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Internal Memorandum

Interview with Mr. Werner Knoke, formerly in charge of the Foreign Department of the New York Federal Reserve Bank and recently retired

Mr. Knoke was put in charge of the Foreign Department of the Federal Reserve Bank in January 1937. Men now there are Mr. Norman H. Davis, son of the statesman, Mr. Sanford, Pete Lang, Mr. Rosell - now in Addis Ababa on leave of absence from the Bank.

The Foreign Department of the New York Federal Reserve Bank acts on behalf of the System. San Francisco has the Orient and a small part of Latin America; Dallas has a small part of Mexico; but even so, Mr. Knoke is quite sure that although those countries have connections with San Francisco and Dallas, they also have connections with New York.

The department maintains the accounts of foreign central banks, acts as correspondent for them, handles gold as a fiscal agency operation, maintains an intimate contact with central banks and bankers of other nations by visits to and from those countries, makes it possible for them to keep in touch with American policy and for Americans to keep in touch with financial policies in the other countries.

Meanwhile the men of the department are always on call. Mr. Rosell was loaned from this bank with a two years' leave of absence to act as governor of the central bank in Addis Ababa. Two men are in Saigon, one in Korea. This traveling gives the young people of the department experience and makes it possible to build a corps which will be at home in the affairs of any nation.

The foreign exchange operations of the department include first, the purchasing of foreign currency to support the market for that currency in its own country, second, the buying and selling of securities with dollar balances invested in government bills or in bankers' acceptances which could be easily liquidated. During the 1920's there was \$500,000,000 to \$600,000,000 in bankers' acceptances for foreign accounts which was handled by this bank. Mr. Knoke said that the bankers' acceptance

had recently begun a new development, but even so, the Treasury bills cut sharply into its share of invested money. The bankers' acceptance account now runs \$4,000,000,000 to \$5,000,000,000. They are handled by the other departments for the Foreign Department account. The Foreign Department seems to operate as a separate functional unit within the bank.

I asked about the Bank of International Settlement and the World Bank and Monetary Fund. He said that they were treated like other central banks.

Mr. Knoke laid heavy stress on the importance of training men so that they could be at home in other countries and act as hospitable hosts to visitors who came to New York. He said that in spite of the huge transactions and the great sums handled, they had never been able to find any mechanisms which took the place of personal contacts. He himself went abroad early in the 1930's as a subordinate. Then, being head of the department, he went in 1938, 1945, 1947, 1952 and 1954. Now being retired, he is being called on as consultant, and this too has traveling with it. He likes it very much.

Since the war several factors in the international situation have hit new highs. This includes the foreign debt, the gold held for foreign accounts, the balances, the portfolios and the daily transactions. This growth has meant the growth of the department.

Mr. Knoke explained that there are only about 50 central banks in the entire world, with most of them operating for some time, but new ones like the banks in Cambodia and Laos having been recently set up. The Balkan countries are on the list, and so is Poland, but they are inoperative because Russia now has taken over those countries. All but two or three of the countries in the world having central banks have accounts here in the New York Federal Reserve Bank.

Unlike Mr. Strong and Mr. Harrison, who were great travelers who liked to go to Europe, Mr. Sproul himself does very little European traveling. He claims that he

does not have to, as all the world comes to New York, but the truth is that he is not very fond of traveling abroad. Mr. Harrison was a bachelor who loved to travel. Mr. Strong also loved to travel and had a real feeling for setting up a new central bank, or what amounted to a new central bank, in the United States. He was the learner in that field.

After 1945 Mr. Knoke said that New York had its wings clipped and that Washington was stronger. The job is now too big for any single central bank, but in his mind no Board could take the place of a first-rate central banker.

He said that all funds of the Marshall Plan and of other plans for helping the reconstruction of Europe after the war came from the Treasury through the Federal Reserve Bank of New York.

Asked about the house of Morgan and the Bank of England and the question which came up in another connection about when Morgan ceased acting as fiscal agent for the Bank of England, Mr. Knoke said that ~~the two institutions~~ ^{the two institutions} were still very intimate. Because Morgan has been broken up (was this under anti-trust prosecution?), it is Morgan Stanley with which the Bank of England deals, not Morgan and Company as such. In the 1920's the Federal Reserve Bank of New York had become the biggest American holder of Bank of England funds. The assumption is that England works with the central bank but also works with private banks for the floating of securities.

The funds for the Dawes and the Young Plans flowed through this bank at the time those plans were in operation. Mr. Cameron, the chief auditor, was in the Foreign Department during the reparations period.

Mr. Knoke was with the Irving Trust ten years before he came to the New York Bank.

This interview was extraordinarily interesting but somewhat curtailed by the fact that Mr. Knoke had apparently expected another type of questioning. I on my part had thought that he was in charge of foreign research. It seems that in the beginning

when he first went to the department, foreign research was centered in the Foreign Department, but it has since been taken out of there and moved to the research division. Thus we talked a little at cross purposes, but in spite of this handicap, I learned more about the Foreign Department than I have ever known previously. The question is whether anything has been written about the foreign operations of that department which can be read, or whether this too is another of those operating units which seems to concern only the people who operate in it or with it.

Mr. Knoke will be glad to come and talk another time. I told him it might be possible that Dr. Chandler would want to speak with him about his earlier knowledge of the bank's Foreign Department.

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