

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date February 13, 1937

To Chairman Eccles

Subject: Treatment of foreign bank

From Mr. Goldenweiser

balances

*W. C. C. Kelly*

With regard to Mr. Currie's proposals for handling foreign balances, I have some sympathy with the Board having power to determine reserve requirements on deposits held for foreign account. The difficulty with it is that it will be too easy to evade, because if the law is limited to non-resident aliens it will be easy enough to substitute resident aliens or even citizens in whose names the deposits could be held. Persons connected with the embassies would turn the trick. Furthermore, this is not an important problem at present, because banks are not soliciting deposits from abroad.

Currie's second proposal to confer power upon the President to issue regulations limiting the withdrawal of deposits by foreigners does not appeal to me at all. We already have power to control the exchanges and to control the gold movements, so that all that is involved is a power to limit the amount that can be withdrawn, even though the proceeds be spent in this country. For that purpose it would not be effective, because in case the foreigners wish to make American purchases they could do so practically as well if they shipped the gold at the time they are ready to make the purchases.

I think also that the proposal is fundamentally contrary to the first principle of banking, namely, that when a depositor holds money with a bank he can withdraw it when he needs it, otherwise, the bank is insolvent.

Chairman Eccles, - #2

If the depositor, in addition to running the risk of the solvency of the bank, has to run the risk of someone prohibiting him from withdrawing the money, he will only have the alternative of holding his funds in the form of earmarked gold. So long as he can hold it as earmarked gold it serves his purposes and makes little difference to us. Fundamentally, I think that the proposal is aimed at an unusual emergency which is not in sight and against the real dangers of which other protection exists. Diplomatically, such a provision would be extremely offensive to the foreign countries.