Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 13, 1937

To Chairman Eccles

Subject: Proposals relating to the capital inflow problem

From Lauchlin Currie
LBC

I am wondering if you would care to consider suggesting some banking legislation with reference to foreign capital inflows. Both the tax measures you are proposing have to do primarily with the inflow of capital in stocks. The problem of short-term balances may, I think, prove to be even more serious. Our past experience has been that the withdrawal of short-term balances caused us the most embarrassment.

I suggest that we ask (1) for power to determine the reserve requirements against deposits in member banks held by or on behalf of non-resident aliens and, (2) that power be conferred upon the President to issue regulations limiting the withdrawal of deposits in any bank held by or on behalf of non-resident aliens, if such action (a) appears necessary to reinforce our neutrality policy or (b) appears necessary for the purpose of stabilizing the internal and external value of the dollar.

Discretionary power to vary reserve requirements would constitute a valuable addition to our instruments of control.

(1) It would enable us to put member banks in a position to meet withdrawals without the necessity of liquidation or borrowing.

(2) It would put us in a much stronger position to advocate bank unification. Instead of just having the non-member country banks to buck we can point to the evasions offered by the big private "international bankers" like J. P. Morgan.

(3) It would stop the solicitation of foreign accounts by member banks.

(4) It would prove to be an additional means of operating on member bank reserves.

Discretionary Presidential power to limit withdrawals should, even if never used, prove to be an effective deterrent to the inflow of speculative and "nervous" money. This point was strongly expressed in a letter from Mr. Rovensky to Governor Broderick, which I believe you read. In addition, if occasion should arise, the power would be a valuable adjunct to the enforcement of whatever neutrality policy we adopt. Moreover, in a future recession, we may desire neither to let gold flow out nor the exchange rate to fall precipitously. A limitation on withdrawals would in part offer a third alternative.

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Since these are primarily banking powers their sponsorship, if it is to be by anybody, must be by the Board. I think the present time is favorable as the proposals would, I believe, be popular in Congress. Neither of the Banking and Currency Committees have much on hand and I understand that Senator Wagner is anxious to sponsor constructive banking legislation.