

609
12/9/62

Minutes for December 18, 1962



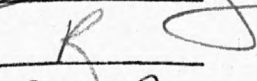
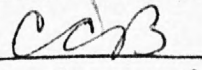
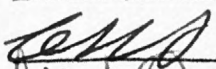
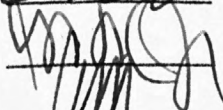
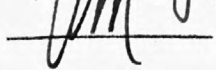
To: Members of the Board

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, 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 | <u></u> |
| Gov. Mills | <u></u> |
| Gov. Robertson | <u></u> |
| Gov. Balderston | <u></u> |
| Gov. Shepardson | <u></u> |
| Gov. King | <u></u> |
| Gov. Mitchell | <u></u> |

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, December 18, 1962. The Board met in the Board Room at 3:55 p.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Daniels, Assistant Director, Division of Bank Operations

Mr. Hayes, President, Federal Reserve Bank of New York.

Gold vault facilities at New York. At the meeting of the Board on December 5, 1962, preliminary consideration was given to a request from the Federal Reserve Bank of New York for authorization to enlarge its gold vault facilities, at an estimated cost of approximately \$470,000. Some question was raised as to whether the project warranted approval, and the matter was held in abeyance pending further exploration. Today's meeting was held, pursuant to an understanding at the December 5 meeting, to afford the Board an opportunity to discuss the matter with President Hayes and hear his views.

In initial comments, President Hayes recalled that the New York Bank had looked into the question and prepared a lengthy memorandum at the time the emergency planning aspects of the matter were considered.

12/18/62

-2-

At that time it was felt that the only means of making the earmarked gold appreciably safer would involve an expensive operation, and that the expense probably would not be warranted because the gold was quite well protected in the vaults of the New York Bank. Moreover, apart from the emergency planning aspects, a major consideration related to the practices and habits of those owning the gold, who considered New York City the place where the gold was of most value to them because facilities were readily available in the event they wanted to sell some of the gold. They did not like the idea of having to deal with gold in a lot of different markets. This related to the convenience aspect, and the confidence aspect was another part of the problem. If there were indications that the gold held under earmark was going to be dispersed, this might raise questions on the part of foreign central banks as to whether there was danger in keeping their gold in New York, which question did not appear to have existed in their minds thus far. If the statement was made that this was being done to save money, Mr. Hayes did not know whether the foreign central banks would understand. In the circumstances, he felt there might be some disposition on the part of the central banks to withdraw their earmarked gold and take it home. Having gold held here under earmark was a valuable consideration, he suggested, because it tied in with the whole idea of foreigners being interested in dollars and dollar investments. For this reason, he thought there was an advantage to the United States in the maintaining

12/18/62

-3-

of gold under earmark, as opposed to having the gold transported abroad. These arguments, he realized, were somewhat nebulous. He had not marshaled them too well in this discussion because he had not devoted particular attention to this subject for several weeks. In fact, he had never gone into it as deeply as those in the Foreign Department of the Reserve Bank. He had thought that the arguments were fairly well spelled out in his letter of November 9, 1962, to Governor Mitchell, which was prepared following a discussion with the Board's Committee on Organization, Compensation, and Building Plans, but perhaps the case had not been presented as clearly or fully as would have been desirable.

Chairman Martin noted that there had been some question within the Board as to how much local pride entered into the matter, and as to whether there should not be some dispersal of the gold from the defense standpoint. Governor Balderston commented that some question had been raised, in the latter connection, about the possibility of using facilities at West Point, New York.

President Hayes responded that it had been three or four years since the matter was looked into from the defense standpoint, in company with the Board's Coordinator of Defense Planning. The net result of that study was a conclusion against changing the prevailing practice for the storage of the gold.

In reply to a question as to the importance attached to the feeling that apparently existed on the part of foreign central banks,

12/18/62

-4-

Mr. Hayes said that he considered this aspect of the matter quite important. For decades the foreign banks had had the feeling that their gold was readily available to them in New York City. The Reserve Bank could now expand its ability to take care of such gold in a manner that would raise no questions abroad and would not create new worries. His disposition would be to say that the expansion project was worth undertaking, quite aside from subsidiary considerations such as the possibility that the owners of the gold would be subject to taxation if gold was held for them under earmark in vaults in certain states. This latter consideration had been given some attention by the Reserve Bank's attorneys in connection with defense planning studies, but it had not been thought necessary to delve deeply into the question in the absence of a policy decision that the gold should be dispersed.

President Hayes repeated that it continued to be his judgment that the relatively moderate outlay involved in expanding the New York Bank's vault facilities would be warranted, having in mind the kind of money with which the System was dealing.

Governor Robertson suggested to Mr. Hayes that it might be a good idea to refresh his recollection, by going over the study made three or four years ago, concerning the possibility of using vault facilities at West Point, and that after doing so Mr. Hayes might want to write a supplemental letter to the Board.

In further discussion, President Hayes said the New York Bank had reason to believe that foreign central banks favored the Federal

12/18/62

Reserve, in contrast to the U. S. Government per se, as the custodian of their gold, and Governor Robertson commented that this was one of the phases of the matter that should be explored. There was no suggestion, as he understood it, that the earmarked gold would be held in any manner except under Federal Reserve custody. President Hayes replied that in a previous discussion Governor Mitchell had raised the question of using the facilities at Fort Knox, Kentucky. It was rather difficult for him (Mr. Hayes) to see how the gold could be held in Fort Knox under Federal Reserve control. Instead, it apparently would be held by the U. S. Government per se. This might seem to be a fine legalistic distinction, but it could be a real distinction in the eyes of foreign holders of the gold, who would have in mind a certain amount of historical precedent. This might suggest to them that when their gold was held by the government, the arrangement was a little less in the nature of just having someone warehouse the gold for them; that in an extreme situation the government could seize the gold.

Governor Mitchell noted that, so far as this argument went, the gold could also be seized from the Federal Reserve. In his view, invidious aspersions of this kind did not come in good taste.

President Hayes replied that it was not he who saw such a problem. However, he had been told by people who had talked with foreign central banks that those banks saw such a problem. The point had been raised on occasion by foreign central banks, who often made distinctions between

12/18/62

-6-

themselves and their governments.

Governor Mitchell said he thought this was a completely mistaken impression on the part of foreign central banks. If they entertained it, however, he wondered whether the suggestion might not appropriately be made to them that they withdraw their gold.

In reply, Mr. Hayes repeated his earlier observation that there were some considerable side values to the United States in having the gold in this country.

Governor Shepardson said that, putting aside for the moment the question of possible taxation, he assumed this concern on the part of foreign central banks would not obtain if their gold was held in Federal Reserve vaults, and Mr. Hayes agreed. Governor Shepardson then observed that there were Federal Reserve vaults in many states. Accordingly, he wondered whether a further study should not be made of the tax laws of the various states. Mr. Hayes replied that during the earlier study to which he had referred attention was given to the laws of certain states in which Federal Reserve vaults of some capacity were located. In those cases it appeared that there might be a serious tax problem.

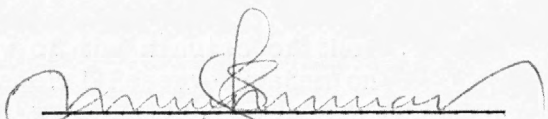
Chairman Martin then referred to the suggestion of Governor Robertson that the New York Bank review the emergency planning study that was made several years ago, with the thought that the Bank might then give the Board the benefit of its conclusions, and President Hayes indicated that this would be done. He added the comment that a degree of urgency was attached to the matter. Under certain conditions

12/18/62

-7-

the storage problem at the New York Bank might become rather acute, and it would take some time to put enlarged vault facilities into operation.

The meeting then adjourned.


Secretary