Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, September 20, 1954. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Miller
Mr. Balderston
Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Johnson, Controller
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Solomon, Assistant General Counsel
Mr. Cherry, Legislative Counsel
Mr. Molony, Special Assistant to the Board

For the benefit of the members of the Board who were not present at the meeting on September 16, 1954, Mr. Vest reviewed the provisions of the Federal Employees' Group Life Insurance Act of 1954 and stated reasons why the Legal Division had reached the conclusion that the Act was applicable to the Board and its staff. With respect to discussion at the meeting on September 16 as to whether a decision that the Act was applicable would affect the status of the Board in dealing with its policy problems, Mr. Vest said it was the opinion of the Legal Division that the effect, if any, would be very slight.

Following discussion based on Mr. Vest’s comments, it was understood that the Board would meet in executive session today for consideration
of the matter and that it would meet again at 4:00 p.m. tomorrow afternoon to make a final decision on the applicability of the Act and related questions.

Messrs. Johnson, Sprecher, Cherry, and Molony then withdrew from the meeting and Messrs. Marget, Director, Dembitz, Assistant Director, Tamagna, Chief of the Financial Operations and Policy Section, and Olson, Economist, all of the Division of International Finance, entered the room.

Reference was made to a telegram dated September 17, 1954, from Mr. Exter, Vice President of the Federal Reserve Bank of New York, regarding the request of Banco do Brasil, as fiscal agent of the United States of Brazil, for an extension of the loan on gold in the amount of $80 million which was approved by the Board of Governors on July 8, 1954, and was to mature on October 22, 1954. Banco do Brasil also requested an additional loan on gold of $80 million and proposed that the entire amount of $160 million be liquidated in 12 equal monthly installments. After discussing the Brazilian situation, the telegram stated that the officers of the New York Reserve Bank had recommended, and the Board of Directors of the Bank had authorized, subject to the approval of the Board of Governors, the granting to Banco do Brasil, as fiscal agent of the United States of Brazil, of a loan or loans as follows:

A. A new loan in the amount of $80 million to mature on October 22, 1954, and a consolidation of such loan at maturity with the currently outstanding loan of $80 million maturing on the same date to the extent of $146,666,666 (being $160 million less a repayment of $13,333,333 of the principal sum), such consolidated loan to be repaid in 11 equal monthly installments,
the first such installment to become due and payable on November 22, 1954;

B. The entire amount of the loan or loans outstanding from time to time to be secured by the pledge of gold bars held in the vaults of the Federal Reserve Bank of New York of such value that the amount of such loan or loans outstanding shall not at any time exceed 98 per cent of the value of such gold bars;

C. The new loan under (A) above to bear interest at the discount rate of the Federal Reserve Bank of New York in effect on the day such loan is made, and the consolidated loan to bear interest at the discount rate in effect at the beginning of each three months' period during which such loan is outstanding.

The New York Bank also proposed, as a condition to the making of an additional loan or loans, to obtain the agreement of Banco do Brasil to furnish monthly to the Reserve Bank information regarding its balances in and indebtedness to United States commercial banks (including dollar exchange acceptances), information regarding measures taken or to be taken to deal with the inflationary problem in Brazil, and monthly projections of the Brazilian balance of payments for the period of the loan.

Prior to this meeting Mr. Marget had sent to Chairman Martin various memoranda and other papers bearing on the situation, and these had been circulated by the Chairman to the other members of the Board. One memorandum, prepared by Mr. Tamagna under date of September 17, 1954, indicated that the Department of State favored a renewal of the outstanding loan and the granting of an additional loan in view of the recent change in governments in Brazil.

At the request of Chairman Martin, Mr. Marget made a statement in which he first reviewed the philosophy underlying the making of Federal
Reserve gold loans and then discussed the economic situation in Brazil and the financial policies over a period of years which had contributed to the present crisis. Turning to the current Brazilian proposal, he expressed doubt that the Brazilians would be able to meet their commitments out of earnings. He thought it desirable if, in the light of State Department representations that an additional loan would support the new government in Brazil and for other reasons, it was decided to grant a further accommodation to Banco do Brasil, that it be made clear to the Brazilians that if one of the scheduled installment payments was not met, gold collateral would be sold to the extent of the defaulted payment.

During the course of a discussion which ensued, members of the Board expressed the opinion that in view of the State Department position it would be difficult to refuse to grant the accommodation sought by Banco do Brasil even though it appeared that such a loan would have to rely for its justification on factors different from those which ordinarily would govern inter-central bank lending. Question was raised as to whether the sale of gold collateral might not expose the seriousness of the Brazilian situation, and it was stated in response that knowledge of the pledge of such a substantial portion of the Brazilian gold reserves probably would be interpreted in much the same way.

Chairman Martin then suggested that the Board not act on the matter until it had an opportunity to hear the views of Mr. Sproul, President of the Federal Reserve Bank of New York. He also suggested, in this
connection, that Mr. Sproul be invited to meet with the Board for this
purpose at 9:30 a.m. on September 22, 1954.

The procedure suggested by
Chairman Martin was approved
unanimously.

The meeting then adjourned. During the day the following addi-
tional actions were taken by the Board with all of the members except
Governor Vardaman present:

Minutes of actions taken by the Board of Governors of the Federal
Reserve System on September 17, 1954, were approved unanimously.

Memorandum from Governor Miller dated September 20, 1954, recom-
mending that Elsie M. Westman, formerly Secretary to Governor Evans,
be transferred to Governor Miller's office, as Secretary, with no
change in her present basic salary of $5,800 per annum, effective Sep-
tember 20, 1954.

Approved unanimously.

Memoranda from appropriate individuals recommending that the
resignations of the following employees be accepted as indicated:

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<tr>
<th>Name and title</th>
<th>Division</th>
<th>Effective date</th>
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<tbody>
<tr>
<td>Marian E. Gochenour,</td>
<td>International Finance</td>
<td>September 21, 1954</td>
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<tr>
<td>Clerk</td>
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<td>1/</td>
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<tr>
<td>Fannie L. Mock, Elevat</td>
<td>Administrative Services</td>
<td>September 15, 1954</td>
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<tr>
<td>Operator</td>
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1/ Rather than September 17, 1954, as approved by the Board on August 11,
1954.

Approved unanimously.

Secretary