

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, October 4, 1954. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman

Mr. Szymczak

Mr. Vardaman

Mr. Mills

Mr. Robertson

Mr. Miller

Mr. Balderston

Mr. Sherman, Assistant Secretary

Mr. Kenyon, Assistant Secretary

Mr. Thurston, Assistant to the Board

Mr. Vest, General Counsel

Mr. Marget, Director, Division of
International Finance

Mr. Dembitz, Assistant Director,
Division of International Finance

The following requests for authority to travel on official business for the Board were presented:

Mr. Young, Director, Division of Research and Statistics. To travel to Tarrytown, New York, October 22-23, 1954, to accept an invitation to address the annual firm conference of McKinsey & Company, Management Consultants, on the collection and use of business and economic information within the Federal Reserve System.

Mr. Marget, Director, Division of International Finance. To travel to Dallas, Texas, December 8-10, 1954, at the request of Mr. Irons, President of the Federal Reserve Bank of Dallas, to address the Board of Directors of the Reserve Bank informally concerning international developments and to participate in a panel discussion on the German economic situation sponsored by the Dallas Council on World Affairs.

Mr. Goodman, Assistant Director, Division of Examinations. To travel to Atlantic City, New Jersey, October 17-20, 1954, to attend the annual convention of American Bankers Association.

Approved unanimously.

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There was presented a memorandum from Mr. Marget dated September 30, 1954, recommending that Mr. Katz, Economist in the Division of International Finance, be authorized to accept an invitation to address the Seminar on International Relations of the Harvard Graduate School of Public Administration in Cambridge, Massachusetts, some time in November on the subject of the Canadian exchange rate policy or on the subject of the financial relations between the United Kingdom and the outer sterling countries.

Approved unanimously.

Inquiry was made as to attendance on the part of members of the Board and the staff at the annual convention of the American Bankers Association to be held in Atlantic City in October. It was stated that Chairman Martin and Governor Robertson were planning to attend parts of the convention and that, so far as was known at present, Mr. Goodman would be the only member of the staff attending.

Pursuant to the understanding at the meeting on September 22, 1954, there was a further discussion of the Federal Reserve gold loan requested by Banco do Brasil, as fiscal agent for the United States of Brazil. In this connection reference was made to a telegram sent by the Federal Reserve Bank of New York to the Board late Friday afternoon, October 1, stating that since it now appeared that the approval of a loan to Banco do Brasil would not be received before October 4, and that the actual making of the loan would be further delayed pending completion of technical arrangements, it would not seem reasonable to require the repayment of

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the first installment on October 22, 1954, as originally envisaged. The telegram requested, therefore, approval of a consolidated loan to be repaid in twelve equal monthly installments, the first of which would become due and payable on November 22, 1954.

Chairman Martin stated that the matter of the proposed loan was discussed at a meeting of the National Advisory Council on Thursday, September 20, 1954, which he and Governor Szymczak attended; that he advised the Council that this was a matter which had not been approved by the Board; that he made no commitment that the Board would approve the loan; and that he said the matter appeared to have policy implications which warranted discussion by the Council. Chairman Martin further stated that he told the Council that in the event the loan were approved it was quite likely that adherence to the terms and conditions would be insisted upon by the Federal Reserve, even if it became necessary to sell gold collateral. Chairman Martin said that the National Advisory Council approved the making of the loan if the Board saw fit to take such action.

At the request of the Chairman, Mr. Marget reviewed recent developments relating to the Brazilian situation and commented that certain Brazilians reportedly advocated seeking to defer the first repayment on the proposed loan until January 1955. He interpreted the New York Reserve Bank's telegram of October 1 to mean that the Brazilians had not made such a proposal to the Reserve Bank.

Governor Szymczak stated that the Brazilian Executive Director of the International Monetary Fund mentioned such a possibility to him

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informally at a luncheon. However, since no formal representation had been made to the Board or its staff, or apparently to the New York Bank, there was agreement that the Board should consider the matter on the basis of the terms recommended by the Reserve Bank.

In response to a question which was raised as to the possible consequences of not making the loan, Mr. Marget discussed the political and economic situation in Brazil. In view of the present and prospective Brazilian position, he expressed some doubt that it would be possible for the Brazilians to repay the loan according to the proposed terms and conditions, at least after the first two or three installments, in the absence of additional financial assistance from other sources.

In the course of a further discussion, question was raised as to whether, if the loan were approved, it would be advisable for the Federal Reserve Bank of New York to advise Banco do Brasil that sale of gold collateral was contemplated if the repayment schedule was not met. There was agreement that although the New York Bank could advise the Brazilians to that effect informally, the Bank's formal advice concerning the loan need not so specify since it would follow from the stated terms and conditions that the Federal Reserve could sell gold if the repayment schedule was not met and the Federal Reserve deemed such action advisable.

Regarding the proposal of the New York Bank, as stated in its telegram of September 17, to require certain financial information from the Brazilians periodically as a condition to the making of a loan, the view was expressed that any such request should not be in a form that

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might imply a willingness to grant renewals or further credits on the basis of any such information.

At the conclusion of the discussion, unanimous approval was given to a telegram to Mr. Exter, Vice President, Federal Reserve Bank of New York, in the following form:

Your wires September 17 and October 1. Following discussion with National Advisory Council, Board approves granting of loan or loans by your Bank to Banco do Brasil as fiscal agent of the U. S. of Brazil not to exceed \$160 million in the aggregate on the following terms and conditions: (A) A new loan in the amount of \$80,000,000 to mature on October 22, 1954 and a consolidation of such new loan at maturity with the currently outstanding loan of \$80,000,000 maturing on the same date, such consolidated loan to be repaid in twelve 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 your vaults 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 your Bank 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.

In connection with the proposal to obtain monthly information on Brazilian balances and indebtedness in the United States and on Brazilian anti-inflationary measures and balance of payments projections, the Board considers that if any such request for information is made, it should not be in such form as to imply a willingness to grant renewals or further credits on the basis of any such information.

It is understood that prior to the making of the new loan you will require representations from the Banco do Brasil as to its authority to act for the U. S. of Brazil in this matter and will also receive assurances from the Brazilian Ambassador in Washington of Banco do Brasil's authority to pledge the gold. It is also understood that you will require full documentation through diplomatic channels with respect to the consolidated loan.

It is also understood that the usual participation will be offered to the other Federal Reserve Banks.

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In connection with the foregoing discussion, reference was made to policies surrounding the making of Federal Reserve loans on gold. Mr. Marget stated that a memorandum prepared at the Federal Reserve Bank of New York regarding this matter would be available to the members of the Board shortly, along with comments by the Board's staff. It was understood that when this material was available there would be a general discussion by the Board of Federal Reserve gold loan policies and procedures.

Messrs. Marget and Dembitz then withdrew from the meeting and Mr. Sloan, Director, Division of Examinations, entered the room.

Pursuant to the understanding at the meeting on August 6, 1954, there was a further discussion of the question whether certain directors of Investors Management Company, Inc., Elizabeth, New Jersey, an investment advisor to certain open-end investment funds, may lawfully serve at the same time as directors of member banks in view of the relationship between that Company and Hugh W. Long and Co., an underwriting concern.

At the request of the Board, Mr. Vest described the situation in some detail, his comments being based on his memorandum to the Board dated August 4, 1954, which he had reviewed previously at the meeting on August 6, 1954. Mr. Vest expressed the opinion, which he stated was shared by the other members of the legal staff who had studied the matter, that on the basis of all the considerations involved the interlocking directorships in question would not fall within the prohibitions of section 32 of the Banking Act of 1933. He did not think that the courts would

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look through the corporate entities in this case, particularly since there was no evidence that the parties involved were attempting to avoid or evade the law. He also noted that the relationships in question had existed for several years. Mr. Vest concluded by mentioning that attorneys for Investors Management Company, Inc., had expressed a desire to have counsel and representatives of that firm meet with the Board for discussion of the matter in the event the Board was inclined to the view that the existing interlocking directorships were prohibited by the law.

Chairman Martin then made a statement in which he reiterated the views he had expressed at previous meetings of the Board, that is, that although the case appeared to be a borderline one, he was inclined to agree with the legal staff that the interlocking directorships were not prohibited and that the spirit of the law did not require the Board to institute hearings or do anything else at this time. He thought it likely that in the period ahead various statutes enacted in the 1930s would be reviewed in the light of current conditions, and he thought that the Board should lean as far as possible toward considering these matters on an ad hoc basis, although being cautious not to open the way to possible abuse. He also stated that in some instances it might be that the Board would wish to give some consideration to the reputation of the persons involved in reaching a decision.

Governor Vardaman raised certain questions for the purpose of factual clarification. After responses had been made, he commented that judging a case like this on the basis of the individuals involved presented

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a problem, in that there might be changes in the future, both of individuals and corporate relationships. On this point Mr. Vest stated that he assumed the Board would reserve the right to change its determination at any time if the facts should change.

Governor Robertson expressed the opinion that to hold the statute inapplicable to the interlocking directorships in question would constitute an unfortunate precedent. He said that although the Board might justify to itself such a decision in this case because of the favorable reputation of the individuals concerned and other circumstances peculiar to the situation, he felt that the Board must rule without regard to personal factors in interpreting the law. He went on to say that the agreement into which the stockholders of Hugh W. Long & Co. entered among themselves (providing, among other things, that stockholders holding the majority of the outstanding voting stock of that company would for a ten-year period take all necessary steps to insure the election of five of the seven directors of Investors Management Company) seemed to him to have no bearing on the matter for the reason that it is not possible to contract one's self out of an illegal position. The important facts of the situation, Governor Robertson said, were that Long & Co. holds 100 per cent of the stock of Investors Management Company, that Long & Co. therefore was able to put its own people into Investors Management Company, and that in his view the three directors of Investors Management Company holding directorships in member banks are in effect employees of Long & Co., a point which he thought the courts would sustain.

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In connection with a discussion of Governor Robertson's comments, it was understood that Mr. Vest would submit a memorandum on two points:

(1) whether, since Investors Management Company is a wholly-owned subsidiary of Hugh W. Long and Company, a director of the former would be regarded as an "employee" of the latter, and (2) the situation in the interlocking directorate case involving the "advisory board" of the Mercantile Trust Company of St. Louis.

Governor Mills, who favored the position taken by Governor Robertson, said that where, as in this matter, the Board had been delegated responsibility to administer the law, it must go beyond technicalities and consider the intent of the law as prescribed by the Congress. He believed that the statements made in Mr. Vest's memorandum indicated a doubt which the Board had a responsibility to resolve. Assuming that the parties in this case presented no facts to throw a different light on the subject, he thought that the Board should go to the courts for a declaratory judgment and that if the matter should be resolved against the Board, the Board had a responsibility to go to the Congress and ask for guidance.

Chairman Martin then made a further statement in which he expressed the view that the Board should not press for an interpretation of the applicability of the law at this juncture on the type of case under consideration. It was his thought that in cases where the correct interpretation of the Board's responsibilities under a statute was not clear, the Board should be as helpful as possible to private business and go only as far in the way of restraint as was consistent with the public interest.

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If the Board's interpretations were too narrow, he believed that it would be difficult for reputable parties to operate.

During a further general discussion it was noted that representatives of the interested parties had expressed a willingness to meet with the Board and it was suggested that an invitation be extended to them to discuss the matter and offer additional information. There was agreement with this suggestion, the view being expressed that it would be helpful to the Board to have as much information as possible, not only on the case under consideration but in connection with the Board's responsibilities in the whole field of trusts, investment management, etc., since it seemed likely that a series of problems might develop in this area in one form or another over the forthcoming period.

At the conclusion of the discussion, Mr. Vest was requested to invite representatives of Investors Management Company, Inc., to meet with the Board at a mutually convenient time.

Mr. Sloan then withdrew from the meeting and Messrs. Myrick, Assistant Director, Farrell, Chief, Reserve Bank Budget and Expense Section, and Graham, Analyst, all of the Division of Bank Operations, and Fauver, Special Assistant to the Board, entered the room.

Reference was made to a memorandum from Mr. Farrell dated September 24, 1954, submitting proposed procedures for handling the analysis and consideration by the Board of the Federal Reserve Bank budgets for 1955. Copies of the memorandum had been sent to the members of the

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Board prior to this meeting, and the procedures suggested were substantially similar to those followed in connection with the 1954 budgets.

Following comments by Mr. Farrell and discussion based thereon, the procedures recommended in the memorandum were approved unanimously.

Mr. Fauver then withdrew from the meeting.

Reference next was made to a memorandum from the Division of Bank Operations dated September 29, 1954, relating to a proposal to extend the territories of the Los Angeles Branch. The memorandum, copies of which had been sent to the members of the Board, noted that at the Board meeting on August 12, 1954, it was decided to defer action on this proposal pending discussion at a time when a full Board was available. Attached to the memorandum was a memorandum dated September 24, 1954, from Mr. Leonard, Director of the Division of Bank Operations, concerning a conversation which he had on this subject with Mr. Earhart, President of the Federal Reserve Bank of San Francisco, while the latter was in Washington for the September meeting of the Presidents' Conference. In the light of information supplied by Mr. Earhart, the Division of Bank Operations continued to recommend approval of the proposal but suggested a revised draft of letter to the San Francisco Reserve Bank.

During a discussion based on certain charts and statistics prepared by the Division of Bank Operations which were exhibited at this meeting, it was pointed out that the Reserve Bank had not discussed the proposed transfer of the four counties concerned with the independent

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banks in those counties because, as Mr. Earhart had stated to Mr. Leonard, the number of such banks was small, there would be no change in the services rendered to them by the Federal Reserve Bank, and there might be differences of opinion among the banks. Mr. Vest stated, however, that the spirit of the Administrative Procedure Act provides that all interested parties be allowed to express themselves on a subject with which they are concerned before action is taken.

Following additional discussion, unanimous approval was given to a letter to President Earhart in the following form:

Reference is made to your letter of July 19, 1954, requesting that the Board approve the transfer to the Los Angeles Branch territory of the counties of Kern, Mono, and San Luis Obispo, California, from the San Francisco Head Office territory; and of Clark County, Nevada, from the Salt Lake City Branch territory.

The Board notes that you have discussed the proposed transfer with some but not all of the banks in the affected counties. The Board believes that it would be desirable, prior to effecting the transfer, to inform each of the banks in these counties of the proposal. It has, accordingly, approved the transfer with the understanding that it will be brought to the attention of the individual banks in the counties to be transferred prior to a formal announcement of the effective date, and that you will furnish the Board with a statement regarding views that may be expressed.

It will be appreciated if you will inform the Board of the effective date of this change as soon as it is determined.

Messrs. Myrick, Farrell, and Graham then withdrew from the meeting and Messrs. Young, Director, Division of Research and Statistics, and Cherry, Legislative Counsel, entered the room.

At the request of Chairman Martin, Messrs. Young and Cherry reviewed discussions which they had had with the staff of the Congressional

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Joint Committee on the Economic Report regarding a proposal of the Committee's staff, not yet approved by the Committee, that the Subcommittee on Economic Stabilization hold meetings December 6-8, 1954, on United States monetary policy: recent thinking and experience. In this connection they distributed and commented on a draft of Committee press statement describing the questions to be explored and the program proposed for the hearings. Under this program the Chairman of the Board of Governors would be asked to submit comments in advance on six questions and the hearings would include a round-table discussion of monetary policy questions on December 8, with the members of the Board and the twelve Federal Reserve Bank presidents participating.

Following a discussion, it was understood that the members of the Board would give further thought to the matter with a view to additional discussion at another meeting of the Board in the light of developments.

It was reported that, with the approval of Chairman Martin, telegrams were sent on October 1, 1954, to the Federal Reserve Banks of Boston and St. Louis stating that the Board approves the establishment without change by those Banks on September 27, 1954, of the rates of discount and purchase in their existing schedules.

This action was ratified
by unanimous vote.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 30, 1954, were approved unanimously.

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The meeting then adjourned.

Assistant Secretary