who are reemployed full service credit for the period of their absence on account of military or naval service, whereas, members of the Civil Service Retirement System will receive merely the same benefit from contributions from the Government as they would receive if they continued in service, i.e., no contributions will be made corresponding to the regular deductions from the employee's salary. Because of the elimination of disability and death benefits during the period of absence on account of military service, the cost to the Board under this recommendation, it is believed, will not be much if any more than its present contributions."

The statement of procedure attached to the memorandum was in the following form:

"There is set forth below a statement as to the

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"policy which will be followed by the Board with respect to its employees who may enter the military service of the United States.

"The benefits mentioned will be accorded, subject to the conditions stated, only to employees of the Board, other than those in temporary (*) positions, entering upon active duty in the military or naval service of the United States on or after January 1, 1940,

- A. Under the Selective Training and Service Act of 1940 (including volunteers thereunder) or
- B. As members of the National Guard or any other reserve component of the army under the Joint Resolution of Congress approved August 27, 1940, or
- C. As members of any reserve unit of the navy or marine corps which is called for an indefinite period of service;

but such benefits shall not be accorded with respect to military and naval service completed prior to the adoption of this procedure.

"While such an employee is in military service he shall be deemed not to be in the active service of the Board within the meaning of the rules and regulations of the Federal Reserve Retirement System.

"1. At the expiration of such military service he will be reemployed in the position he left, or one of like seniority, status, and pay, provided:

- A. He presents to the Board a certificate showing the satisfactory completion of such military service;
- B. He makes application for reemployment within forty days after he is released from such military service;
- C. That upon his application for reemployment he submits to a physical examination and establishes to the satisfaction of the Board that he is still qualified to perform the duties of his former position.

"2. When reemployed he will be restored to membership in the Retirement System and, provided he has not withdrawn his accumulated contributions, he will retain all benefits based on creditable service rendered prior to entering into military service and in addition will receive full service credit for the period of military service without additional cost to him.

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"3. Under the rules of the Retirement System, any employee so reemployed who has withdrawn his accumulated contributions credited to his account in the Retirement System will be entitled only to the same benefits under such System as if employed for the first time.

"4. Upon furnishing the Board with evidence that he has taken out National Service life insurance made available to him by the United States Government because of such military service, the Board will reimburse him for the cost of premiums on such insurance for his period of military service in a principal amount up to -

A. The multiple of \$500 which is equal to or next above the equivalent of two years' salary, or

B. \$5000.00, whichever is less.

"5. If after being reemployed by the Board following his return from military or naval service he is subsequently retired for disability, the disability allowance which he would otherwise receive from the Federal Reserve Retirement System may be reduced by the amount he receives, if any, from the government for disability incurred in the military or naval service.

"The foregoing statement is subject to modification or revision, within the limitations of law, whenever deemed necessary by the Board.

(*) Temporary basis: an employee's status is temporary if he is shown as such in the Board's records at the time he enters the military service."

Chairman Eccles said that Mr. Szymczak had discussed with him the procedure referred to in the memorandum, and that he, the Chairman, had also discussed it with Mr. Davis before he left Washington and that Mr. Davis favored the recommended action.

Upon motion by Mr. Ransom, the proposed procedure, including the payment of one month's salary as recommended, was approved unanimously.

Chairman Eccles referred to the consideration which had been

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given by the committee appointed at the meeting of the Board on October 9, 1940, to the "easy money" statement which was submitted by the Federal Advisory Council at its May meeting and said that it had been planned to have a meeting tomorrow of the Board's committee and the committee appointed by the Federal Advisory Council at its last meeting, to determine whether a statement could be prepared which could be agreed upon by the Council and the Board, that word had been received from Mr. Fraser, chairman of the Council committee, that because of illness it would not be possible for his committee to meet at the appointed time, and that, therefore, the meeting was being postponed until the afternoon of Monday, November 18.

In this connection Mr. Goldenweiser stated that, in accordance with a request made by Chairman Eccles, he had prepared a draft of statement which might be used as a joint statement by the Federal Advisory Council and the Board of Governors, and that Mr. Thurston had prepared a revision of the Council statement which it was believed removed the principal objections of the members of the Board to the statement. Copies of the two documents referred to by Mr. Goldenweiser were handed to each member of the Board during the meeting.

Chairman Eccles said that when he was in New York last week he discussed this matter with Mr. Fraser and suggested that, instead of taking time to prepare a statement with respect to what had already happened, the members of the Council and the Board might more advantageously undertake an appraisal of the monetary and credit problems

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which had been created by events leading up to the present situation and prepare a special report to Congress, which would not be a part of the annual report but would be sent as soon after the first of the year as possible, and which would discuss these problems and suggest the action that might be taken to meet them. He added that Mr. Fraser agreed that such a course would be a constructive one.

The members of the Board present indicated agreement with the suggestion and it was understood that it would be presented for consideration at the meeting of the committees of the Board and the Council on November 18.

Chairman Eccles referred to Mr. Draper's recent designation to work with the National Defense Advisory Commission in carrying out the plan to increase the participation of small business enterprises in the national defense program, and Mr. Draper said that he would be glad if another member of the Board would serve in his place on the committee appointed by the Board to confer with the Federal Advisory Council committee.

It was agreed unanimously that Mr. Ransom should serve as a member of the committee in Mr. Draper's stead.

Chairman Eccles then stated that during the summer he addressed a personal letter to the President of the United States with respect to the proposed erection by the Board of an addition to its present building, that yesterday he talked over the telephone with Mr. Harold Smith, Director of the Budget, who advised that during September he

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had called Chairman Eccles on the telephone and found that he was out of town, and that he (Mr. Smith) had been so busy since that time that he had been unable to pursue the matter further. Mr. Smith stated, Chairman Eccles said, that the President had discussed the letter with him shortly after it was received and it had been concluded that the Board would be well advised to proceed with the additional construction for the reason that no further authority was needed by the Board and that it was clear that there would be no excess office space in Washington for some time to come. Mr. Eccles made the further statement that he inquired whether he would receive a reply to his letter and that Mr. Smith said a reply would be forthcoming in due course which would state that the President saw no objection to the Board proceeding with the construction of the addition to its building.

Following the Chairman's report there was a discussion of the question whether the Board should request the architect to accelerate the completion of the contract plans and specifications for the addition on the north side of "C" Street, but it was agreed to take no action on that question at this time.

At this point Messrs. Thurston, Wyatt, Goldenweiser, and Dreibelbis left the meeting and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

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The minutes of the meeting of the Board of Governors of the Federal Reserve System held on November 13, 1940, were approved unanimously.

Letter to the board of directors of the "First Bank of Charlestown", Charlestown, Indiana, 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 St. Louis.

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

"The Board of Governors of the Federal Reserve System approves the application of the 'First Bank of Charlestown', Charlestown, Indiana, 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 Director, Department of Financial Institutions for the State of Indiana for his information.

"It has been noted that, while the bank is authorized to exercise trust powers, actually it is doing so to only a very limited extent. According to the report of examination made in connection with the application for membership, the bank held only two trust accounts, both court trusts, one a guardianship account and the other a trusteeship, and the total trust assets held consisted of \$1,500 Government bonds and \$175 cash. The examiner states further:

'The trust department is not seeking business, and such as is accepted is only for the sake of rounding out the bank's service to its customers. No accounts are taken which involve investment management responsibility.'

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"In view of the circumstances, the regular trust conditions have not been prescribed. It is requested, however, that you explain to the bank that if it should desire to expand its activities to any material extent, either in volume or nature of trust powers and responsibilities, permission to do so should first be obtained from the Board of Governors under the provisions of condition of membership numbered 1."

Thereupon the meeting adjourned.

Wester Morrie
Secretary.

Approved:

Wester Morrie
Chairman.