Foreign Cap
Ex Rel. Investigation

COPY

FIFTY-FIVE WALL STREET

NEW YORK

November 23, 1936.

Personal.

Dear Joe:

As you doubtless know, it is the policy of The National City Bank to have its officers abstain from all public utterances. For this reason I have been mute these last five years. However, that does not necessarily mean that I have had no ideas. In fact, at times I was almost exploding with them. As I look back over the last three years, I can see several occasions when at least a few of my ideas might have been useful had I had an opportunity of expressing them to the proper person. I know I can say that to you without leaving myself open to the charge of egotism.

All the above is an introduction to the following: I have an idea as to how investments of foreigners can be handled in this country, i.e., on the question contained in the last sentence of the enclosed clipping "How (controlling legislation) could be drawn to protect domestic economy without an upsetting effect on international financial relations." Are you interested in this subject? If not, throw this letter into the ash-can, but if you happen to be working on it I believe I could give you an idea that may be useful.

With kindest regards, I remain,

Sincerely yours,

(Signed) John E. Rovensky

Mr. Joseph A. Broderick,
c/o Federal Reserve System,
Washington, D. C.

C O P Y

November 25, 1936.

Confidential

Dear John:

It is certainly pleasing to see your familiar signature again.

We are very much interested in the subject to which you refer and want you to know that good ideas are always welcome. So, send along any useful suggestion you might have, at your early convenience, and I will see that it receives the proper study and consideration.

With kindest regards and best wishes,

Faithfully yours,

(Signed) J. A. BRODERICK.

Mr. John E. Rovensky
55 Wall Street
New York City.

C o p y

FIFTY-FIVE WALL STREET

NEW YORK

November 28th, 1936.

CONFIDENTIAL

Dear Joe:

As you know, I have been twenty-five years on "Wall Street" but never of it. My first few years were in the international banking field, and for the last twenty years I have been the "banking lawyer" (or "physician," whichever you prefer) to a number of merchants and manufacturers. During most of this time the antics of "Wall Street" have rarely helped me -- practically all the time they were disturbing to the business of the clients from whom I make my living.

I recognize the useful functions of "Wall Street" and have no desire to interfere with them. But any move that tends to confine "Wall Street" to these useful functions gets a hearty response from me. While stock market booms seem to help the business of my clients, experience has taught me that in the long run they are distinctly detrimental. For this reason I didn't participate in the general festivities of 1929, and I sympathize with those who would like to prevent a repetition.

All the above would, of course, be classified as rank treason by ninety-nine per cent of my neighbors, but I am quite accustomed to being in the minority.

The subject of how to keep the activities of "Wall Street" within proper bounds without interfering with its legitimate functions is a broad and difficult one. Most of the men who attack it have not had the intimate contacts that you and I have had. Very often their remedy for killing the fly on grandpa's head is to hit it with an axe. I don't intend to approach the whole problem. What I have in mind is one particular phase of it that seems quite important, and that is the influx of "hot money."

There is no question in my mind about the importance and dangers of so-called "foreign hot money." I have been watching the foreign exchange rates and the activities of our stock market. The connection is quite unmistakable. Of course, to discern the connection you would have to possess quite a knowledge of the business and be able to look for the counteracting factors, which at times tend to obscure what is really happening. You and I know it would economically unsound to adopt measures that might hamper healthy movements of capital back and forth across the Atlantic. It is quite essential to the welfare of all nations that capital be permitted to flow to the points where it is needed for the welfare of humanity. But what we do not want - and in this particular case is apt to be quite injurious - is the flinging back and forth of speculative funds. These accomplish no useful purpose. They accentuate the gyrations of both the foreign exchange and the stock markets, and are bound to be injurious to the real business of the countries involved. It does France and the United States no good to have a group of Paris speculators fling ten or fifteen million dollars over here, and then put their ears to the ground listening for the slightest rumble upon which to jerk it out just as abruptly as it came. That is the kind of operation I should like to curb, and do it without unduly interfering with legitimate transfers of capital. My plan, briefly, is as follows:

1. Have the Treasury Department issue an order to foreigners (individuals, co-partnerships and corporations) to declare their foreign holdings as of a certain date to the Department. I shall not go into the details, but I could work them out so that the dragnet would bring in substantially all security holdings. Of course, there would be some leakage, but that is really unimportant. With proper penalties and one or two Administrative details it could be made quite effective.

2. Require monthly reports of changes in certain types of these holdings, i.e., the speculative ones. I could also work out the details of this so it would not unduly hamper non-speculative transactions. In the latter class of transactions reports could be made semi-annually.

3. Issue a regulation to the effect that until further notice no licenses would be required for the withdrawal of such speculative investments. However, give the Secretary of the Treasury power to issue a regulation at any time requiring up to six months' notice for the withdrawal of such funds. <u>That is really the point of the whole idea</u>.

I am convinced that if these measures were adopted they would <u>immediately</u> have an effect upon the flow of "hot money" into this country. From my personal contacts with this class of people I know they would be very slow about putting their money into any country where six months' notice of withdrawal might be required. As a matter of fact, my main purpose would be to <u>prevent</u> the flow of such money into this country. Of course, the brake of requiring notice might come in handy some day when this "hot money" starts to leave the country, but I am not relying so much on that. Once this money has come here the greater part of the damage is done. <u>The problem is how to keep it out</u>.

From my long experience in the banking business I am convinced that the way to prevent the "hot money" from coming here, and still not stand in the way of legitimate investments, is to hold over the heads of the speculators the threat of their not being able to take it out. I am so certain of the efficacy of this measure that I fear it might cause a more rapid outflow of these funds right now than we would like. I would be willing to stake my business reputation that it would stop <u>any further</u> speculative funds from coming here.

As you know, I was somewhat in sympathy with a great number of Mr. Roosevelt's ideas, but I thought he was rather unfortunate in the selection of his instruments. Just so in this case I am in sympathy with his idea about the desirability of keeping "hot money" out of the country, and I do hope steps are taken to cope with the situation that will be drafted carefully by someone who knows how. Any darn fool can kill the fly on grandpa's head by hitting it with a mallet, but to brush it off grandpa's head without disturbing him unduly requires experience and dexterity.

With kindest regards, I remain,

Sincerely yours,

(Signed) JOHN E. ROVENSKY

Mr. Joseph A. Broderick,
Board of Governors,
Federal Reserve System,
Washington, D. C.