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 proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 2  Approval of a discount rate of 4 per cent for the Federal Reserve Bank of Philadelphia

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin
Gov. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Minutes of the Board of Governors of the Federal Reserve System

on Thursday, September 17, 1959. The Board met in the Board Room at
10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Young, Director, Division of Research
and Statistics
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Noyes, Adviser, Division of Research and
Statistics
Mr. Dembitz, Research Associate, Division of
Research and Statistics
Mr. Chase, Assistant General Counsel
Mr. Conkling, Assistant Director, Division
of Bank Operations
Mr. Landry, Assistant to the Secretary
Mr. Eckert, Chief, Banking Section, Division
of Research and Statistics
Mr. Collier, Chief, Current Series Section,
Division of Bank Operations

Mr. George H. Clay, Vice President and General Counsel of the
Federal Reserve Bank of Kansas City, who had been in the Board’s Legal
Division during recent weeks studying the problems related to the new
reserve requirements legislation, also was present.

Canadian refunding. At Chairman Martin’s request, Mr. Thomas
reported briefly on the complicated Canadian refunding just completed,
noting especially the high offering yields of about 6-1/2 per cent on the new issue of $550 million in Government bonds and Treasury bills, the proceeds of which were used to pay off an equal amount of bonds maturing October 1, 1959. Of the total new issue $325 million was offered to the public, with a choice among three types of bond issues and an issue of 253-day Treasury bills maturing June 10, 1960, while the remainder was sold to the Bank of Canada, which held about $225 million of the maturing bonds. In general, he said, the new issue was considered to have been a success.

Discount rates. The establishment without change by the Federal Reserve Bank of San Francisco on September 16, 1959, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Governor Mills requested that, if and when the Federal Reserve Bank of Philadelphia sought Board approval of an increase in its discount rate, the Secretary record in the minutes his abstention from voting on this matter in conformance with the position that he had stated at the meeting of the Board on September 11, 1959. The Chairman so directed the Secretary, indicating that it would be understood that, if word was received later today of action by the Philadelphia Bank to bring its rate to the level now in effect at the other Reserve Banks, the matter would be handled in the usual manner with Governor Mills being
recorded as he requested and all other Board members being recorded as approving such change.

Secretary's Note: Later in the day advice was received from the Federal Reserve Bank of Philadelphia that, subject to the approval of the Board of Governors, the directors of that Bank had fixed a rate of 4 per cent (rather than 3-1/2 per cent) on discounts for and advances to member banks under Sections 13 and 13a of the Federal Reserve Act, a rate of 4-1/2 per cent on advances to member banks under Section 10(b), and a rate of 5 per cent on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of Section 13. In accordance with the understanding at today's meeting of the Board, the Philadelphia Bank was advised of the approval of the rates fixed by its directors, effective September 18, 1959, all Federal Reserve Banks and branches were notified by telegram, a press statement in the usual form was issued at 4:00 p.m. EDT, and arrangements were made for publication of a notice in the Federal Register.

On this action, Governor Mills was recorded as not voting, his reasons for abstaining being the same as those stated by him at the meeting on September 11, 1959.

Effectuation of the new reserve requirement law. Reference was made to a memorandum from Mr. Thomas dated September 16, 1959, regarding basic questions of principle involved in giving effect to the new bank reserve requirement law, S. 1120, that was enacted in July of this year. In a covering note, Mr. Thomas pointed out that his memorandum, although developed from staff discussions and suggestions, had not benefited from review by other staff members and, therefore, might not represent a consensus.
Before commenting on this memorandum, Mr. Thomas noted that he had just received a copy of a report regarding this subject prepared by the Subcommittee on Legislation of the Conference of Presidents of the Federal Reserve Banks. This report suggested that the vault cash question have early action and it also suggested that the same classification standards might be used for reclassifying cities as those used for authorizing individual banks to carry reduced reserves. It was understood that copies of this report would be obtained and distributed to the members of the Board.

Mr. Thomas then proceeded to summarize the contents of his memorandum under three headings: (1) reserve requirements, (2) timing, and (3) principles for reclassification of banks. Under the first heading, Mr. Thomas said he did not know whether the Board could avoid raising reserve requirements when vault cash was released unless the Board wished to end up with very low reserve requirements for country banks. He thought it should be possible to work out a scheme quickly that would permit member banks to count vault cash in their legal reserves later this year and to offset this augmentation of legal reserves by raising reserve requirements and usual seasonal open market operations in January.

With respect to the question of timing, Mr. Thomas indicated that seasonal needs of the banking system in November and December would call for between $1 billion and $1-1/2 billion in additional reserves,
provided a net borrowed reserve position of approximately $500 million was to be maintained. Assuming the International Monetary Fund were to proceed with its $300 million sale of gold to the Treasury and purchase of an equivalent value of Treasury bills, this would take care of most of the seasonal needs to early November, after which open market purchases by the System could supply the additional amount of reserves needed. Reversal of this procedure would be accomplished as usual in January through System sales in the open market. This would enable the banks to make adjustments in their reserve positions while they were temporarily flush with funds. Mr. Thomas thought there was a question whether the Board would wish to take this action before it had considered the problem of classification of reserve cities, but, in his view, it might be desirable to proceed in that manner since the study of classification of cities and of individual banks would probably take considerable time. He added that Mr. Clay had presented the view that the legislative history of S. 1120 did not indicate any need to rush into action on counting vault cash. However, Mr. Thomas felt there were arguments in favor of acting promptly on this feature of the legislation. Mr. Thomas added that statistical information regarding the vault cash proposal also was being compiled and that it was apparent the Board could not remove existing inequities without affecting some banks more than others.
With respect to the various criteria for classification of cities and for exemption of individual banks from reserve city requirements, Mr. Thomas said that discussion of this question was bound to be lengthy and that comprehensive study of the problem had not yet been started. The staff had been giving thought to this problem and was prepared to go ahead with statistical and analytical aspects of this phase of the new legislation in accordance with whatever broad policy decisions were indicated by the Board.

Chairman Martin said that he had asked that this matter be placed on the agenda today without any thought of coming to a conclusion for specific actions, but merely for the purpose of having a general discussion of the matter and of emphasizing the fact that each member of the Board would have to consider the question in detail in terms of both the background of the legislation and the history of reserve requirements over the years. He felt that the Board should reach some decision within the reasonably near future as to how it wished to proceed under the new legislation, and he then called upon Mr. Clay for comments.

Mr. Clay made a statement in which he noted that the new legislation was silent on timing except for the three year limit for continuation of the central reserve city classification. In his opinion, there was no necessity for rushing forward to count vault cash until the Board had made certain of what it wanted to do. While there had been much interest in the legislation and the banker groups wanted eventually to
get vault cash counted, it seemed clear that this should be within
the credit policy of the Federal Reserve and after full study of the
problem. He also suggested that the public relations problem as far
as commercial banks were concerned was a very minor one in terms of
timing on counting vault cash, and he felt that the banks that had
favored counting vault cash would go along with whatever timing
program the System developed as a result of study. In terms of
early action, his feeling was that readjustment of inequities growing
out of the geographical classification of banks was more pressing than
the counting of vault cash, but at the same time a study of classifi-
cations must be made in advance of implementation of this part of the
law. Mr. Clay said there were no readily apparent standards that
provided a good basis for classifying banks so as to reduce the
existing inequities that resulted from the geographical basis, and
this was a matter that would require real study.

Governor Szymczak suggested the possibility of having a System
staff committee appointed to study the whole question of reserve
requirements and action that should be taken under the new legislation,
adding that it might even be desirable to have technical representatives
from the American Bankers Association cooperate with such a committee,
having in mind not only banking practices but also the public relations
aspects.
Governor Mills presented the view that a smaller group might be preferable on the grounds that the Board had proposed legislation on reserve requirements in substantially the form in which it was finally enacted and that presumably the Board should have fairly clear ideas as to how the legislation should be administered. He felt it would be undesirable to delay indefinitely, and that might be the tendency if too large a committee representing too many groups were appointed.

Mr. Hackley referred to the report of the Presidents' Conference Subcommittee on Legislation mentioned by Mr. Thomas, stating that that Subcommittee had recommended to the Presidents' Conference the appointment of a group to consider this legislation. He also said that Mr. Clay had devoted much time to studying the legal steps necessary as a result of the legislation and had prepared a possible redraft of the Board's Regulation D, Reserves of Member Banks, which would provide a framework within which the regulation might be revised when the Board reached a conclusion as to the action to be taken. Mr. Hackley pointed out that normally, where a new law such as this was enacted, the Board found that the outstanding regulation needed revision, and in this case Regulation D was no longer consistent with the law. While it was not essential that the regulation be revised immediately, it would be necessary in time to issue a regulation in the light of the new legislation. This would involve such matters as a definition of just
what was to be counted as vault cash, what the standards of classification of individual banks and cities would be, and other similar matters. He felt that the work done by Mr. Clay placed the Legal Division in a position to move rapidly on this question when the Board had reached the necessary policy decisions.

Chairman Martin remarked that he understood the only time limitation in the legislation was that providing for the elimination of the central reserve city classification no later than July 1, 1962, and Messrs. Hackley and Clay confirmed this as fact.

Mr. Hackley then called attention to the Board's outstanding rule adopted in 1947 requiring the triennial designation of central reserve and reserve cities, stating that application of this rule as of March 1, 1960, would in the normal course call for review of existing designations during the latter months of 1959. In view of the new legislation, the Board might wish to consider whether the rule adopted in 1947 should be suspended, in which event it would no doubt wish to issue a statement to the effect that the present classifications of cities would remain in effect. He added that it would not seem necessary to issue such a statement for two or three months, but it would be helpful to the staff to know promptly whether the Board contemplated such action.

Governor Shepardson said that it would seem to him desirable for the Board to take action at this time along the lines indicated in
Mr. Hackley's comments, since it seemed apparent that the normal schedule for redesignation of reserve cities would not take place as of March 1, 1960. He suggested, therefore, that the staff be relieved of the preliminary work necessary to the triennial redesignation in order that it might have more time to devote to study of how to implement the new law.

In response to Chairman Martin's question as to the Board's view on this subject, there was general concurrence that the triennial designation of cities for reserve purposes as of March 1, 1960, should be suspended, and the Chairman stated that this would be considered as a definite action, this being the only point in connection with reserve requirements on which definite action would be taken this morning.

Governor Robertson expressed the hope that study of the proposed legislation would include consideration of the desirability of enabling banks to hold larger amounts of currency in the form of vault cash, as a part of the emergency planning program.

Chairman Martin added the comment that the Board also should bear in mind the fact that the Treasury had been concerned regarding the possibility that permission to count vault cash would result in an unusual demand on the Mint for additional coin.

Governor Szymczak inquired as to how much weight must be given by the Board in implementing the reserve requirements legislation to the comment included by the House Managers in the Conference Report indicating
that the legislation was not intended to bring about a reduction in holdings of Government securities by the Federal Reserve Banks.

Mr. Hackley responded that this was not a part of the law, that the Board could ignore it if it chose to do so, that it was not even as persuasive as would have been a joint resolution containing the same words. On the other hand, Mr. Hackley stated that in his opinion serious consideration should be given to the injunction that had been inserted in the Conference Report by the House Managers. If the Board took action seriously counter to this admonition, it might be subject to criticism since its inclusion in the Conference Report gave it a place in the legislative history of the law. This did not mean that the Board needed to take the wording literally, and it would be his view that some reduction in securities held in the System Open Market Account could take place without departing from the general spirit indicated by the Conference Report.

Governor Shepardson then inquired as to the time that might be needed to accomplish studies such as those suggested, to which Mr. Thomas responded that several months would be needed in so far as the problems of classification of cities and banks was concerned. He felt that sufficient statistical study of the effects of various possible actions with respect to vault cash could be completed within about two months.
Governor Shepardson stated that it seemed to him desirable for the Board to have in mind the possibility of taking some action with respect to vault cash to help meet part of the need for additional reserves in the latter part of this year.

Governor Balderston said that he shared this view. He felt the Board and its staff should not get bogged down in a long study that might indicate to the banking fraternity that it did not know what it intended to do when the legislation was proposed. His suggestion was that the Board's staff should be requested to bring before the Board by mid-November a program for permitting banks to count a part of vault cash. This would enable the Board to decide whether some of the reserves that would be needed in the closing weeks of the year should be provided by this means.

After other members of the Board had expressed general agreement with this view, Chairman Martin stated that it would be understood that the necessary statistical studies should go forward and a program for permitting banks to count part of vault cash as legal reserves should be brought before the Board by the middle of November. The problem of classification of banks, he suggested, should be considered at another meeting at which the Board would consider the schedule that might be followed regarding this part of the legislation.
Messrs. Thomas, Molony, Dembitz, Eckert, Conkling, Collier, and Clay then withdrew from the meeting and Mr. Hexter, Assistant General Counsel, entered the room.

Anti-trust suit against Firstamerica Corporation. A memorandum from the Legal Division dated September 10, 1959, transmitted a letter from counsel for Firstamerica Corporation dated September 1 in which the latter suggested that, in connection with the pending anti-trust suit against Firstamerica, the Department of Justice might request information from the Board or its staff. In that event, Firstamerica requested that it be furnished with "a duplicate of whatever information is or has been given the Department of Justice." The memorandum stated reasons why the Legal Division was inclined to feel that Firstamerica's request was unreasonable and should not be complied with. It suggested, however, that it would seem advisable (1) to discuss the request with Firstamerica's counsel in order to ascertain the reasoning on which it was based, and thereafter (2) to obtain the views of the Anti-trust Division of the Department of Justice with respect to the request. The first step could be initiated by a telephone call, the memorandum said, and the second might be by letter to the Anti-trust Division along the lines of an attached draft which, however, might require modification after ascertaining the reasoning of Firstamerica counsel.
After comments by Mr. Hexter regarding the request of counsel for Firstamerica, Governor Mills recalled that attorneys for the Department of Justice earlier made a request to examine the Board's files and records leading up to its decision in the Firstamerica case and that, while the Board had agreed to make available to Justice certain background material, it had done so with the understanding that staff memoranda pertaining to the case would be held confidential. He wondered whether there was any possibility that either Justice or the Defendant in this case might be given access to staff memoranda analyzing the factors that had been presented to the Board for consideration in connection with its decision.

Mr. Hexter stated that in a matter of this sort an attorney for the Department of Justice might wish to consult with members of the Board's staff and that some information might be revealed in the course of that discussion. He pointed out, however, that this had been a public hearing and that most of the information that either Justice or attorneys for Firstamerica might desire was contained in the public record. This, he felt, would be a factor to be considered in determining whether any additional information should be supplied.

After discussion of the procedure that might be followed in ascertaining the reasoning of Firstamerica's counsel and obtaining the views of the Anti-trust Division, Chairman Martin commented that the
action proposed this morning was to authorize the Legal Division to obtain additional information. This could be done by telephone rather than by use of a letter to the Anti-trust Division as had been suggested in the memorandum from Legal Division. The Board approved this procedure.

Mr. Chase then withdrew from the meeting and the following entered the room:

- Mr. Kelleher, Director, Division of Administrative Services
- Mr. Harris, Coordinator, Office of Defense Planning
- Mr. Robinson, Adviser, Division of Research and Statistics
- Mr. Furth, Associate Adviser, Division of International Finance
- Mr. Sprecher, Assistant Director, Division of Personnel Administration
- Mr. Kiley, Assistant Director, Division of Bank Operations
- Mr. Allison, Special Consultant to the Board, Office of Defense Planning
- Mr. Brennan, Personnel Assistant, Division of Personnel Administration

Operation Alert 1959 (Item No. 1). Before this meeting there had been circulated or distributed the following documents relating to Operation Alert 1959:

a. Minutes of simulated meetings of the Board of Governors during OPAL 1959.

b. Memorandum dated August 26, 1959, summarizing reports of a staff committee on administrative problems relating to OPAL 1959.

c. Memorandum from Mr. Hackley dated September 14, 1959, regarding emergency banking plan documents.
d. Draft letter to the Presidents of all Federal Reserve Banks that would transmit for comment a record of certain operating matters that were considered by the Board at its relocation site while participating in OPAL 1959.

At Chairman Martin's request, Governor Balderston commented briefly on these four documents. After referring to discussions regarding monetary policy by the Board and its staff at the relocation site during the Alert, he noted that at that time a staff committee on monetary policy headed by Mr. Robinson had been designated to study such matters, and he called upon Mr. Robinson for comments on the work of that group.

Mr. Robinson reviewed a number of basic questions on the financial and economic policies that might be followed in the event of a nuclear attack, stating that, since the Alert, these matters had been pursued by various subcommittees. For the first time in the three alerts in which he had participated, Mr. Robinson said, it could be stated that there were solid assumptions as to general Government policy on the basis of which the Federal Reserve might proceed to plan on monetary policy in the event of a nuclear attack. This was an appropriate matter for which there should be further preplanning, he said, and Governor Balderston had suggested that the staff group which had been designated during OPAL 1959 to consider this problem could be
requested to carry on studies on a continuing basis between alert exercises in this area just as there had been planning for Open Market Committee operations between the alerts.

Chairman Martin stated that it would seem desirable for a committee such as that described to proceed with studies between now and another alert. Governors Balderston and Robertson expressed similar views, adding that both Board and Bank representatives should make up the group for continuing study of these matters. No objection being indicated, it was understood that the staff group headed by Mr. Robinson would continue to study problems of monetary and financial policy that might be followed in the event of an emergency.

Chairman Martin next referred to the summary memorandum dated August 26, 1959, from Messrs. Kelleher, Sprecher, Chase, and Brennan relating to administrative problems in OPAL 1959. At his request, Mr. Kelleher reviewed the items listed in that memorandum, which contained recommendations and comments as to rallying points and relocation sites, medical supplies and foodstuffs, a pilot program for immunization against diseases, and communication facilities. The memorandum also stated that the committee favored pre-attack planning to identify the functions of the Federal Reserve Banks and the Board which might become superfluous in case of an attack and to provide for the training and transfer of personnel that would become surplus to other functions and perhaps to other locations within the System.
Chairman Martin called for comments regarding the recommendations and, after brief discussion, approval was given to continuing study of the several matters referred to in the memorandum, with a view to realization of the recommendations therein. It was understood that the committee headed by Mr. Kelleher would continue to function in this connection.

Chairman Martin then called upon Mr. Hackley for comments on the Treasury's emergency banking plan documents referred to in his memorandum dated September 14, 1959. A draft of such documents had been submitted to Chairman Martin by Under Secretary of the Treasury Scribner with a letter dated August 19, 1959, and in reply the Chairman had indicated that no attempt was being made to revise the substance of the Regulations prior to the exercise but that appropriate changes would be considered immediately thereafter.

Mr. Hackley stated that these documents had been under consideration for years by various agencies in the Government, that the Board had felt that there should be a new executive order for use in an emergency, but that the Treasury had felt that it should operate under the existing Trading with the Enemy Act. That question had been settled for the present, he said, and under this program the President would delegate to the Secretary of the Treasury or to any person, agency, or instrumentality designated by him authority for the protection of the banking system, restoration of banking operations and functions, and the facilitation of fiscal operations of the United States during
the emergency. In turn, the Secretary of the Treasury would delegate to the Board emergency authority as to the Federal Reserve Banks along the lines of a draft Delegation Order, a copy of which was included with the draft of emergency banking plan documents that had been sent to Chairman Martin by Mr. Scribner on August 19. The latter also included a draft statement that would be issued by the Secretary of the Treasury to the financial institutions of the country outlining financial and economic policies to be followed during the emergency, as well as drafts of five regulations.

Mr. Hackley then referred to provisions in the Treasury draft regulations, particularly to those which would make it mandatory for all banks to impose restrictions on either cash or noncash withdrawals. His September 14 memorandum suggested that the draft Treasury regulations be changed to permit all banks to limit withdrawals to essential purposes but to empower the Secretary of the Treasury to require banks to impose such restrictions at such times and in such areas as the Secretary might determine. Such an approach, Mr. Hackley said, would combine the ideas of "freeze" and "liquidity" and would appear to provide a much greater degree of flexibility than would be possible under the proposed Treasury regulations. This approach might be regarded as an undesirable compromise, Mr. Hackley noted, in that it would be inconsistent with the principle that in the early days of an emergency the chief consideration should be the restoration of normal banking operations as soon as possible and that
this could best be done by providing a maximum of liquidity, bearing in mind that direct control measures such as rationing, requisitioning, priorities and allowances, price freezes, etc., would presumably be put into effect. However, as a tactical matter, Mr. Hackley felt that the proposed compromise approach might be justified as a means of expediting agreement with respect to some of the emergency documents. Mr. Hackley concluded with the statement that no language had been drafted for the purpose of changing the Treasury's documents to accord with the comments in his September 14 memorandum but that a working group could be assigned to that task if the Board should consider it desirable to do so.

At Chairman Martin's instance there ensued a general discussion of the emergency banking plan documents and the suggestions for changes in the proposed Treasury regulations as presented in the attachment to Mr. Hackley's memorandum.

Governor Robertson stated that this was obviously a compromise proposal. It might be a good one, but in his opinion it changed the entire plan for banking in an emergency. He agreed that a plan even though not the best was better than no plan, but he thought the proposed compromise was unworkable. Up to this time the Federal Reserve had been attempting to follow a "liquidity" approach while the Treasury had taken the approach of a mandatory freeze for banking. He doubted that these two approaches could be married, and he did not think the commercial banks would support the freeze approach. As he conceived the situation,
in the event of a nuclear attack communications would be wiped out in
many sections and seriously interfered with in much of the rest of the
country, and it would be impossible for the Secretary of the Treasury
to determine promptly from a central source which areas should be frozen
and which opened. Governor Robertson's view was that there would be a
lapse of time before the Treasury would be in position to put into effect
the regulations needed in individual communities. Advance announcement
of a program of this kind would mean that bankers would not know what
approach to follow in their planning because they could not know whether
their areas were going to be frozen or open. In his opinion, this would
take away the basis for planning by the banks for keeping the banking
system going. He felt that the approach should be one of creating
confidence by having a functioning banking system in which bankers
were prepared to make decisions. Governor Robertson concluded his
remarks with the statement that if the compromise proposal were to be
advanced to the commercial bankers of the country, it should be advanced
by a person who believed in it. Although he had worked with banking
Groups on the emergency planning program, he did not feel that he would
be in a position to try to sell this compromise proposal either to the
Treasury representatives or to the bankers.

Mr. Hackley stated that, having in mind the possibility that the
compromise suggestion might not be acceptable to commercial bankers, if
it were to be used in conversations with the Treasury the staff felt it
desirable that it contain a statement to the effect that it should be submitted to the Federal Reserve Banks for comment and perhaps also to the Federal Advisory Council as well as other interested groups and agencies. It would be contemplated that the first step would be preliminary discussion with the Treasury. Mr. Hackley also outlined a number of changes in language of the memorandum of comment on the draft Treasury regulations that should be made before it was discussed with anyone outside the Board's organization.

After a discussion of specific provisions of the draft documents, Governor Balderston stated that he felt Governor Robertson had put his finger on the problem of rapprochement between the Treasury approach and that of the Federal Reserve, namely, complete liquidity and complete freeze were at the opposite ends of the spectrum. His thinking was that there was a need for flexibility in timing and by areas so as to adapt restrictions to the particular conditions in each section. There should be some provision that would permit banks to operate even if they were completely cut off from the headquarters of Government. This was necessary in view of the size of the country and the complexity of its economy. At the same time, there must be a provision to permit the Secretary of the Treasury and other headquarter officials to take charge if conditions so required. Putting it another way, there should be enough flexibility to permit banks to operate on their own, but there
should also be preattack planning that would permit the centralized authority to step in where communication was possible and the need was apparent.

Governor Shepardson confessed some difficulty in seeing how, in actual operation, the compromise approach would differ materially from the approach that Governor Robertson felt would be appropriate. As he saw it, preplanning recommendations recognized that people would have to act on the basis of conditions at the particular time and place. Perhaps it was a matter of wording and if that could be cleared up it might be that the concept of starting with a liquidity approach would be acceptable so long as it was recognized that the central authority could move in with a freeze if that seemed to be called for.

Chairman Martin said that he thought that more than wording was involved. At this time, there just was not a complete meeting of minds on the approach that should be taken. This was something that would have to be worked out with the bankers as well as the Treasury and, if Governor Robertson did not believe in the approach as finally adopted, he should not be in the position of trying to sell to the bankers something that he did not believe in. Chairman Martin went on to say that he had discussed this matter of approach with Mr. John J. McCloy, Chairman of the Board, The Chase Manhattan Bank, and also Chairman of the Advisory Committee on Commercial Bank Preparedness, earlier this
week and that it was clear to him that there would have to be banker participation in the program. If the proposed emergency banking documents did not have banker acceptance they would have to be revised. Different agencies of Government had gotten into a state of mind where perhaps minor differences in ideas were being exaggerated and meanings were being put into certain words that were not necessarily there. He contrasted, for example, such terms as "sharing of losses" vs. "sharing of remaining resources", adding that in reality there was little or no difference of meaning in many of the expressions being used.

Mr. Robinson said that there was a side to the Treasury position regarding the approach to be taken that he did not think had been brought out in this discussion. There had been great emphasis placed on the fact that the effects of an attack would paralyze the financial system and that the aim should be to free it. On the other hand, if the freeing of the financial system worked effectively and if that were done against an economy that was prostrate as a result of an attack, the turning of the preattack liquid resources against such a prostrate economy could result in a flash inflation. In his opinion, there had to be compromise in some form. While the proposed Treasury regulations needed some revision, he questioned whether it was wise to urge a change that envisaged a 100 per cent liquid money system with the attendant risks of a flash inflation.
Following further discussion, Chairman Martin suggested that the way to proceed would be to prepare comments on the proposed Treasury regulations along the lines suggested by Mr. Hackley, and then to bring in the representatives of the banks to take a look at the problem. He felt that this should be done before either the Treasury or the Federal Reserve got frozen into a position from which it would be difficult to get out. None of the members of the Board indicated an objection to proceeding along the lines suggested by Chairman Martin, and it was understood that Mr. Hackley would redraft the memorandum of comment attached to his memorandum of September 14, 1959, in accordance with the suggestions he had made and the general tenor of the discussion at this meeting, after which the steps for clearance of the documents with other interested parties would be worked out in accordance with Chairman Martin's suggestion.

Reference was then made to the draft letter that would transmit to the Reserve Bank Presidents a report of certain operational problems considered by the Board during OPAL 1959 with respect to cash operations, the check collection system, Treasury operations, and the extension and control of emergency credit.

Mr. Harris said that it seemed to him desirable to include with the material that had been prepared in the Division of Bank Operations a memorandum that had been prepared in the Office of the Secretary on
the basis of the minutes of the simulated meetings of the Board during OPAL 1959 in order that the Reserve Bank Presidents would have the benefit of this summary memorandum as a basis for considering and commenting on the specific operational problems referred to in the other memorandum. He also suggested that it would be desirable to bring this material to the attention of President Hayes of the New York Bank in order that the Presidents' Conference Committee on Emergency Operations could study and report back.

Governor Robertson noted that the usual procedure would be to send such material either to the Chairman of the Presidents' Conference or to all Reserve Bank Presidents with a request that it be studied by the Conference and discussed with the Board at a later meeting. It would be assumed that the Chairman of the Presidents' Conference would refer it to the appropriate subcommittee for study and report. He suggested, therefore, that the transmittal letter include the memorandum to which Mr. Harris had referred summarizing OPAL 1959 as well as the memorandum on operational problems and that the material be transmitted to the Presidents of all Reserve Banks along with a request to the Chairman of the Conference of Presidents that it be discussed with the Board at a future meeting. There was agreement with this suggestion and a transmittal letter was subsequently sent to all Reserve Bank Presidents in the form attached as Item No. 1. The material enclosed with the transmittal letter as well as a copy of the Treasury's Emergency Plan Documents and Mr. Hackley's comments thereon have been placed in the Board's files for reference.
During the foregoing discussion, Messrs. Young, Noyes, and Sprecher withdrew from the meeting, and at this point Messrs. Harris, Robinson, Hexter, Kiley, and Allison left the room.

Fiscal agent for International Monetary Fund (Item No. 2).

A telegram from the Federal Reserve Bank of New York dated September 16, 1959, requested Board approval for that Bank to act as fiscal agent for the International Monetary Fund in connection with a sale of approximately $300 million of gold to the Treasury and investment of the proceeds in United States Government securities. A memorandum from the Division of International Finance, also dated September 16, recommended approval of the request.

Mr. Furth sketched the background of this transaction, stating that an agreement had been entered into between the Treasury and the Monetary Fund on September 15, 1959. While the Reserve Bank had some concern that the general public, upon learning of the transaction, might misinterpret it as an action initiated by the Treasury in order to build up gold reserves, the substantive part of the decision was solely a Treasury responsibility, and the New York Bank's request was only for the Board's approval of its acting as fiscal agent for the Monetary Fund in completing the transaction.

After brief discussion, unanimous approval was given to a telegram to the New York Reserve Bank in the form attached to these minutes as Item No. 2 approving the request.
The meeting then adjourned.

**Secretary's Notes:** Governor Shepardson today approved on behalf of the Board the following items:

Memoranda from appropriate individuals concerned recommending the following actions affecting the Board's staff:

**Appointment**

John S. Hollis, Jr., as Messenger in the Division of Administrative Services, with basic annual salary at the rate of $2,960, effective the date he assumes his duties.

**Transfer**

Ruth Elizabeth Morris, from the position of Secretary in the Office of the Secretary, to Secretary in the Division of Examinations, with no change in her basic annual salary at the rate of $5,390, effective September 20, 1959.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 3) approving the designation of Truett Evans Allen as special assistant examiner.
Dear Sir:

Enclosed are (1) a summary report covering OPAL 1959 based on the minutes of the simulated meetings of the Board during that exercise and (2) a record of certain operating matters that were considered by the Board at its relocation site while participating in OPAL 1959.

The Board would be interested in receiving the views of the Presidents with regard to the matters discussed during the alert, particularly with respect to the operational problems referred to in the enclosed memorandum. Accordingly, it is requesting Mr. Johns, as Chairman of the Presidents' Conference, to have this topic placed on the agenda for consideration at the next regular meeting of the Conference of Presidents.

The Board appreciates having received reports from all Federal Reserve Banks concerning their participation in the regional exercises. These reports made a substantial contribution to the matters considered by the Board during its exercise. Comments on the questions presented by the individual Reserve Banks will be sent to the respective Banks as promptly as feasible.

Very truly yours,

(signed)  
Merritt Sherman

Merritt Sherman,  
Secretary.
September 17, 1959

SANFORD - NEW YORK

In response to your wire of September 16, 1959, the Board approves your Bank acting as fiscal agent for the International Monetary Fund in connection with the proposed arrangement relating to the sale of approximately $300 million of gold by the Fund to the United States Treasury and the investment of the proceeds in United States Government securities.

(Signed) Merritt Sherman
SHERMAN
Mr. John L. Nosker, Assistant Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Nosker:

In accordance with the request contained in your letter of September 14, 1959, the Board approves the designation of Truett Evans Allen as a special assistant examiner for the Federal Reserve Bank of Richmond.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.