BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 23, 1955

To Chairman Martin

Subject:

From C. Canby Balderston

CONFIDENTIAL (FR)

Attached is a confidential analysis by Mr. A. W. Marget of the Objectives, Functions, and Products of the Division of International Finance. It is the first Division to be thus analyzed by its Director. After you have had a chance to study this report, the individual and collective views of the members of the Board would be helpful.

Attachment

CCB

November 2, 1955

DIVISION OF INTERNATIONAL FINANCE

I. Objectives

1. Overall objective: to enable the Board to discharge those functions in the international field which fall to it as the Monetary Authority of the United States, especially by virtue of the unique international position of the United States as the economic and political leader of the free world.

2. Objectives as adviser to the Board.

   The Division should be able

   a. To advise the Board of foreign developments affecting, or likely to affect, the level and direction of domestic economic activity, and, conversely, of the effects of changes in the level of domestic economic activity (including the effects of domestic monetary policy) upon economic developments abroad.

   b. To advise the Board of the significance of actions by foreign central banks, and of foreign problems (including foreign methods of dealing with them) which parallel the domestic problems faced by the Board.

   c. To advise the Board on economic aspects of international operations and foreign relations of the Federal Reserve Banks which, in accordance with Section 14(g) of the Federal Reserve Act, are subject to special supervision by the Board. (For further breakdown, see II, 2, below.)

d. To advise the Board on the economic aspects (as distinguished from the legal or examination aspects) of the international and foreign operations of member banks. This involves (i) matters for which the Board has regulatory responsibility (including Edge Act and Agreement corporations and their subsidiaries, regulation of acceptance financing, and the establishment of branches abroad); (ii) matters in which the Federal Reserve System may have a policy interest (such as financing of gold transactions and the making of foreign loans by commercial banks, or the foreign exchange transactions of such banks); and (iii) matters relating to the effectiveness and competitive position of American banks in the foreign field.

e. To advise the Chairman of the Board, or his designated Alternate on the National Advisory Council on International Monetary and Financial Problems, on all matters requiring action by the N.A.C.

f. To advise the Board (or the Chairman) on matters of international financial policy requiring testimony before Congressional Committees or replies to individual Senators and Representatives. Related to this is the preparation of special memoranda for Congressional Committees. (Examples: memorandum on foreign Treasury-Central Bank relations for the Joint Committee on the Economic Report; replies to international questions included in Patman Subcommittee questionnaire, etc.)

3. Objectives as representative of the Board.

The Division should be able

a. To participate, on a basis similar to that of other N.A.C. agencies, in the staff work of the N.A.C. 1/ It is expected that the Federal Reserve staff representatives will have a special responsibility for all N.A.C. matters affecting monetary policy. (For further breakdown, see II, 6, below.)

b. To participate, on a basis similar to that of the other agencies represented, in a review of documents prepared by the inter-departmental United Nations Economic Committee (UNEC) and the inter-departmental Committee on Inter-American Economic Affairs. 2/ (The purpose of participation in these two committees is primarily to make sure that no position is adopted as the "U. S. position" which commits the System to actions or policies that have not been approved by the Board; but it also involves the preparation of special briefing memoranda whenever the material falls within the special competence of the Division.)

c. To respond to requests from the President's Council of Economic Advisers for studies in fields within the special responsibility

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1/ Apart from a very small secretariat which is concerned solely with mechanical procedures such as the reproduction of documents, etc., the "staff" of the N.A.C. consists entirely of staff representatives from the constituent agencies.

2/ The UNEC, on which, in addition to the Board, all Departments of the Administration, plus the Bureau of the Budget, the Council of Economic Advisers, the S.E.C., and the Tariff Commission are represented, prepares and reviews position papers for U. S. representatives in those agencies of the United Nations which deal with economic problems. The Committee on Inter-American Economic Affairs performs a similar function for U. S. delegations to Inter-American economic conferences.

and competence of the Division. (Example of such requests: see letter from Mr. R. J. Saulnier, appended as Annex I.)

d. To respond to requests from the Central Intelligence Agency for information concerning international monetary developments held to be of strategic significance. (By request of the C.I.A., two members of the Division's staff are designated as liaison officers for the purpose of maintaining contact with the inter-departmental Economic Intelligence Committee, which operates under the chairmanship of the C.I.A.)

e. To respond to requests from the Bureau of the Budget, Office of Statistical Standards, and to participate in the work of committees set up by that Office, on matters relating to international statistics. (Example: committee work to review U. S. Government views on foreign trade and balance-of-payments statistics in advance of the Inter-American Statistical Conference sessions in Rio de Janeiro, May 1955.)

f. To participate, on request, in the staff work of _ad hoc_ Presidential assignments on foreign economic policy, whenever these assignments involve international monetary policy. (Examples: Studies prepared at the request of Mr. Lewis Douglas for his report to the President on U. S. foreign economic policy; participation in staff work of the Randall Commission. The Director of the Division is currently a member of the Working Party headed by Mr. Randall as Special Assistant to the President.)

g. To participate, on request of other Government agencies (such as the State Department or the International Cooperation Administration), in the preparation of briefing material for U. S. presentation before international organizations other than those for which preparation is handled by the N.A.C. or the UNEC. Example: memoranda prepared for U. S. presentation to the O.E.E.C. (Organization for European Economic Cooperation) on European dollar import restrictions; cf. the letter, appended as Annex II, from Mr. Isaiah Frank (State Department), the U. S. representative designated <u>ad hoc</u> for this exercise.

h. To maintain contact, and -- within the limits permitted by security requirements -- to exchange information, with personnel of foreign central banks. This should include continuing contacts with foreign central bank personnel temporarily assigned to the International Monetary Fund, the International Bank for Reconstruction and Development, and foreign embassies, as well as reception of foreign visitors, and -- so far as the budget permits -- visits by staff members abroad.

i. To arrange, on request of foreign central banks or other agencies of the U. S. Government, for procurement of personnel for foreign missions to advise on problems affecting central banks or monetary policy.

4. Subsidiary objectives as a <u>unit of the Board's staff</u>.

The Division should be able

a. To maintain close working relationships with other Divisions of the Board's staff, especially with the Division of Research and Statistics (in connection with objectives 2a and 3g) and with the Legal Division and the Division of Examinations (in connection with objectives 2c and 2d).

b. To participate in staff work related to System economic research and the needs of the Federal Open Market Committee (in connection with objectives 2a and 2b).

c. To maintain close contacts with the officers and staff of the Federal Reserve Banks, particularly the Federal Reserve Bank of New York (in connection with objectives 2b, 2c, and 2d).

d. To advise the Board (or the Economic Adviser to the Board, or the Editorial Committee) on questions of publication of material (in the Federal Reserve Bulletin or elsewhere) to improve public understanding of the problems that concern the Board (in connection with objective 1 and objectives 2a to 2f).

e. To maintain informal contacts with professional economic research personnel in other Government agencies concerned with related fields of study, in order to help maintain a high level of technical competence and a broad understanding of problems on the part of members of the Board's staff.

f. To maintain within the Division a lively spirit of inquiry; to be on the look-out for useful techniques of research and analysis; in general, to foster, in the international field standards of professional performance consistent with the high reputation of the Board's staff in the field of economic analysis

II. Functions and their allocation within the Division.

1. Advice to Board on foreign developments and their relation to domestic economic activity and central bank policy (I, 2, a and b, above).

   Allocation of responsibility:

   a. For continuing appraisal of foreign developments affecting particular areas and for technical evaluation of foreign central banking policies and techniques, the area chief is responsible. For example: a memorandum on contents of a cable from the Bank of England to the Chairman, reporting a change in the Bank of England's discount rate or a British funding operation, will be prepared by Mr. Katz, working under the general direction of Mr. Furth, Chief of the Western European and British Commonwealth Section. Similarly, Foreign News Notes, submitted weekly to the Board, while prepared under the editorial direction of Mr. Tamagna (Chief of the Financial Operations and Policy Section), is contributed to by all sections, the individual contributors being indicated in each case.

   b. Analysis of actual and prospective gold and dollar movements, their effects on member bank reserves and on the ratio of the U. S. gold stock to this country's foreign liabilities; movements of short-term banking and non-banking funds, and other international capital flows (such as foreign investments in U. S. securities), and their effect on U. S. money and capital markets. Responsibility: Financial Operations and Policy Section. The estimates of actual and prospective gold and dollar movements submitted by the Financial Operations and Policy Section are in turn based on estimates for particular countries provided by the area sections, as well as on U. S. balance of payments estimates provided by the Special Studies Section (Mr. Hersey, Chief).

c. U. S. balance of payments: exports and imports; price movements of internationally traded commodities; effects of these factors on the domestic economic position in the United States.

Responsibility: Special Studies Section. The Special Studies Section is also charged with the overall responsibility for evaluating the effects on the domestic economic position caused by changes in the level of foreign economic activity (as well as the effects of our domestic position and monetary policies on foreign developments). It obtains basic information with respect to foreign developments from the relevant area sections, and is jointly responsible with them for exploiting sources of information that cover areas broader than those assigned to area sections. It is expected to take the lead in developing and applying suitable techniques for an integrated analysis of world business fluctuations.

d. The Division prepares the international sections of visual presentations and of the memoranda entitled "Current Economic and Financial Situation" which are prepared for the use of the Federal Open Market Committee.

Responsibility: Special Studies Section, which calls on other sections of the Division in accordance with the particular developments to be stressed in the presentation, and maintains a continuing working relationship with those members of the Division of Research and Statistics charged with the preparation of these presentations and memoranda.

e. In the System Committee on Current Business Developments, which meets, alternately in Washington and at one of the Federal Reserve Banks, to appraise business prospects in the United States for the coming six months, the Division is represented (at the meetings held outside of Washington) alternately by Messrs. Tamagna and Hersey, respectively.

2. Advice to the Board on international operations and foreign relations of Federal Reserve Banks (I, 2, c, above).

Responsibility: Financial Operations and Policy Section.

Specifically:

a. Advice on gold loans.

The Financial Operations and Policy Section is responsible for keeping in touch with the Federal Reserve Bank of New York with respect to applications, actual or prospective, by foreign central banks. It is also charged with the responsibility for obtaining, from the relevant area section, material with respect to the applicant country's economic position, to serve as a basis for recommendation to the Board. Clearance of applications with the State Department is ordinarily handled by the Assistant to the Director of the Division (Mr. Thorne), but in special instances (e.g., Brazil) may be handled by the Chief of the relevant area section, dealing with his opposite number in the State Department. Preparation and processing of cables reporting action by the Board on gold loans are handled by the Assistant to the Director.

b. Advice on matters affecting (i) <u>correspondent relations</u> of the Federal Reserve Banks with foreign central banks and (ii) operations by the Federal Reserve Bank of New York as <u>fiscal agent</u> for international institutions (IMF, International Bank for Reconstruction and Development, International Finance Corporation) and for the U. S. Treasury in the international field. (i) involves Board approval of opening of new foreign accounts and general supervision of the System's operations on behalf of foreign correspondents. Of particular significance to the System under (ii) are gold transactions (with the gold policy questions related thereto), and the purchase and sale of Government securities on behalf of the indicated international institutions.

Responsibility: Financial Operations and Policy Section. Clearance with State Department on opening of foreign accounts, and processing of cables in relation thereto, is handled as in the case of gold loans.

c. Because of the special position of the Federal Reserve Bank of New York in the field of foreign operations, there is a Staff Group on Foreign Interests, composed of representatives of the Board's Division of International Finance and of the Foreign and Research Departments of the Federal Reserve Bank of New York, plus such other staff representatives of the Board or the New York Bank (legal, examinations, etc.) as may be interested in the particular topics that are to be discussed. The Staff Group meets alternately in Washington and New York, in all cases under the chairmanship of the Director of the Board's Division of International Finance. Responsibility for the preparation of the agenda, in coordination with the staff of the New York Bank, rests with the Assistant Director. Responsibility for the preparation of such memoranda as may be submitted to the Staff Group will vary in accordance with the problems to be discussed.

3. Advice on economic aspects of foreign operations of U. S. commercial banks (I, 2, d, above).

Responsibility: Financial Operations and Policy Section. Where a particular area is involved (e.g., Liberia, in the case of the International Banking Corporation and the Bank of Monrovia, the relevant area section is consulted, and handles discussions with opposite number in the State Department. The responsibility of the Financial Operations and Policy Section for the economic aspects of the foreign operations of U. S. commercial banks involves also participation in the work of _ad hoc_ System committees such as the Special Committee on Foreign Operations of American Banks (the "Neal Committee").

4. Advice to Chairman (or the Chairman's designated Alternate) on N.A.C. matters (I, 2, e, above).

   Responsibility: Director or Assistant Director of the Division. Preparation of any necessary memoranda, in cases in which they are not prepared by the Director or the Assistant Director, is the responsibility of the Financial Operations and Policy Section, which calls on relevant area sections for assistance if the action to be taken by the N.A.C. concerns a particular area.

5. Advice to Board (or Chairman) on matters requiring Congressional testimony or correspondence (I, 2, f, above).

   Responsibility: any or all sections depending on the nature of the problem.

6. Representation of Board in N.A.C. staff work (I, 3, a, above).

   a. Participation in N.A.C. staff meetings, to prepare action by the Council. At the Staff Committee level, which is the level just below the Council itself, the Board is usually represented by the Director or the Assistant Director of the Division, who call for supporting information from the particular section within whose responsibility the problem proposed for Council action falls. If the Staff Committee's consideration of the problem is preceded or followed by consideration by a special Working Party, the Board is represented on the Working Party by the particular Section concerned. The Financial Operations and Policy Section has general responsibility for the coordination of information and for the processing of N.A.C. documents.

b. <u>Contribution to N.A.C. staff studies</u>. From time to time the N.A.C. staff is called upon, through the Council itself, to prepare extended studies on particular topics. This usually involves, in addition to participation in meetings at which plans or results are discussed, assumption of responsibility by each of the N.A.C. agencies for the preparation of draft memoranda on particular aspects of the general problem, the work thus being divided up among the N.A.C. agencies. Within the Division, the work is assigned according to the nature of the problem involved. (Example: On the basis of a request to the N.A.C. by Mr. Joseph M. Dodge, Special Assistant to the President and Chairman of the Council on Foreign Economic Policy, for a study of the position of, and problems facing, U. S. private investment in specific foreign under-developed areas, the N.A.C. Staff Committee, directed by the Council to carry out such a study, assigned to the Board's representatives originating responsibility for drafts on India and Indonesia, which were prepared by the Far Eastern Section. In the Working Party meetings devoted to discussion and revision of the drafts, <u>all</u> area sections of the Division have been represented, depending upon the country discussed in a particular meeting.)

c. Preparation of material for U. S. Executive Director of the International Monetary Fund. By statute, the U. S. Executive Directors of the IMF and the International Bank for Reconstruction and Development get their instructions from the N.A.C. But, particularly in the case of the IMF, the U. S. Executive Director is called upon continually to participate in discussions in which no immediate formal decision -- and therefore no formal N.A.C. action -- is called for. Having no staff of his own, the U. S. Executive Director must ask assistance from the particular N.A.C. agency within whose special competence the topic scheduled for discussion is held to fall. When the subject deals with operations and policies of the IMF, the help requested from this Division will usually be furnished by the Financial Operations and Policy Section; when the desired assistance relates to other subjects, assignment is made within the Division to the particular section or sections involved. (If, for example, the topic to be discussed by the IMF Executive Directors is the position of the U. S. economy and its relation to developments abroad, the Special Studies Section is called upon for preparation of the required memorandum and its coordination with other sections of the Division and with the Division of Research and Statistics.) The effectiveness of the Division's work in this field is attested by the letter from Mr. Frank Southard (U. S. Executive Director in the IMF), appended as Annex III.

7. Representation of the Board in the UNEC and in the Committee on Inter-American Economic Affairs (I, 3, b, above).

   Responsibility: for UNEC, the Financial Operations and Policy Section and Special Studies Section, with assistance from area sections as required; for the Committee on Inter-American Economic Affairs, the Latin American Section, with assistance from the Financial Operations and Policy Section and the Special Studies Section as required.

8. Representation of the Board in relation to requests from the Council of Economic Advisers on international topics (I, 3, c, above).

   Responsibility: all sections, depending on the nature of the request. In cases in which more than one section is involved, responsibility for coordination is centralized in one Section Chief. For example, Mr. Furth (Chief, Western European and British Commonwealth Section) was assigned coordinating responsibility for the papers on international subjects included among the Staff Studies on the Role and Effects of Credit and Monetary Policies, originally requested by the Council of Economic Advisers, and later elaborated for discussion with a group of outside economists.

9. Representation of the Board in relation to requests from the Central Intelligence Agency (I, 3, d, above).

   Responsible for liaison: the Assistant Director and the Assistant to the Director (Mr. Thorne). Responsible for presentation of material requested: all sections, depending on the nature of the request. At present, the Chief of the Special Studies Section (Mr. Hersey) represents the Division on the Economic Intelligence Committee's Subcommittee on Foreign Trade.

10. Representation of the Board in relation to requests from the Bureau of the Budget, Office of Statistical Standards (I, 3, e, above). Responsible for liaison: the Assistant to the Director, as member of the Federal Committee on International Statistics. Responsible for substantive work: all sections, depending on the nature of the request.

11. Representation of the Board in staff work on *ad hoc* Presidential assignments (I, 3, f, above).
    Responsibility: apart from personal representation by the Director, all sections, depending on the nature of the assignment.

12. Representation of the Board in preparation of briefing material for U. S. presentation before international organizations, insofar as this preparation is not performed by the N.A.C. and UNEC (I, 3, g, above).
    Responsibility: all sections, depending on the nature of the problem.

13. Representation of the Board in contacts with personnel of foreign central banks (I, 3, h, above).
    Responsibility: all economists in the Division, from the Director down, depending upon rank and country of foreign central bank personnel involved.

14. Representation of the Board in procurement of personnel for foreign missions (I, 3, i, above).
    Responsibility: the Assistant Director of the Division.

III. Products

1. Recurring products:

a. Foreign News Notes

For internal use only. Weekly. For purpose and for assignment of responsibility, see II, 1a, above.

b. Weekly Review of [Foreign] Periodicals 1/

Weekly. Responsibility: Miss Ernst, working under general supervision of the Assistant to the Director.

c. Gold and dollar movements

i. Projection of gold and dollar movements, and of their effect on member bank reserves. Quarterly. Internal use only. Responsibility: see II, 1, b, above.

ii. Review of gold and dollar movements and related capital flows. Article in Federal Reserve Bulletin. Annual. Responsibility: as under i.

d. The U. S. and world trade, with special reference to effects on the U. S. domestic economy.

i. Article in Federal Reserve Bulletin. Annual. Responsibility: Special Studies Section.

ii. International sections of visual presentations and other material prepared for the Open Market Committee.

1/ This publication, originally intended solely for the use of the System itself, has now attained a circulation of 2,300 copies, a considerable number of which go to universities for teaching purposes. Attempts have been made, from time to time, to reduce the number of recipients, and even to stop publication altogether; but the protests have been so strong when such attempts were made that it has been difficult to effect a reduction in the number of outside recipients, to say nothing of stopping publication altogether.

Primary responsibility: Special Studies Section.

See II, 1, d, above.

iii. International sections of Board's Annual Report.

Responsibility: at present, Special Studies Section, with cooperation from other sections. Responsibility may vary in accordance with decisions made by the Editorial Committee as to the general form and emphasis of the Annual Report.

e. "Comments on foreign operations of the Federal Reserve Bank of New York." Internal use only. Weekly, with monthly summary. Responsibility: Miss Garber, under the direction of Mr. Tamagna (Financial Operations and Policy Section).

f. "Foreign Exchange Rates." 1/

The Division prepares monthly a table, showing the monthly averages of daily rates, which is circulated to a special mailing list who have requested this material. These averages are later published in the Federal Reserve Bulletin. The Division also prepares a table every Monday morning showing the daily rates certified by the Federal Reserve Bank of New York for the preceding week. This table, also is circulated to a special mailing list who have requested it.

1/ The System's responsibility in this field derives from the provisions of Section 522 of the Tariff Act of 1930, dealing with the conversion of foreign currency for purposes of the assessment and collection of duties upon merchandise imported into the United States. According to these provisions, the Federal Reserve Bank of New York must ascertain or calculate on each business day the New York market buying rates at noon for cable transfers payable in the respective currencies of various foreign countries and must certify the same to the Secretary of the Treasury.

Responsibility: Mrs. Farrington, under the supervision of the Assistant to the Director.

g. "London Money Market Developments."

Every four to six weeks, or oftener if developments warrant. Internal use only. Responsibility: Mr. Katz, under the general supervision of Mr. Furth.

h. "International Bank and Export-Import Bank Loans and Commitments."

Quarterly. Circulation limited to Board and Federal Reserve Banks. Responsibility: Financial Operations and Policy Section (Miss Smith, under direction of Mr. Tamagna).

i. "Review of Foreign Developments." 1/

In principle, bi-weekly. In practice, its frequency of appearance depends on the rate of progress on particular projects and the amount of pressure from other divisional responsibilities. Editorial responsibility: the Assistant to the Director (contributions from all economists in the Division). The Review is made available to Federal Reserve Bank personnel, and also to selected Government personnel, on the basis

1/ The material presented in the Review represents the results of the kind of day-to-day study of problems within the field of the Division's responsibility, involving both current analysis and long-run basic research, without which the Division would not be prepared to provide answers when called upon to advise or to represent the Board. Although the essential purpose of the Review is to make available, for internal purposes, the results of the Division's day-to-day studies, an incidental by-product has been that a gratifyingly large proportion of these studies have subsequently been published in technical economic journals of high professional standing.

of a selected list (all additions to which must be approved by the Director), and in special cases (for particular issues of the <u>Review</u>) on permission of the Director.

j. International Statistics for the <u>Federal Reserve Bulletin</u>.

The Division is responsible for the Bulletin tables on international capital transactions of the United States, gold production, estimated gold reserves and dollar holdings, reported gold reserves of central banks and governments, net gold purchases and gold stock of the United States, International Bank and Monetary Fund statistics, central and commercial bank statements, money rates, foreign exchange rates, and price movements in principal countries.

Statistics relating to international capital transactions are collected by the twelve Federal Reserve Banks from all banks in the United States in accordance with the Treasury Regulation of November 12, 1934. This material is prepared for publication in the Bulletin by the Financial Operations and Policy Section. The various tables covering gold production, foreign gold reserves and dollar holdings, gold reserves of central banks and governments, and net gold purchases and gold stock of the United States are also prepared for publication by the Financial Operations and Policy Section. In addition, this

Section is responsible for the Bulletin table on the International Bank and the International Monetary Fund. All other international tables in the Bulletin, including the central and commercial bank statements, money rates, foreign exchange rates, and price movements in principal foreign countries are prepared by members of the Administrative Staff, under the supervision of the Assistant to the Director. The material on merchandise exports and imports (now grouped with domestic statistics) is prepared in the Special Studies Section.

k. Charts for Federal Reserve Chart Book.

Charts on the U. S. balance of payments, and on merchandise exports and imports, are the responsibility of the Special Studies Section; on foreign gold reserves and dollar holdings, and on short-term liabilities to and claims on foreigners, of the Financial Operations and Policy Section; on foreign exchange rates, of the Administrative Staff.

l. Organization and circulation of documentary materials.

Procurement and circulation of documentary materials concerning the operations of foreign central banks and other matters for which the Division has responsibility. Responsibility: Supervisor of the Division's Information Center (Mrs. Crews), under the general direction of the Assistant to the Director, and with the cooperation of all sections.

2. Special products

a. Special articles for Federal Reserve Bulletin.

In addition to the two leading articles, prepared annually for the Bulletin, which are listed above under III, 1, c, ii and III, 1, d, i, respectively, the Division prepares special articles for the Bulletin, by arrangement with the Editorial Committee. A recent example: article by Messrs. Tamagna and R. Solomon on "Bankers' Acceptance Financing in the United States," in the May 1955 issue of the Bulletin.

b. Preparation of documents for Board action.

Originating responsibility will depend on the nature of the problem. In the case of loans on gold collateral, the memorandum summarizing the proposal by the operating Federal Reserve Bank, together with a draft reply, is prepared by the Assistant to the Director in consultation with the Financial Operations and Policy Section and the particular area section involved. (See II, 2, a, above.)

c. Preparation of memoranda for information of Chairman and the Board.

In general, an effort is made to keep to a minimum the number of memoranda submitted to the Chairman and the Board, even in cases in which a document already exists for internal use by the Board's staff. A distinction is also made between memoranda for the Chairman and those which go to the Board as a whole. (For example, memoranda involving action by the Chairman as a member of the N.A.C.

normally go only to the Chairman and his N.A.C. Alternate. Similarly -- as the Board itself has decided -- memoranda reporting gold loan discussions by the Federal Reserve Bank of New York go only to the Chairman, as long as these discussions are still in a preliminary stage. On the other hand, memoranda on topics raised in Board session [e.g., the current series of memoranda on foreign dollar liabilities in relation to our gold reserve; foreign experience in housing finance, etc.] go to the Board as a whole. Assignment of responsibility within the Division for the preparation of memoranda under either heading will depend upon the nature of the problem involved.)

3. Preparation of other materials.

In addition to memoranda and other written materials, a considerable volume of statistical tabulations and charts is maintained for working purposes in each section, and particularly in the Special Studies Section. As for written material produced by the Division other than that summarized under III, 1, by far the greater part of it is never seen by the Board. But all of it is prepared in fulfilment of the objectives outlined in Part I of this memorandum. This applies also, and without limitation, to material prepared at the request of other agencies; the Director of the Division, with whom all such requests are checked, regards it as part of his responsibility to reject requests which cannot be justified under the head of the

Division's responsibilities to the Board, either as adviser or as representative. (A recent example: we refused a request of the State Department that the Central and Eastern European Section provide a briefing memorandum on "Recent Financial Developments in Germany," on the double ground that the occasion for which the briefing was required was not one of distinctive concern to the Board and that the State Department's own staff should be able to handle a topic of so general a nature.)

In the nature of the case, both the amount and the subject-matter of the written material which is here in question will vary very greatly from one week -- or one month -- to another, depending both on the pressure of other day-to-day obligations (for example, the number of <u>meetings</u> which must be attended by members of the Division) and the <u>trend</u> of developments of concern to the Division. But we are prepared to provide on request either a representative sample of the material here under discussion or, by way of indicating its scope over a period of time, documents prepared on previous occasions to describe the activities of the Division.

C O P Y

ANNEX I

EXECUTIVE OFFICE OF THE PRESIDENT
Council of Economic Advisers
Washington 25, D. C.

September 29, 1955

Dr. Arthur W. Marget
Director, Division of International Finance
Board of Governors of the Federal
Reserve System
Washington 25, D. C.

Dear Arthur:

As you are well aware, in the preparation of the Economic Report of the President it is necessary for the Council to have a comprehensive picture of developments in the international commodity demand and supply situation. The paper prepared late last year by Mr. Arthur Hersey, entitled "Changes in the Commodity Demand and Supply Situation," proved to be quite useful, and we were hoping that a similar paper covering developments during 1955 might be available for our use by December 1, 1955. It would also be helpful if the paper included some discussion of the impact of these commodity developments on the major producing areas.

Another field in which we would like to seek your help is in the analysis of capital movements in the U. S. balance of payments during 1955. For example, to what extent have the capital accounts been influenced by relative changes in interest rates here and abroad.

Finally, we would like to have a brief review of international private portfolio capital movements over the past year or so, both between the United States and abroad and between foreign countries. To what extent has there been a revival of the flow of international private portfolio capital?

I have asked Mr. Mikesell of the Council's staff to be in touch with you on details regarding our needs in these areas.

Sincerely yours,

(Signed) STEVE

Raymond J. Saulnier
Member

COPY ANNEX II

DEPARTMENT OF STATE

WASHINGTON

September 16, 1955

Dear Arthur:

I have been tapped to represent the U. S. at an OEEC meeting to be held soon to review the effects of European dollar liberalization and the prospects for further liberalization. To my knowledge this is the first full-dress meeting to which representatives from capitals will be going especially for this purpose, and it is obviously important that we be fully prepared to deal with the points that will inevitably come up.

My reason for writing is to let you know that I have just finished going over a paper on this subject prepared by Mr. J. E. Reynolds of the Federal Reserve Board in the form of a critique of an ECE paper entitled "The Effects of Liberalization on Dollar Imports". Mr. Reynolds' memorandum is a first-class job of critical analysis--it is sharply focused, sophisticated, and well balanced. I have no doubt that we will draw upon it heavily at the meetings in Paris. Herbert Furth tells me that it was prepared in a very short space of time, which makes the performance all the more impressive.

Many thanks for the cooperation of the Board on this subject.

With warm personal regards.

Sincerely yours,

(Signed) ISAIAH

Isaiah Frank
Deputy Director, Office of
International Trade and Resources

Mr. Arthur W. Marget,
Director, Division of International Finance,
Board of Governors,
Federal Reserve System,
Washington 25, D. C.

C O P Y

ANNEX III

INTERNATIONAL MONETARY FUND

Washington 25, D. C.

October 1, 1951

Dear Arthur:

This is to thank you for Mr. Hersey's memorandum of September 26, containing comments on the two Fund papers on the U. S. Balance of Payments, 1950-51. His comments will be most helpful to me in my preparation for the discussion of those papers in the Board.

This is only one of a long series of very helpful contributions which members of your staff and of other parts of the staff of the Board of Governors have made to my work here in the Fund, and I have intended for some time to express my warm appreciation.

Cordially yours,

(Signed) FRANK A. SOUTHARD, JR.

Frank A. Southard, Jr.
U. S. Executive Director

Mr. Arthur W. Marget, Director
Division of International Finance
Board of Governors of the
Federal Reserve System
Washington 25, D. C.