

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date July 2, 1947

To Mr. Thomas

From Mr. Knapp

MESSAGE:

Can you get the Chairman to look at this memorandum before lunch, and in particular to instruct me on the point raised in the next to the last paragraph?

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 2, 1947

To Chairman Eccles

From Mr. Knapp

Subject: Proposed letter to Secretary Snyder concerning the International Bank's operations in our security market.

I telephoned yesterday to John Hooker, Alternate U.S. Executive Director in the Bank (Mr. Eugene Black being out of town), to inform him of the contents of the letter which you propose to write on behalf of the Open Market Committee to Secretary Snyder requesting action by the National Advisory Council concerning the International Bank's operations in our security market. Mr. Hooker took the matter up yesterday with Mr. McLain and it then went to Mr. Garner, who called me back this morning.

Mr. Garner, emphasizing that he was anxious to take this matter up with Mr. McCloy, but that Mr. McCloy was out of town until tomorrow, stated that he was sure the Bank would be agreeable to the proposed action with respect to the furnishing of information concerning its operations in its own securities. He objected vigorously, however, to the proposed action requiring the Bank to obtain prior approval of the Federal Reserve Bank of New York as agent for the Open Market Committee before engaging in operations in U.S. Government securities.

Mr. Garner did not argue his case in detail, or point out any particular cases in which this form of control might be of serious embarrassment to the Bank. Instead he put the case as a "matter of principle", namely the principle that the Bank was an independent international institution and that its purely "internal" operations such as the investment of its idle funds should not be subject to the control of member governments. He stated that if the U.S. Government took the proposed action, it would set a bad precedent for interference by other governments in the Bank's operations, and expressed the belief that the other Directors in the Bank might resist an attempt by the U.S. Executive Director to implement the action. The "clincher" in his argument came when he asked me how we would like it if the Bank refused to invest its idle funds in U.S. Government securities. He said that this might be the result if we insisted on pressing our point of view. Mr. Garner did make clear that he was not objecting to some form of consultation, but that he balked on "prior approval".

I must say that none of these arguments made much appeal to me. The principle that the Bank should be "independent" in its "internal" operations is clearly valid so long as these operations do not have serious direct effects upon member countries, but it is our argument that the Bank's operations in the U.S. Government security market may have such effects. Mr. Garner's warning that the Bank might refuse to invest in U.S. Government securities is obviously based upon a fallacious belief that such investment is a contribution

To: Chairman Eccles

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to our Government's financing; however, I did not take issue with him on this point over the telephone, except to remark that we might not be unduly disturbed if the Bank desired to keep all of its idle funds as a cash balance.

At the end of the conversation, I undertook to report his views to you and to ask you to consider whether we might not proceed in the National Advisory Council with the action concerning the Bank's operations in its own securities (this matter is of special urgency, of course, in view of the pending offering) while postponing the action on U.S. Government securities until there has been an opportunity for further discussion. I see no serious disadvantage in treating these matters separately, nor does Bob Rouse with whom I discussed the matter on the telephone this morning. With your approval, I shall redraft your letter to Secretary Snyder and my paper to the Staff Committee accordingly.

I am writing you a further memorandum suggesting possible compromises on the action with respect to U.S. Government securities, and Mr. Rouse is taking this matter up with Mr. Sproul today in New York.