

February 13, 1937

Chairman Eccles

Mr. Goldenweiser

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exchanges and to control the gold movements, so that all that is involved is a power to limit the amount that can be withdrawn, even though the proceeds be spent in this country.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.

C O P Y

Chairman Eccles

February 13, 1937

Lauchlin Currie

Proposals relating to the
capital inflow problem

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.

To: Chairman Eccles

February 13, 1937.

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.

LC:rh