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STRICTLY CONFIDENTIAL

At a conference with Secretary Morgenthau and Chairman Eccles we discussed in general terms the outlines of a plan which Congress will be requested to consider promptly for dealing with the situation resulting from the inflow of foreign capital into the United States.

At the President's direction this subject has been under study for several months with a view to taking such further steps as might be necessary to serve the broad purposes of protecting our domestic economy against the disturbing influences of large-scale inward and outward movements of foreign capital, and at the same time of promoting the interests of international trade and the objectives of the international currency stabilization agreement of last autumn by discouraging the export of capital by nationals of foreign countries.

The plan discussed would place foreign owners of capital on a more nearly comparable basis with owners of American capital in regard to taxes, and would also give the Federal Reserve System authority to impose additional reserve requirements against foreign deposits arising out of the gold imports caused by the flight of capital to the United States.

These measures, taken together, have the objective of protecting the United States against the possible inflationary effects of unregulated gold imports without making it necessary for the Treasury to increase the public debt for this purpose. Since last December the Treasury has bought all of the incoming gold with funds obtained by borrowing and has set it aside in an inactive account.

The proposed plan would increase the authority of the Federal Reserve System to deal with the situation so that an increase in the public debt would no longer be the only way of neutralizing the effect of the capital inflow. The plan has the additional advantage of being applicable only to foreign deposits, created by the gold inflow, and would place no additional burdens on the vast majority of American banks which do not hold deposits for foreigners.

In connection with the tax hearings, which have disclosed loopholes in the existing tax structure, the Treasury Department intends to submit to the Ways and Means Committee of the House a request for legislation which would more nearly equalize our tax rates applicable to foreign capital with those borne by American capital both here and abroad. The proposal would not in any way interfere with the necessary movement of funds needed to finance international trade. It would make our capital market less profitable for foreigners and therefore protect us against the effects of large-scale foreign purchases of securities at a time when our market is booming and of large-scale sales of securities by foreigners when the market is in a decline.

We are not prepared at this time to discuss the details of the plan, which has been considered in broad outline. The machinery for carrying out the objectives must be left to the determination of the appropriate committees of Congress. It is, of course, recognized that the suggested proposals do not represent final solutions of the many intricate monetary problems which have confronted the world as a result of the depression. The proposed legislation should be so drawn as to leave a reasonable discretion

and latitude to the government in meeting complex and frequently changing conditions.

The proposed steps are a logical sequence of and supplemental to those already taken to deal with the situation. They would serve the broad objectives of insuring our domestic economy against serious disturbances arising from international capital movements, and of promoting the interests of international trade and economic stability.