R 609
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Minutes for June 18, 1963

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 ____

Gov. Mills ____

Gov. Robertson ____

Gov. Balderston ____

Gov. Shepardson ____

Gov. King ____

Gov. Mitchell ____

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, June 18, 1963. The Board met in the Board Room at 2:00 p.m.

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

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

Mr. Hayes, President, Federal Reserve Bank of New York
Messrs. Coombs and Harris, Vice Presidents, Federal Reserve Bank of New York

Gold storage facilities. This meeting had been arranged, pursuant to the understanding at the Board meeting on June 10, 1963, for the purpose of hearing further from President Hayes and other representatives of the Federal Reserve Bank of New York concerning a proposal for expansion of the Bank's gold storage facilities. The most recent documentation on this subject was a letter from the New York Bank dated March 22, 1963.

The discussion began with comments by President Hayes, who said that the proposed expansion of facilities was designed to provide some elbowroom since the gold vault was now filled virtually to capacity. A fairly sizable expenditure was involved--in the order of $400-500 thousand--but the expenditure must be considered in relation to the essential value of the project. The main reason for feeling that it would be preferable to add to the storage capacity at the Bank rather than to follow other possible alternatives was that the point of location of earmarked gold involved a fairly sensitive psychological factor, particularly at a time such as the present when everyone was alert to happenings in the area of gold movements and rumors could easily exaggerate the intent of movements that were contrary to the usual pattern of gold handling in this country. This was the most important consideration. Further, however, as pointed out in the New York Bank's letter, there appeared to be no good reason from an emergency planning standpoint for decentralization of the gold. There was inherent strength in the vault facilities at the New York Bank. Also, consideration must be given to the fact that virtually every foreign owner of gold, at least so far as active gold stock is concerned, wants to have it available in New York City. This consideration would apply to most of the foreign central banks. Likewise, to the extent that the gold was not kept in New York City, there would be the problem of transportation expenses, and gold is expensive to move. Details on the expenses of transportation to alternative points of storage could be provided if desired, but in essence the expenditure for enlargement of the vault could be eaten up fairly quickly by transportation costs involved in alternative methods of handling. In addition, there were some interesting legal problems involved, particularly with reference to gold owned by the International Monetary Fund, and there was the question of the extent to which State taxes might be applicable to gold located in States other than New York. In some States this seemed to be quite an important consideration.

In summary, Mr. Hayes said, when thought was given to the amount of funds involved--in the order of $13 billion--and the great importance to the entire economy of continued psychological stability with respect to gold, the proposed expenditure became decidedly a small, almost picayunish, outlay. There were very real advantages in obtaining the additional elbowroom.

At the request of the Board, Mr. Harris discussed the nature of the projected facilities, which would be adjacent to the vault now used for the storage of gold. It was contemplated, he said, that the additional facilities would be used for some large but relatively inactive accounts. The door could be sealed and the vault entered only periodically. It was estimated that the additional facilities would be adequate for the storage of an additional supply of $4 to $5 billion of gold. At present, earmarked gold was being held for 82 accounts and had a total value of something over $13 billion. There was not a single compartment unused. Theoretically some additional gold could be taken, but this would depend considerably on the composition of the ownership.

Mr. Harris also said that the New York Bank had some emergency alternatives available, including the use of a narrow area around the perimeter of the gold vault, but the gold-handling equipment could not be used in this area and all storage work would have to be done by hand.

If the situation became more acute, the gold scales probably would have to be moved.

Question was raised with regard to possible use of the facilities of the U. S. Assay Office in New York, and Mr. Coombs indicated that probably there would not be too much difficulty about storing some gold there from a technical point of view. For example, about $1.8 billion of gold was now held for the International Monetary Fund in the New York Reserve Bank's vault. However, its movement to the Assay Office would involve substantial trucking, insurance, and handling expenses, and a basic difficulty was seen from the legal standpoint.

Mr. Hayes agreed that the largest quantity of gold held by the New York Bank that might seem eligible for transfer to another point was the gold of the Monetary Fund. Suggestions had been made from time to time that this gold be transferred. The New York Bank's Counsel, however, had considered the problem at some length and had concluded that there would be considerable doubt about the legality of moving this gold. There would seem to be two possibilities, first to transfer the gold for direct holding by the U. S. Treasury, or second to ask the Assay Office to hold the gold for the Federal Reserve Bank, with primary responsibility remaining with the Bank. As to each of these alternatives, it was the view of Counsel, for reasons related by President Hayes in some detail, that it was doubtful whether authority existed to arrange for the holding of the Monetary Fund's gold in the Assay Office or at Fort Knox.

In further discussion of the possible use of the Assay Office, President Hayes brought out that the New York Bank could not lease space in the Assay Office on a basis whereby it would have complete control of access. The Assay Office was Treasury property, and the external doors and locks were subject to Treasury control. This was in contrast to a hypothetical situation whereby the Reserve Bank would store gold in a leased building, other than the Bank, over which it would have full control of access. From a legal standpoint, President Hayes contended, the New York Bank would have to prove that it could get at the gold at any time. He indicated, in reply to a question, that the Reserve Bank had not talked to the Treasury about the possible use of space at the Assay Office. Mr. Harris added the comment that it seemed important, from the standpoint of foreign relationships, to be able to say that exactly the same degree of safe care was afforded to all earmarked gold, which involved among other things the degree of protection in the event of nuclear attack. From additional disucssion it developed that none of the representatives of the New York Bank who were present today were personally familiar with the vault facilities at the Assay Office. Therefore, they could not speak from first-hand knowledge concerning the comparative safety of the facilities at the Reserve Bank and the Assay Office.

Turning to the psychological implications of the matter, Mr. Coombs noted that if the Federal Reserve proceeded to request the International Monetary Fund to agree to a movement of its gold to other quarters, this would have to be explained in terms of a reluctance to spend funds to enlarge the gold vault facilities at the Reserve Bank. He thought it hardly possible to avoid the reaction that the Federal Reserve was making recourse to what might be regarded as emergency facilities, and this might carry the connotation of a potential shift in gold policy. To illustrate in the reverse direction, if the Treasury was holding gold in a country abroad and he received a call from the central bank concerned suggesting that the gold be moved to some unaccustomed point of storage on the ground that the central bank was not willing to incur the expense of adding to its gold vault facilities, he would be disinclined to accept that explanation at face value. Should there be an indication that the Federal Reserve would like to shift some of its earmarked gold to quarters outside the Reserve Bank, he felt there was bound to be some suspicion that this country was in some way planning to change the rules of the game.

In reply to a question, Mr. Harris said that today the New York Reserve Bank was holding about 920,000 bars of earmarked gold as compared with about 600,000 bars at the beginning of 1959. According to his recollection, the holdings at the beginning of 1952 amounted to less than 300,000 bars. Each account, of course, had to be segregated, and there was quite a bit of movement continually within the vault.

Mr. Hayes noted that the potential capacity of the vault was about $14 billion of gold; as previously indicated, holdings presently were in excess of $13 billion.

There followed further discussion during which reference was made to holdings of U. S. gold stock at various places, including the Assay Office in New York, Fort Knox, and Denver, Colorado. Mr. Harris then replied to several questions relating to the nature of the proposed expanded facilities, after which President Hayes commented that he would like to emphasize the urgency of this project from the standpoint of timing. Holdings of gold for foreign accounts were increasing all the time and the expansion project, if approved, probably would require about a year for completion.

The meeting then adjourned.

Secretary