

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

April 13, 1945.

To: The Chairman

From: Mr. Hammond

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Attached are two ribbon copies of the memorandum on the foreign missions of the Federal Reserve System which Mr. Szymczak asked to have prepared for use by you and him in a discussion with Mr. Sproul. The memorandum is based on one which he addressed to you under date of February 26 and was discussed at a Board meeting. It reflects changes based on that discussion and upon subsequent suggestions and has Mr. Szymczak's approval in its present form.

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March 29, 1945.

FOREIGN MISSIONS OF THE
FEDERAL RESERVE SYSTEM

Summary

1. Since international economic developments affect the Board's responsibilities directly and are also of general Governmental concern, the foreign activities of the System should be unified under the Board's direction.
2. Officers and employees of Federal Reserve Banks as well as of the Board going abroad should have prior approval and credentials from the Board, and reports of their missions should be made to the Board.
3. Personnel for foreign missions should be drawn from the Board and from the Banks according to individual qualifications and the purposes to be served by the missions.

There appear to be two types of foreign mission in which the System may be called upon to engage: one dealing with operational problems incident to the correspondent accounts carried on the books of the Federal Reserve Bank of New York; and one dealing with broader matters of monetary or banking policy in the international field. With respect to the first, it will undoubtedly be expedient for members of the staff of the Federal Reserve Bank of New York to visit other countries from time to time to confer with its correspondents on operating problems and in furtherance of correspondent relationships. With respect to the second, it seems equally clear that there will be occasion for representatives to be drawn from the staffs of the Board and the Federal Reserve Bank of New York, and perhaps of other Reserve Banks, for missions going abroad both on invitation and at our own initiative in order to obtain information, cultivate good relationships, and give technical counsel.

New York's Foreign Missions

The tasks in which the System has already participated indicate what we should be prepared for in the future. Those tasks began in the twenties, when Mr. Benjamin Strong was frequently abroad, and there were numerous consultations with foreign central banks and finance ministries. Other officers of the Federal Reserve Bank of New York assisted both directly and indirectly in the organization and work of the reparations commissions abroad, Mr. Randolph Burgess on the Young Commission particularly and Mr. Shephard Morgan on the Dawes Commission. Mr. Woodlief Thomas also participated in reparations work

in Europe. Mr. J. E. Crane participated informally in the organization of the B.I.S. More recently Mr. Knoke and Mr. Despres visited European central banks in 1938. Mr. Roelse, Mr. Collado, Mr. Johnson, Mr. Roche, and Mr. Moore have made various more or less prolonged trips to Latin America. Mr. Johnson is now on leave with a mission to Iran. Officers of the Bank have frequent occasions for trips to Canada.

The Board's Foreign Missions

On the part of the Board's staff, participation in activities abroad has included Mr. Goldenweiser's attendance at the Central Bank Statistical Conference in London in 1928; Mr. Gardner's European trip in 1932 and attendance at the London Economic Conference in 1933; later trips by Mr. Goldenweiser, Mr. Morse, and Professor Hansen to Europe; work on five separate missions to Latin America (Costa Rica, Cuba, Honduras, Paraguay, and Venezuela being the main objectives) participated in variously by Mr. Vest, Mr. Gardner, Mr. Triffin, Mr. Grove, Mr. Krost, and Mr. Hammond; the work on the Joint American-Canadian Economic Committee by Professor Hansen, Mr. Kindleberger, and Mr. Thorne; and participation—formal and informal—in conferences, etc., held within the United States, of which Bretton Woods is the latest prominent example. The military government handbooks and material on reparations and other international financial problems prepared for the State Department for government use in foreign countries have utilized experience and study abroad without which their preparation would not have been possible.

Missions in Prospect

Since our missions in Paraguay were first undertaken, we have had requests for technical assistance from other Latin American countries. Paraguay has asked that Mr. Hammond return to Asuncion and help with a reorganization of her internal administration. Bolivia has asked that Mr. Triffin help her revise her banking laws. El Salvador has asked for someone to help reorganize her mortgage bank. At the request of the Philippine Government, the services of Mr. Goodman, of the Board's examining staff, have been made available in work on the rehabilitation of the Philippine banking system.

Another type of mission now in prospect is the contemplated periodic conferences of representatives of the central banks of the western hemisphere. These conferences, which are intended to bring together economists and operating officers from the Americas in small, informal meetings, should be the means of effectively helping the Latin American central banks to improve monetary practice, research, and operating methods; of developing mutual understanding; and of arranging for cooperation among the central banks in the exchange of employees for study and training and in the formulation of better monetary laws and procedure in those countries requiring technical assistance. Specifically, these conferences should provide means by which the burden of furnishing technical assistance can be divided so that the Latin American central banks themselves can help one another instead of depending wholly on us. The conferences, the first of which may be held this spring in Mexico, should be useful to us, both in maintaining friendly relations with the rest

of this hemisphere and in avoiding disturbance by our neighbors of our domestic credit and monetary conditions.

Still another type of mission is in prospect as a result of the need for collaboration on the problems of rehabilitation in Europe and elsewhere. The System requires first hand information of these problems and it must also expect, as has happened already, to be asked to participate in their solution. Inquiries have been received regarding the possibility of members of the Board's staff providing assistance to the Allied Control Commission in its work in occupied countries.

Unified System Program

It is impossible to go further and state exactly the scope of the international program, but it is obvious that the System has in prospect a wide range of activities abroad. Recent developments indicate large Board and Bank responsibilities with respect to the proposed Monetary Fund and International Bank, especially in view of the possibility that the Board will be represented in a formal or informal consultative group. The Yalta conference points to active participation by the United States in international matters, and with this will come active participation in formulating international economic credit and monetary policies.

In the Board's opinion, a program of foreign activities of the range and objectives indicated should be unified under the direction of the Board as a System activity in which the staffs of the Board and the Federal Reserve Banks participate; and officers and other Reserve Bank personnel, as well as Board personnel, who go abroad on System activities should do so with credentials from the Board and should be prepared to report to the Board on the results of their missions. It is evident that unless the program is unified, our resources in experience and personnel will not be put to the best use, and efforts by the Board and the Banks will tend to parallel rather than complement each other. Furthermore, foreign activities are of Governmental concern and require the full sanction of the State Department in all cases, and at times of the Treasury and other Departments. Obtaining the necessary clearance with these Departments of the Government is a function of the Board.

The importance of unity is the more apparent when it is considered that our foreign activities constitute real responsibilities, since their purpose and tendency will be to improve banking legislation, central banking policy, bank inspection, research, and internal operation, and since our success in lending assistance to these ends may reduce the disturbances to our domestic credit situation that originate in foreign economies. Our success will also work to the enhancement of American prestige and the cultivation of friendly and mutually helpful international relations.

The concept of a unified System activity should prevent confusion and overlapping of functions. Without attempting to formulate rigid rules, we may tentatively classify the foreign activities of the System into the following groups:

1. Correspondent relations are clearly a direct responsibility of the Federal Reserve Bank of New York and should be carried out by it, subject only to the general supervision of the Board.
2. Missions relating to the establishment and reorganization of monetary institutions and systems and to the improvement of internal operations and bank examinations can draw upon personnel available throughout the System, both at the Board and in the Banks.
3. Long range research programs in the foreign field should normally be carried out at the Board, since they do not relate to the activities of any one Bank but interest the System as a whole. Such work could not be efficiently parcelled out among the various institutions comprising the System. It requires, in any event, close coordination with other institutions and agencies, especially in Washington.
4. Missions involving broad matters of policy and legislation must also be of primary concern to the Board itself, since they are related both to long range research and to Governmental policies.

Any assignment abroad will usually involve unaccustomed, expensive, and sometimes unhealthful conditions, and work without the facilities and conveniences available at the Reserve Banks and the Board. Foreign assignments require special aptitude and if possible a knowledge of foreign languages. They require an understanding not only of the functions of central banking but of its aims and purposes as well. For these reasons the selection of personnel qualified by experience, education, and personality to meet the conditions of foreign work and discharge it successfully is of vital importance.