

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, September 22, 1954. The Board met in the Board Room at 9:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Mills
Mr. Robertson
Mr. Miller
Mr. Balderston

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Vest, General Counsel
Mr. Marget, Director, Division of
International Finance
Mr. Dembitz, Assistant Director,
Division of International Finance
Mr. Molony, Special Assistant to the
Board
Mr. Olson, Economist, Division of
International Finance

Mr. Sproul, President, Federal Reserve
Bank of New York
Mr. Exter, Vice President, Federal Reserve
Bank of New York

Pursuant to the understanding at the meeting on September 20, 1954, Messrs. Sproul and Exter were present at the request of the Board to give their views with respect to the request of Banco do Brasil, as fiscal agent of the Brazilian Government, for an extension of the maturity of the outstanding loan on gold in the amount of \$80 million and for an additional loan on gold of \$80 million.

President Sproul made a statement substantially as follows:

Admittedly, this is an extraordinary case. The needs of the Brazilians are critical and urgent, but the need cannot easily be

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classified as arising out of temporary balance of payments difficulties. In terms of policy with respect to gold loans, however, it can be brought under the umbrella of a loan application supported by new evidence as to the willingness and ability of the borrower to correct the underlying situation, and which therefore should have sympathetic consideration. Our attitude, in general, is that an application for a loan on gold from a foreign central bank (or government acting through a quasi central bank) should have the benefit of the doubt.

It has always seemed to us, and does now, that loans on gold fall peculiarly within the province of inter-central bank relations, and that the natural place to seek such accommodation is the world financial center with which the prospective borrower has the closest commercial and financial relations. To try to send the Brazilians to the market, or to some other country, might get us off the hook, but without aiding the Brazilian situation and, perhaps, damaging it and damaging this country's relations with Brazil.

We think that the precedent of the recent \$80 million loan "without renewal" does not foreclose favorable consideration of this application. The changes which have taken place in the Brazilian Government, and in the Brazilian controllers of money and credit and foreign exchange, have been so dramatic and so drastic as to create a new situation in which this application should be considered de novo.

The risk of dollar loss on a loan secured by gold in our vaults valued at more than the full amount of the loan can be labeled negligible. The risk that when payment is due we may either have to sell the collateral or extend the loan is a risk inherent in many loans. So long as we have friendly relations with Brazil, I doubt if it is realistic to expect that we could sell all of the gold collateral during the term of the present loan, but we could sell some of it, if instalments are not paid when due. The risk that the Brazilians won't do what is necessary to "put their house in order" if this loan is granted is overbalanced by the risk of having a new group thrown out of control before it has a chance to put the house in order, if this immediate crisis is not surmounted. Pledging upwards of half the gold reserves of a country to secure a loan still leaves plenty of pressure on the Brazilians without our trying to assess from here exactly how much pressure is needed.

It appears quite possible that the Brazilians will have to receive further long-term help if the new government and its successors

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are to have a chance to solve the fundamental problems of the country. That is a question involving others, and involving political and military as well as economic factors. We are asked to give Brazil short-term aid, on a fully secured basis, while they develop other solutions. The ordinary relations between central banks, the character of the collateral, the position of Brazil in this hemisphere, its relations with the United States, and the embryo economic program of the new government seem to us to counsel favorable action on a gold-secured loan to help meet an extraordinary situation.

Chairman Martin then referred to the proposed schedule for repayment of the consolidated loan and inquired of President Sproul whether he felt it would be unwise to make it clear to the borrower that in the event of failure to meet the schedule of repayments, the gold collateral would be sold by the Federal Reserve System.

President Sproul responded that the New York Bank would make that point clear in the written terms and conditions covering the loan. He did not think that, in the event of a default, the Federal Reserve should expect to sell all of the gold collateral, but if one of the installments were not paid he felt that the Federal Reserve could sell gold to the extent of the unpaid installment.

Reference then was made to the \$300 million loan made by the Export-Import Bank to Brazil some time ago, question being raised as to the terms of repayment of that loan and as to whether it would be well to arrange, if possible, a subordination of that loan to any loan on gold extended by the Federal Reserve System. With regard to this matter, Messrs. Sproul and Exter stated that servicing of the Export-Import loan was expected to begin within the next few months, the terms of servicing calling

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for repayment in installments of about \$4 million a month. They stated that although no consideration had been given to asking the Export-Import Bank to subordinate its loan to any Federal Reserve loan on gold, the possibility of a Federal Reserve loan had been discussed with the Export-Import Bank because it was thought that the bank might have some feeling about such a loan. It developed that the Export-Import Bank would have no objection to a loan by the Federal Reserve and thought, in fact, that it was urgently required. Messrs. Sproul and Exter brought out that there was of course no pledge of Brazilian gold or reserves against the Export-Import Bank loan.

Mr. Marget expressed the view, in which Chairman Martin concurred, that it would be unwise to approach the Export-Import Bank with a request that the bank subordinate its loan. It was their feeling that the Brazilians would approach the Export-Import Bank themselves regarding a change in the terms of repayment of the \$300 million loan and that if the Federal Reserve approached the Export-Import Bank with regard to a subordination, the Export-Import Bank might counter with a request that the Federal Reserve not sell its gold collateral.

Chairman Martin then made a statement in which he expressed the opinion that United States actions in extending credit to Brazil over the past 18 months had in effect rendered a disservice to that country, since they had had the effect of prolonging the financial crisis and had kept the Brazilians from recognizing the full import of their situation and taking appropriate remedial steps. He referred to the letter which he

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sent to the Secretary of State at the time the original loan of \$80 million was extended to Banco do Brasil in July and said that it appeared to him that the only reason for changing the position stated in that letter, namely, that the loan would not be renewed, would be the recent change in the Brazilian Government. He went on to say that the State Department had now asked that the Federal Reserve System hold up action on extending that loan and granting a new loan pending further exploration of the matter. In the circumstances, he felt that it would be unwise for the Federal Reserve System to act without approval of the State Department and the National Advisory Council.

Chairman Martin went on to say that if the requested accommodation should be granted and the Federal Reserve was not prepared to sell the gold collateral in event of default, he felt that this would be rendering a further disservice to whatever Brazilian authorities might be in power. In his opinion, the loan should not be made unless the Federal Reserve was willing to enforce whatever terms and conditions were agreed upon despite any pressures which might be brought to bear.

President Sproul reiterated his view that the Federal Reserve should be prepared to sell the gold collateral if an installment repayment was not met, to the extent of the unpaid installment. However, he stressed the point that one could not foresee what the economic situation with respect to Brazil might be in the next six or nine months, so that under certain circumstances the Federal Reserve might not feel justified in holding the Brazilians exactly to the stated terms and conditions of the loan.

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Therefore, he did not want to agree completely at this time that no matter what the circumstances might be in the next few months the Federal Reserve should take an unalterable position regarding the terms of repayment.

Chairman Martin replied that it was difficult for him to conceive of circumstances in which, despite an improvement in the Brazilian situation, Banco do Brasil should not be asked to comply with the terms of the loan. He thought it more likely that the situation would deteriorate and that the Brazilians would then make a plea for a change in the repayment schedule. If that should happen and the Federal Reserve agreed to the request, he felt that the System would be doing a further disservice to those in the Brazilian Government who were endeavoring to meet the terms and conditions.

Following a statement by President Sproul that in view of the State Department's request he agreed with Chairman Martin that the Federal Reserve should take no action pending receipt of the views of that Department and discussion by the National Advisory Council, the meeting concluded with a statement by Chairman Martin that the Board appreciated having the views of Messrs. Sproul and Exter and that the Board would be giving further thought to the matter so that it would be prepared to act as soon as the positions of the State Department and the National Advisory Council became known.

The meeting then adjourned. During the day the following additional actions were taken by the Board with all of the members present:

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Reserve System on September 21, 1954, were approved unanimously.

Minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on September 21, 1954, were approved unanimously.

Letter to Mr. Powell, President, Federal Reserve Bank of Minneapolis, reading as follows:

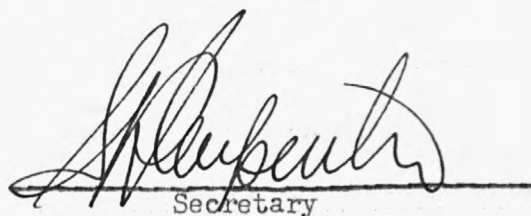
The Board of Governors approves the payment of salary to Mr. Frederick J. Cramer as an officer of the Federal Reserve Bank of Minneapolis with the title of Personnel Officer, for the period November 1, 1954 through December 31, 1954, at the rate of \$7,500 per annum, which is the rate fixed by the Board of Directors as indicated in your letter of September 13, 1954.

Approved unanimously.

Letter to Mr. Leach, President, Federal Reserve Bank of Richmond, reading as follows:

The Board of Governors approves the expenditure of approximately \$158,000 for the alterations and replacements in the original building and the annex building at the head office, as outlined in your letter of September 9, 1954.

Approved unanimously.



Secretary