

To: The Board

February 27, 1945

From: Mr. Szymczak

Foreign Missions

The attached memoranda present questions of Board policy with respect to foreign missions, a subject that I would like to bring up for consideration at a Board meeting the first of next week. I have already discussed it with the Chairman.

The first memorandum is a brief one to the Chairman and the second is a review of the whole subject for the Board. The third attachment is a draft of a letter to New York on the subject.

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A handwritten signature in cursive script, appearing to read 'msz', with a horizontal line underneath it.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

February 26, 1945.

To: Chairman Eccles

From: M. S. Szymczak

The attached memorandum to the Board is a recommendation on Federal Reserve System foreign missions. Also attached is a proposed letter from you to Mr. Sproul based on the recommendation in my report.

The essence of my recommendation is:

- (1) that the Board issue instructions and credentials to all of the System's foreign missions
- (2) that a distinction be made, so far as possible, between operating matters and policy matters
- (3) that the Federal Reserve Bank of New York--since it has correspondent relations with foreign central banks and foreign governments--be called upon to furnish most of the personnel for foreign operating missions, although this would not exclude the use of other Federal Reserve Bank people
- (4) that the Board provide most of the personnel for the broader field of monetary and credit policy missions
- (5) that long range research programs relating to foreign matters be in principle concentrated at the Board, because they relate to the formulation of policy
- (6) that the Board recognize foreign missions as a regular function of the System
- (7) that a larger expansion of the Board's staff, especially in research, will be required
- (8) that any expansion of the Bank's staff with view to participation in foreign missions be in principle limited to operating personnel
- (9) that there be a committee appointed by the Board to coordinate participation by the Board and the Banks in foreign missions
- (10) that this committee consist of the Chairman of our Board and one other Board Member and the President of the Federal Reserve Bank of New York.

The attached report and letter were prepared after the following:

- (1) a preliminary meeting in my office with the Board's staff
- (2) a meeting of the staff, consisting of Mr. Morrill, Mr. Hammond, Mr. Goldenweiser, Mr. Thomas, and Mr. Gardner

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- (3) a meeting of Mr. Gardner and Mr. Triffin with Mr. Sproul, Mr. Williams, Mr. Knoke, and others at the New York Federal Reserve Bank, at which Mr. Triffin told of the work in Paraguay and the New York Bank initiated a discussion of System foreign missions in general
- (4) preparation by the staff of drafts of memoranda and letter
- (5) revision of these drafts in line with what I thought to be the realities of the situation.

As I understand it:

- (1) you are going to speak with the Treasury re the proposed trip of Mr. Knoke and Mr. Rozell
- (2) then have the whole subject discussed by the Board
- (3) and then take it up with Mr. Sproul.

Attachments

February 26, 1945.

Memorandum

To: The Board
From: Mr. Szymczak

Recent correspondence from Mr. Sproul regarding a trip to Europe by Mr. Knoke and one of his assistants, Mr. Rozell, and of a trip to Mexico by Mr. Wallich and possibly also Mr. Moore, both of the research staff of the Federal Reserve Bank of New York, has presented the need of a comprehensive review of the System's activities abroad.

The foreign accounts on the books of the Federal Reserve Bank of New York will undoubtedly make it expedient for members of its staff to be sent to other countries from time to time to confer with its correspondents regarding specific operating problems and furtherance of correspondent relationships. The Board and the Bank, and perhaps other Reserve Banks, will have occasion also to send representatives abroad both on invitation and at our own initiative in order to obtain information, cultivate good relationships, and give technical counsel. These constitute two general types of mission, one dealing with the operational problems incident to correspondent accounts, the other with broader matters of policy and international relationships. In the future there will undoubtedly be many more calls for both types of mission than there have been in the past.

Possible Courses of Action

Three courses of action with respect to relations between the Federal Reserve System and foreign central banks seem theoretically possible. One is the negative course of minimizing all the System's contacts and activities abroad and leaving the foreign field to the Treasury, to private banks, and to others. Another is the course, also negative, of minimizing all contacts so far as the Board itself is concerned and leaving the field to the Federal Reserve Bank of New York and to the others. This was the course followed in the twenties, when the Federal Reserve Bank of New York, private banks, Dr. Kemmerer, and various other special consultants, were all prominent in various ways in foreign monetary matters. **THE THIRD COURSE IS FOR THE BOARD TO DIRECT A UNIFIED SYSTEM PROGRAM BASED ON PAST EXPERIENCE AND PROSPECTIVE NEED.**

Aside from other considerations, it seems clear that the negative courses will bring about a diminution of the Board's influence not only in the foreign field but in the domestic as well. Influence in the one goes with influence in the other. The positive course of action offers no simple undertaking, yet it seems to be called for by the responsibilities of the

Board, both domestic and foreign, as the central banking authority of the United States. These responsibilities by implication at least make it incumbent on the Board to cooperate with the State Department when our assistance in monetary and credit reforms abroad will improve the foreign relations of the United States. They justify missions abroad whose purpose through improvements in legislation and administration is to remedy foreign monetary conditions that would otherwise disturb credit conditions here in the domestic economy. These responsibilities also make it necessary for the Board to keep informed continuously in the international field and to widen the foreign contacts and activities of both the Board Members and the staff. It is only as we develop greater experience and competence in the field than the New York Bank (and the Treasury) that reality can be given to the Board's leadership. The law alone will not establish that leadership. Furthermore, the Board has statutory responsibilities over the foreign activities of the Reserve System, and it has not been clear to me how it can exercise the supervision with which the law charges it unless Board members and staff qualify themselves by knowledge and first hand experience on all phases of international monetary and credit developments.

New York's Foreign Missions

The tasks in which the System has already participated give reality to what we should be prepared for in the future. Those tasks began in the twenties, when the Board was passive in the international field and the Federal Reserve Bank of New York was active. Officers of the Bank 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 reparation work in Europe. Mr. Benjamin Strong was frequently abroad, and there were numerous consultations with foreign central banks and finance ministries. 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. Gardner's attendance at the London Economic Conference in 1933; trips by Mr. Goldenweiser, Mr. Gardner, Mr. Morse, and Professor Hansen to Europe; work on four separate missions to Latin America (Cuba, Honduras, Paraguay, and Costa Rica being the main objectives) participated in variously by Mr. Vest, Mr. Gardner, Mr. Triffin, Mr. Grove, 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

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Bretton Woods is the latest prominent example. The military government handbooks have utilized experience and study abroad and could not have been prepared without them.

Missions in Prospect

Since our missions in Paraguay were 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 their internal administration. Bolivia has asked that Mr. Triffin help them revise their banking laws. El Salvador has asked for someone to help reorganize their mortgage bank. A commission of the Philippine government formed to rehabilitate the Philippine banking system has asked for the assistance of two members of our examining staff, Mr. Wilkes and Mr. Goodman.

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. For work in Europe, the services of Mr. Ellis have been requested by the Allied Control Commission for Austria; and A.M.G. has tentatively requested the services of Mr. Dernberg for Germany.

Still 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 is expected to 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 credit and monetary conditions for which the System is responsible.

It is impossible to go further and state exactly the scope of the international program, but it will also involve large Board and Bank responsibilities with respect to the proposed Monetary Fund and International Bank. The Yalta conference points to active participation by the United States in international policies. With this will come active participation in formulating international economic credit and monetary policies. It is also

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impossible to draw a hard and fast line between operations and policy, that is, between the fields of Bank and Board participation. In practice, the two will be combined, which makes the Board's leadership the more important. Moreover, it is certain that the foreign responsibilities and activities will increase the work of the System at home as well as on foreign soil.

Unified System Program

Without anticipating too much in detail, it is evident that a considerably expanded program lies ahead. It also seems clear that this program should be conducted as a System matter directed by the Board. Officers and other Reserve Bank representatives who go abroad on System activities should do so with instructions and credentials from the Board. Without this unity, the Board and the Federal Reserve Bank of New York will appear as rival or at least parallel agencies, doing separately what they could better do together.

Personnel Needs

Moreover, the System will need to have adequate personnel. At present, we have to consider whether given persons can be "spared" from other work for foreign missions. If our program is successful, it seems to me that it must not depend on persons being "spared" from other work but must be provided for like any other recognized and regular function. I have already asked that a roster of System personnel suitable for use in foreign missions be drawn up. Assignments to this work involve travel and residence under unaccustomed, expensive, and sometimes unhealthful conditions, and work without the facilities and conveniences available at the Reserve Banks and the Board. They 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.

Foreign Missions Committee

AS A MEANS OF COORDINATING SYSTEM PARTICIPATION IN FOREIGN MISSIONS, I PROPOSE THAT A SYSTEM COMMITTEE BE SET UP COMPRISING THREE PERSONS (THE CHAIRMAN AND ONE OTHER MEMBER OF THE BOARD AND THE PRESIDENT OF THE FEDERAL RESERVE BANK OF NEW YORK) TO PASS ON ARRANGEMENTS, TO REVIEW QUESTIONS CONFRONTING MISSIONS ABROAD, TO SETTLE OPERATING QUESTIONS, AND TO REFER QUESTIONS OF POLICY TO THE BOARD.

My recommendations are made with the conviction:

- (1) that the Board must assume its proper place in the international monetary and credit field,

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- (2) that the Board must interpret the statute to mean what it says when it charges the Board with special supervision over the Federal Reserve Banks' foreign relationships and transactions as well as with general supervision over all their activities,
- (3) that the System's foreign activities must be unified,
- (4) that the Board must meet its responsibilities for leadership in these activities.

The attached letter has been drafted to present these views to the Federal Reserve Bank of New York. It emphasizes the need of unifying the System's activities abroad under Board control and indicates the nature and extent of participation in foreign missions by Board staff and Reserve Bank staff respectively.

Attachment

Mr. Allan Sproul, President,
Federal Reserve Bank of New York,
New York 7, New York.

Dear Mr. Sproul:

Since receipt of your two letters of February 6 regarding the proposed trips of Mr. Knoke and Mr. Rozell to Europe and of Mr. Wallich and Mr. Moore to Mexico, the Board has given comprehensive consideration to the System's program of activities abroad, with a view to means of meeting most satisfactorily the demands apt to be made upon us.

It is evident that the missions in which the System must engage are of various types. As correspondent of foreign central banks and governments, your Bank will have operating problems which in the future as in the past will make consultation in person with your more important correspondents necessary from time to time. Other types of mission in the past have included the participation of your staff in the twenties in the work of reparations commissions, and informally in the organization of the B.I.S. They included the visit of Mr. Knoke and Mr. Despres to European central banks in 1938. They included visits which have been made to Latin America by Mr. Roelse, Mr. Moore, and Mr. Roche of your staff; and they have also included work which Mr. Vest, Mr. Gardner, Mr. Hammond, and Mr. Triffin, of the Board's staff, have done chiefly in Cuba, Honduras, Costa Rica, and Paraguay. The prospects for the future are indicated by the fact that the Board has received official requests in the past few months for the assistance of members of its staff on work in Paraguay, Bolivia, El Salvador, and the

Philippines, as well as by informal inquiries as to whether the Board was interested in supplying personnel for Allied Control Commission groups to operate in occupied countries.

It is obvious from these examples that the System has in prospect a wide range of activities abroad. It is also obvious that these 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 relations with our neighbors. This is something in which the State Department, with whose cooperation our foreign activities must be carried on, is especially interested; it will also be necessary at times to consult the Treasury and other departments. For various reasons, in the Board's opinion a program of such range and objectives should be a unified one, in which the staffs of the Board and the Federal Reserve Banks participate; and it should be under the direction of the Board as a System activity. Even in correspondent relationships, your Bank is largely the agent of the other Reserve Banks and the United States Treasury. Moreover, 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 Bank will tend to parallel rather than complement each other.

Mr. Allan Sproul, President

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To this end, an informal System committee, including Reserve Bank representation, might be appointed by the Board to help coordinate participation in missions, to consider questions incident to missions, and to make recommendations to the Board on policy questions.

It is evident, as already indicated, that more is involved than research and correspondent relations, for in this hemisphere our neighbors need help in improving their internal operating methods and bank examination. Accordingly, it seems advisable that in selecting persons to participate in foreign missions operating departments as well as research departments will be drawn upon. What increase of personnel this calls for and where the increase should occur will have to be determined in the light of the program as a whole. Moreover, in order to avoid confusion in the minds of our neighbors and others abroad and to observe the fact of unity in the System's activities in this hemisphere and elsewhere, it also seems appropriate that whoever travels on such activities go with formal credentials and instructions from the Board.

In the wish to make our foreign activities a System matter in the true sense, we shall appreciate an expression of your views upon the subject.

Sincerely yours,

M. S. Eccles,
Chairman.