Minutes for October 25, 1956

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin		x M
Gov. Szymczak	x	
1/ Gov. Vardaman		x
Gov. Mills	x	
Gov. Robertson	R	x
Gov. Balderston	x CCB	
Gov. Shepardson	x CWS	

1/ The attached set of minutes was sent to Governor Vardaman's office in accordance with the procedure approved at the meeting of the Board on November 29, 1955. The set was returned by Governor Vardaman's office with the statement (see Mr. Kenyon's memorandum of February 12, 1957) that hereafter Governor Vardaman would not initial any minutes of meetings of the Board at which he was not present. Therefore, with Governor Shepardson's approval, these minutes are being filed without Governor Vardaman's initial.

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Federal Reserve Bank of St. Louis

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, October 25, 1956. The Board met in the Board Room at 11:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Shepardson

Mr. Carpenter, Secretary
Mr. Marget, Director, Division of International Finance

Governor Balderston stated that, remembering the experience of the Board with the Brazilian gold loan in 1954, he wished to bring to the attention of the Board and to discuss at this meeting a request from the Central Bank of Turkey to the Federal Reserve Bank of New York for a $25 million loan secured by gold. He said the matter was being considered by the directors of the New York Bank this morning but that it was not likely that they would take a firm position today. He added that he felt the Board should have the advantage of all of the time available for study and consideration of the matter and therefore he had suggested that the Board meet now so that if, at the conclusion of the meeting of the Board of Directors of the New York Bank, President Hayes should call regarding the matter, he (Governor Balderston) would be prepared to discuss it.

At Governor Balderston's request, Mr. Marget outlined the background of the requested loan. He stated that there was no dispute either here or at the Federal Reserve Bank of New York that a loan of the kind requested clearly would be in violation of the principles governing gold loans as agreed upon by the Board and the Federal Reserve Bank of New

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York, and that Mr. Exter, Vice President of the Federal Reserve Bank of New York, agrees that that is so.

Mr. Marget then presented the developments leading up to the submission of the request for the loan to the New York Bank. He said for several years representatives of various agencies of the United States Government as well as of a number of international agencies have been trying to get Turkey to put its affairs in order. Finally, the Turkish representatives entered into discussions with the International Monetary Fund and a program was agreed upon including a possible drawing from the Fund, but subsequently the Turkish representatives were replaced by other representatives who cast the earlier negotiations aside. Thereafter, following a full consideration of the matter in this country, a new position was taken by the United States Government with respect to the Turkish problem.

Mr. Marget also said that in September of this year Turkish representatives came to the United States for further discussions. Turkey has been borrowing a total of $88 million on gold holdings from five New York commercial banks. The present problem and request for a gold loan from the Federal Reserve Bank of New York arises out of the fact that while three of the banks are willing to renew, two of them (Manufacturers Trust Company and Guaranty Trust Company) are unwilling to approve a further renewal. As a result, Turkey is now asking the Federal Reserve Bank of New York to take over that part of the loan. On September 21, Vice President Exter of the Federal Reserve Bank of New

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York informed the Division of International Finance that he was inclined to recommend a refusal of the request and that he believed the management and directors would follow such a recommendation. The reason for his position was that Turkey has been borrowing on gold without any interruption for several years and there is no reason to suppose that Turkey would repay the loan within any reasonable period except through borrowing on gold from another source. Such a permanent gold loan would be clearly contrary to accepted principles of gold loan policy. In this connection, Mr. Marget also read a copy of a memorandum to the files which Mr. Exter had prepared under date of September 21.

On October 4, Mr. Marget said, he received a telephone call from Mr. Norman Davis, Assistant Vice President of the Federal Reserve Bank of New York, with respect to the proposed gold loan stating that a high officer of the New York Bank now felt that the political position of Turkey was so important that the Bank should make the loan. He requested that Mr. Marget get a statement from the State Department with regard to the proposed loan. Mr. Marget said he called Mr. Clarence Randall, who is Chairman of the Interdepartmental Committee on Aid to Turkey, and in addition to explaining the situation stressed particularly that for the System to make a gold loan to Turkey under existing conditions would be clearly in violation of the agreed policy that had been laid down in the Federal Reserve System for loans on gold collateral. He also said that after a brief discussion, which included a summary of the present status of Turkey's relations to the International Monetary Fund, Mr. Randall

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stated that he saw no reason why the Federal Reserve should not do what it considered to be its duty. Mr. Marget added that he asked for a statement in writing of the position of the State Department on the matter and that under date of October 10 a letter was received from the Director of the Office of International Financial and Development Affairs which stated that "While we would not want the Federal Reserve Bank to depart from usual banking procedures, the Department is interested in helping Turkey in her present difficulties and would welcome any accommodation that would not involve a compromise of sound banking principles". Mr. Marget went on to say that he would interpret that statement to mean that it was up to the System to decide what were sound banking principles and that there should not be a compromise of those principles.

Mr. Marget then stated that in connection with the whole matter he would like to make two points. First, that as in the case of the Brazilian loan in 1954, the Turkish loan could not be paid off and there would be no alternative for the Federal Reserve Bank of New York but to sell the gold or renew the loan and that since the System undoubtedly would not feel free to sell the gold it would continue the loan in effect. He added that the loan by the Federal Reserve Bank would not place any additional resources in the hands of Turkey. On the one hand, if the gold were sold and the loan paid Turkey would save the interest on the loan. On the other hand, Turkey does not want to sell because it would disclose to some people that pledged gold had been carried in its balance sheet.

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Mr. Marget also said that he had asked the officers of the Federal Reserve Bank of New York who are now pressing for a favorable decision how the situation would be different in three to six months from now and the answer was that it would take that long for the Turkish central bank people to convince their government that they should sell the gold. In the circumstances he felt that on the basis of the principles approved by the Board there was no case for the granting of the loan and that if made it would have to be justified on the basis of other overriding considerations.

Governor Mills expressed the view that a position opposite to that suggested by Mr. Marget might be justified since the problems of Turkey have a special interest to the United States. While the proposal as submitted violates the sound and appropriate principles approved by the Board, the ramifications of a refusal of the request might do a disservice both to the Federal Reserve and the United States Government. He outlined reasons why in his opinion the sale of Turkish gold reserves at this time might aggravate Turkey's financial problems and result in a further loss of international exchange. In view of Turkey's efforts over the last several months to improve its economic situation and the problems that might be created by a failure to make the loan, he felt the System should look at the current request with an open mind and consider it as being apart from the ordinary requests that have been submitted to the Federal Reserve by a central bank in the past. He did not think the Board should answer the request for approval of the loan

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with a categorical "no", but rather that a longer look at the problem and a full round-up of Turkey's economic position would disclose grounds that would compel the Board reluctantly to deviate from standard policy in this particular instance.

The matter was discussed in the light of the failure of Turkey to take fundamental corrective steps urged upon them by the International Monetary Fund and whether there has in fact been any substantial improvement in the country's financial position. Reference was made in this connection to the current position of the State Department and the position that the Federal Reserve would be in in the event it did or did not approve and make the loan.

Governor Balderston stated that if President Hayes should call following the meeting of the New York directors today and inquire as to the views of the Board, the answer might be that the Board will take the matter under advisement, that the problem has ramifications and involves a departure from policy and therefore will take time, and that conceivably the Board might want to hold the matter until Chairman Martin returns since he has a special interest in it because of his membership on the National Advisory Council. The second phase of the matter, Governor Balderston said, would be the substantive question whether the loan should or should not be made and he was sure that the Board did not wish to decide that point today.

Governor Szymczak suggested that the Board should ascertain the views of the National Advisory Council before any decision was made.

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There was a discussion of this suggestion during which all of the members agreed that Governor Szymczak's suggestion should be carried out, and that for that purpose Governor Balderston should get in touch with either Mr. Burgess or Mr. Overby of the Treasury Department.

At the conclusion of the discussion, it was understood that if the New York Bank should call regarding the loan the response would be that, in view of the absence of the Chairman, who is a member of the National Advisory Council and has a special interest in the problem, the Board would wish to wait until his return and that in the meantime steps would be taken to ascertain the views of the National Advisory Council.

Governor Mills expressed the view that if the necessary information could be developed in connection with the matter it might not be necessary to wait for the return of Chairman Martin.

The meeting then adjourned.

S R Carpenter
Secretary

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