

Remarks at

Joint Meeting of Chairmen of the Federal Reserve

Banks with Directors of the Federal Reserve

Banks of New York and Minneapolis

Washington, D.C.

January 16, 1950

THE INTERNATIONAL ROLE OF THE FEDERAL RESERVE SYSTEM

I. INTRODUCTION

I have lived and worked with this subject in its many aspects for a good many years. It has many different phases and under constantly changing world conditions its elements appear in a different light at different times. One thing is certain. It is a subject of tremendous importance; but it is also a complex subject which does not lend itself well to graphic description. However, in an effort to provide some visual means of highlighting the role of the Federal Reserve System in the international field, I have had prepared and there is attached a chart which indicates generally the powers of the System in this field. Also, as an aid to an understanding of the background, there are attached several tables presenting in statistical form a more concrete picture of some of the aspects of this subject which I intend to mention. These tables will help to indicate the nature and extent of the current foreign operations of the System; the volume of foreign aid extended by our Government since the end of the war; the extent of operations by the Export-Import Bank, the International Monetary Fund, and the International Bank; and the amount of gold and dollar reserves held by various foreign countries.

Since the end of World War II, great progress has been made toward the achievement of economic recovery in foreign countries, particularly the countries of Western Europe. The initial post-war objective of relief and rehabilitation was largely accomplished by financial assistance extended through UNRRA, Export-Import Bank, and Lend-Lease Administration. Beginning in 1947, a new type of assistance, programmed on a comparatively long basis and administered chiefly through the Economic Cooperation Administration, enabled the Western European countries to maintain a progressive rise in production to levels above pre-war and to expand exports to the rest of the world. As a result, advances were made in arresting inflationary trends such as had prevailed after the first World War and in bringing about exchange adjustments.

With the devaluation of European and other currencies in September 1949, there began a third phase in the program of recovery. The objectives of this phase relate principally to the strengthening of monetary reserves, elimination of controls that impede the broad convertibility of currencies, and liberalization of trade and payments among the Western European countries and perhaps in other areas.

In the accomplishment of these objectives, the monetary authorities have an opportunity to assume an increasingly important role. During the immediate post-war period, they could play only a passive part in supporting financial requirements for relief and reconstruction. In the

second phase, as production advanced and inflation subsided, the monetary authorities of certain countries were in a position to bring about credit measures aiming at internal financial stability. It is only now, however, that the monetary authorities can assume a paramount role in developing policies looking toward overall financial stability.

It seems particularly appropriate, therefore, that we should give thoughtful consideration at this time to the part which the Federal Reserve System can play in the international field; and, as a basis for such consideration, those of us connected with the System should have clearly in mind the nature of the System's authority and experience in this field. In addition, it is important that foreign Governments and their central banks, as well as private bankers and businessmen in our own country, should be informed as to the powers and operations of the System in the international financial field.

II. POWERS AND RESPONSIBILITIES OF THE FEDERAL RESERVE SYSTEM IN THE INTERNATIONAL FIELD

Traditionally, the Federal Reserve System has exercised a more limited and indirect influence on international affairs than have central banks abroad. This has been due principally to the fact that historically the United States has been preoccupied with domestic rather than international problems. Thus, the Federal Reserve Act in 1913 was concerned chiefly with matters of domestic significance, especially the need for centralized reserves and a more elastic currency. While attention was given to the desirability of developing an acceptance market for international financing, the primary interest at the time was in the promotion of our export trade rather than the international balance of payments or the state of international monetary reserves.

Nevertheless, under the original Federal Reserve Act and subsequent amendments to the law, the Federal Reserve System has been vested with powers which enable it to assume an active part in the international field; and under the law the System has a definite responsibility in this field. These powers and responsibilities are of three general types: (1) those of the Federal Reserve Banks which are of a more or less public nature and involve relationships with foreign countries and foreign central banks; (2) those which involve the responsibility of the System for participation in foreign financing by commercial banks and private investors; and (3) those possessed by the Board of Governors itself which relate to overall supervision and regulation, including the advisory responsibility placed upon the Board by virtue of its Chairman's membership on the National Advisory Council.

A. Powers of the Federal Reserve Banks

The statutory authority of the Federal Reserve Banks in the international field may be considered generally under four headings: (1) purchases and sales of commercial paper and Government securities; (2) dealings in, and loans on, gold; (3) correspondent relations and accounts with foreign banks; and (4) fiscal agency functions for the Treasury Department and other Governmental agencies, as well as for the International Fund and International Bank.

1. Purchases and sales

The principal powers of the Federal Reserve Banks in the foreign field are set forth in section 14 of the Federal Reserve Act. Under the first paragraph of that section, the Reserve Banks are authorized, under rules and regulations prescribed by the Board of Governors, to purchase and sell in the open market, "at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange" of the kinds which would be eligible for rediscount by the Reserve Banks under the Federal Reserve Act, except that the endorsement of a member bank is not required. Under regulations of the Federal Open Market Committee*, a Federal Reserve Bank may purchase in the open market only such acceptances and bills of exchange as comply with the requirements prescribed by the Board of Governors in its Regulation B and it may not purchase or sell cable transfers for its own account except in accordance with the directions of the Open Market Committee.

Additional authority for the purchase and sale of commercial paper abroad is conferred by subsection (e) of section 14 which empowers the Reserve Banks "to buy and sell" through their foreign correspondents or agencies bills of exchange (or acceptances) arising out of actual commercial transactions which have not more than 90 days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties.

Under subsection (b) of section 14, the Reserve Banks are also authorized to buy and sell "at home or abroad" bonds and notes of the United States and certain other obligations, subject to limitations as to maturity. Such purchases and sales by the Reserve Banks, when made in the open market, are subject to regulations of the Federal Open Market Committee.

2. Dealings in, and loans on, gold

Since the original enactment of the Federal Reserve Act, section 14(a) has authorized the Federal Reserve Banks "to deal in gold coin and bullion at home or abroad, to make loans thereon" and to enter into contracts for loans of gold coin or bullion. The power to "deal in" gold includes authority to buy and sell gold; and sales of gold may be made either for cash or on credit. Since the enactment of the Gold Reserve Act of January 30, 1934, purchases of gold, as well as the holding, importation, exportation or earmarking of gold, have been subject to licensing requirements of the Treasury Department. Loans on gold collateral by the Reserve Banks, however, are not subject to licensing restrictions under the law.

3. Correspondent relations and accounts

Section 14(e) of the original Federal Reserve Act authorized the Federal Reserve Banks, with the consent of the Board of Governors, to open and maintain accounts in foreign countries, to appoint foreign

*Seven members of Board of Governors and five Presidents of the twelve Federal Reserve Banks.

correspondents, and to establish foreign agencies. In 1916, the Reserve Banks were also authorized, with the consent of the Board of Governors, to open banking accounts for their foreign correspondents and agencies. By a further amendment made the following year, it was provided that where such an account is opened or correspondent appointed by one Federal Reserve Bank, any other Federal Reserve Bank, with the consent and approval of the Board of Governors, may participate in that account and carry on through the Reserve Bank opening the account or appointing the correspondent any transaction authorized by section 14 of the Federal Reserve Act. At the same time, it was made clear that the opening of foreign accounts and the appointment of foreign correspondents should be subject to regulations prescribed by the Board of Governors and also that our Board might order or direct the opening of such accounts or appointment of such correspondents.

4. Fiscal agency functions

Authority for the activities of the Federal Reserve Banks as fiscal agents for the Treasury in connection with its foreign operations derives principally from section 15 of the Federal Reserve Act which provides that the Reserve Banks shall act as fiscal agents of the United States "when required by the Secretary of the Treasury".

In 1945, the Bretton Woods legislation provided that any Federal Reserve Bank shall act, when so requested, as depository or fiscal agent for the International Monetary Fund and the International Bank for Reconstruction and Development under the supervision and direction of the Board of Governors of the Federal Reserve System.

B. Powers Relating to Private Activities

The law makes provision for participation by member banks of the Federal Reserve System and by private investors in providing credit and financial assistance necessary to stimulate international trade. Such participation may take any of three forms: (1) acceptances by member banks; (2) establishment of foreign branches by member banks and investments in foreign banking corporations; and (3) formation of so-called "Edge Act Corporations" for transacting an international business.

1. Acceptances

Section 13 of the Federal Reserve Act, as originally enacted, provided specific authority for the acceptance by member banks of drafts or bills of exchange growing out of transactions involving the importation or exportation of goods having not more than six months to run. Subsequently, the authority was extended to cover acceptances growing out of domestic shipments and out of the storage of readily marketable staples; and this authority includes the acceptance of drafts covering the storage of goods in foreign countries.

In 1916, the law was amended to give member banks special authority, subject to limitations and regulations prescribed by the Board of Governors, to accept drafts or bills of exchange drawn to create dollar exchange. However, such acceptances may be made only with respect to bills

or drafts which are drawn by banks or bankers in particular foreign countries in which the furnishing of dollar exchange is required by the usages of trade in such countries.

Both types of acceptances, whether to finance foreign shipments or storage of goods or to provide dollar exchange, are eligible for discount or purchase by the Federal Reserve Banks under applicable provisions of Regulation A and Regulation B prescribed by the Board of Governors pursuant to the law.

2. Foreign branches and investments in foreign banking corporations

With the permission of the Board of Governors and subject to regulations prescribed by our Board, national banks having a capital and surplus of at least one million dollars are authorized by section 25 of the Federal Reserve Act to establish branches in foreign countries and also to invest up to 10 per cent of their paid-up capital in the stock of any State-chartered international or foreign banking corporation which has entered into an agreement with the Board of Governors with respect to restrictions on its operations.

By reason of provisions of section 9 of the Federal Reserve Act, State member banks are likewise subject to the limitations of section 25 of the Federal Reserve Act and to regulations prescribed by the Board of Governors with respect to the establishment of foreign branches and investments in foreign banking corporations.

3. Foreign banking corporations

After the close of the first World War, in an effort to stimulate American export trade, Congress added section 25(a) to the Federal Reserve Act, providing for the Federal chartering of corporations to engage in international or foreign banking or other international or foreign financial operations. Two distinct kinds of institutions may be organized under this authority: (1) international banking corporations organized for the purpose of granting ordinary short-term commercial or banking credits; and (2) international investment corporations organized for the purpose of granting credits for longer periods and for engaging generally in the investment business. In either case, such corporations may operate only after obtaining permission from the Board of Governors and only under regulations of the Board and subject to certain restrictions provided in the law. In its Regulation K the Board of Governors has prescribed general requirements to be observed by such corporations relating, among other things, to transfers of stock, operations within the United States, investments in stocks of other corporations, issuance of obligations, maturity and other limitations with respect to acceptances, and receipt of deposits.

C. Powers and Responsibilities of the Board of Governors

Under the law, the Board of Governors is charged with the responsibility of exercising general supervision over the Federal Reserve Banks and the Board, therefore, has supervisory authority over the international, as well as the domestic, activities of the Reserve Banks.

In addition, the Banking Act of 1933 added a paragraph to section 14 of the Federal Reserve Act which makes it clear that the Board of Governors shall "exercise special supervision over all relationships and transactions of any kind entered into by any Federal Reserve Bank with any foreign bank or banker, or with any group of foreign banks or bankers". It was provided that all such relationships shall be subject to the regulations of the Board of Governors, that no officer or representative of a Federal Reserve Bank shall conduct negotiations with foreign banks without obtaining the Board's permission, that the Board of Governors shall have the right to be represented in any negotiations with foreign representatives, and that a full report shall be made to the Board of Governors with respect to all such foreign negotiations, understandings, or agreements. This amendment to the law indicated the general intent of Congress that the Board of Governors should exercise a more direct supervision over the foreign relations of the Federal Reserve Banks than had been the case in the past.

The various specific foreign activities of the Reserve Banks are made subject by the law to the regulatory authority of the Board of Governors. Purchases and sales of commercial paper and securities must be made in accordance with rules and regulations prescribed by the Board; and, where made in the open market, such purchases and sales are subject to regulation and direction by the Federal Open Market Committee. The opening of foreign accounts and appointment of foreign correspondents are subject to such regulations as the Board of Governors may prescribe; and, not only must the consent of the Board of Governors be obtained in any case, but the Board may, under the law, order or direct the opening of such foreign accounts or appointment of such correspondents. The functions of the Federal Reserve Bank of New York as fiscal agent and depository for the International Bank and International Fund are specifically made subject to the supervision and direction of our Board.

With respect to the System's private activities in the foreign field through member banks and private investors, the Board of Governors likewise has overall power of regulation and supervision. Thus, acceptances by member banks are subject to certain requirements prescribed by the Board of Governors in its Regulation C; and dollar exchange acceptances may be made by member banks only with respect to those particular foreign countries named in a list prescribed by the Board of Governors from time to time. As I have already mentioned, the establishment and operation of foreign branches by member banks, investments by such banks in foreign banking corporations, and activities of foreign banking corporations organized under Federal law are also subject to regulation by the Board of Governors.

Finally, the responsibility of the Federal Reserve System in the international field was recognized by Congress in the Bretton Woods Act under which the Chairman of the Board of Governors was made a member of the National Advisory Council on International Monetary and Financial Problems. This Council is charged with the duty of providing direction and guidance to the United States representatives on the International Fund and Bank, and also of coordinating the policies and operations of all agencies of the Government which participate in the making of foreign loans or engage in foreign financial, exchange or monetary transactions.

It consists of the Secretary of the Treasury (Chairman), the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Export-Import Bank, and, more recently, the administrator of the Economic Cooperation Administration. It has technical staffs from these six agencies operating continuously, preparing the background on the international financial questions for submission to and consideration of the Council.

Under our Board's division of responsibilities among its members, the international field has been assigned to me, which necessarily means that I give initial attention to all these activities, including active participation in the National Advisory Council functions as alternate to the Chairman of our Board.

III. EXPERIENCE OF THE FEDERAL RESERVE SYSTEM IN THE INTERNATIONAL FIELD

Trend of System's foreign activities

Within the scope of the statutory authority which I have outlined, the activities of the Federal Reserve System in the foreign field have fluctuated considerably over the course of its history, with the exercise of certain powers predominating at different times depending upon the nature of international financial problems at the time and upon shifts in System policy.

During the first decade, from 1913 to 1923, the System's operations in the foreign field were limited, principally as a consequence of this country's traditional concern with domestic rather than international affairs. During these years, however, relations with foreign central banks were established and efforts were made by the System to encourage private stimulation of international trade.

In the second decade, from 1924 to 1933, largely due to monetary repercussions following the first World War, a more active role was played by the Federal Reserve System, particularly in promoting foreign currency stabilization during the early part of this period and in providing emergency aid to foreign countries during the later years of the decade.

Since 1933, the activities of the System on its own account have diminished, but its correspondent relationships with foreign central banks have developed to an unprecedented extent and its fiscal agency relationships with the United States Treasury and other agencies of the Government and international organizations have greatly increased. At the same time, the responsibility of the Board of Governors for the foreign activities of the Federal Reserve Banks has been clarified and new importance has been attached to the System's concern with international affairs by virtue of its representation on the National Advisory Council.

It will be helpful to describe briefly the specific operations of the System in the international field during these various periods of its history.

Relations with foreign central banks

Correspondent relations between the Federal Reserve Banks and foreign central banks began in 1917 with an agreement between the Federal Reserve Bank of New York and the Bank of England. Since that time, such relationships have multiplied. At the present time, relations are maintained with 57 foreign central banks, as well as with the Bank for International Settlements, the International Fund, the International Bank, and the governments of several foreign countries. The current foreign operations of the System on its own account are carried on by the Federal Reserve Bank of New York but the other eleven Reserve Banks participate in such operations.

During the earlier years of the System, purchases of foreign bills by the Federal Reserve Banks were only nominal. However, during the second decade of the System, from 1924 to 1933, the System played an active role in assisting foreign countries through credit agreements to purchase foreign bills and also through purchases of such bills independently of formal credit agreements. During the first half of this period, such agreements were entered into with various foreign central banks primarily for the purpose of bringing about currency stabilization in foreign countries; and this objective was generally accomplished without need on the part of the borrowing countries to make use of the credit facilities offered. During the latter part of the period, from 1929 to 1933, purchases of foreign bills by the Reserve Banks, either under credit agreements or independently of such agreements, were made for the purpose of filling emergency needs for funds in particular foreign countries.

In addition to purchasing bills, the System also utilized its authority to deal in gold as a means of promoting currency stabilization in foreign countries during the 1924-28 period. Transactions generally took the form of short-term revolving credits on gold collateral. In 1925, however, the System entered into an agreement with the Bank of England to sell gold on credit to that Bank up to a stated maximum of \$200 million, receiving in return a sterling deposit available for investment in prime sterling bills. As in the case of agreements to purchase bills from foreign banks for similar purposes of currency stabilization, this arrangement with the Bank of England fully served its objective of providing the British with adequate monetary reserves without the need for any drawings by the Bank of England under the credit.

As previously noted, acquisitions, imports, and exports of gold have been subject to licensing by the Treasury since 1934. Also, title to all gold formerly held by the Federal Reserve Banks was transferred to the Treasury by the Gold Reserve Act of January 30, 1934. Consequently, the System's direct initiative in carrying on gold operations has been limited in recent years.

Loans on gold collateral, however, do not require a license; and such loans continue to represent the principal means by which the Federal Reserve Banks extend accommodations to foreign central banks for seasonal or other temporary periods.

Fiscal agency operations

The First World War was the occasion for the beginning of agency relationships between the System and the Treasury in connection with foreign activities. The Board of Governors cooperated with the Treasury in the supervision and control of foreign exchange transactions; and both the Board of Governors and the Federal Reserve Banks also participated in the regulation of foreign capital issues.

The System's agency functions in the foreign field have increased considerably in recent years. The Federal Reserve Bank of New York, as agent for the Treasury, holds the accounts of and conducts the operations of the U. S. Stabilization Fund set up in 1934. During the last war, the New York Reserve Bank handled a greatly increased volume of foreign transactions for the account of the Treasury and assisted the Treasury in the administration of foreign funds control. Under the authority conferred by the Bretton Woods legislation in 1945, the Federal Reserve Bank of New York also acts as fiscal agent and depository for the International Fund and the International Bank.

Stimulation of private participation

During the early years of the System, vigorous efforts were made both by the Board of Governors and the Federal Reserve Banks to encourage the creation and use of bankers' and trade acceptances, a mechanism which had not previously been utilized to any great extent in American banking. During the '20's, there was a certain measure of growth in the volume of acceptances made to finance foreign trade, but beginning in the early '30's the use of bankers' acceptances in the market declined sharply.

Since almost the beginning of the Federal Reserve System, certain American banks have taken an active interest in foreign banking operations. The first foreign branch of a national bank was authorized by the Board on September 2, 1914, and a number of such foreign branches were authorized and established in succeeding years. At the present time, four national banks and three State member banks have over ninety branches in some twenty-three foreign countries. In addition, three corporations chartered under State law have been organized to operate in the international field under agreements with the Board pursuant to section 25 of the Federal Reserve Act.

Shortly after the enactment in 1919 of authority for the organization of foreign banking corporations under Federal law, two such corporations were chartered by the Board for the purpose of engaging in foreign banking operations and a third was organized several years later to operate as an investment trust. These corporations, which had no foreign offices, continued in existence for only a short time. However, in 1930, The Chase Bank (an affiliate of the Chase National Bank) was organized as a foreign banking corporation under section 25(a) of the Federal Reserve Act and that Bank has successfully operated in the foreign field to the present time through the establishment and operation of a number of foreign branches. Quite recently, the Board granted a charter for the establishment of another foreign banking corporation, the Bank of America of New York, an affiliate of Bank of America National Trust and Savings Association of San Francisco.

Relations with National Advisory Council

Recognizing the direct relation between foreign and domestic policies, the Board of Governors, in connection with the Bretton Woods proposals for setting up the International Monetary Fund and International Bank, strongly recommended, in the early and formative stages of Bretton Woods legislation and again in March 1945, to Congress "the establishment of a council or a committee to provide the necessary direction and guidance to the representatives of the United States on the governing bodies of the Fund and Bank and to interpret to them the international financial and monetary policies of the United States". In the opinion of the Board "establishment of such a council would assure reasonable continuity in the interpretation of American international financial policy".

The wisdom of this recommendation has been generally recognized and the National Advisory Council set up by the Bretton Woods Agreements Act has proved to be an effective instrument, not only in the interpretation of policies, but also in coordinating the operations of United States agencies and representatives dealing with international financial problems.

Because of its membership on the Council, the Federal Reserve System now has a direct interest in the formulation of all international financial policies. From time to time, the Council has had before it for discussion such important matters as the exchange policies and operations of the International Monetary Fund, the borrowing and lending activities of the International Bank and other international organizations, foreign lending by Export-Import Bank and other United States agencies, programs of foreign assistance administered by ECA, and many, many other international monetary and financial problems involving United States interests or participation.

Advisory activities

Apart from the exercise of its statutory powers and responsibilities, the System in recent years has played an increasingly active and important role in the foreign field in a purely advisory and consultative capacity.

The System has been called upon frequently for advice and counsel to Congress and has provided technical assistance on international monetary and financial problems to other agencies of the Government acting in this field. Thus, members of the staff of the Board of Governors, as well as members of the Board, have cooperated with the State Department, the Economic Cooperation Administration, and the International Bank in connection with programs for economic rehabilitation abroad. Early in the war I worked with the Treasury on problems of evacuation of Japanese nationals from our Western Coast area. In 1944, I spent several months in London on behalf of the Foreign Economic Administration in connection with discussions relating to the reestablishment of production and trade in Belgium; and in 1946 and 1947 I worked with the Office of Military Government in Germany on such economic matters as production, trade and commerce which required discussions with practically all European countries. More recently, the United States Governor on the International Bank designated me to serve as his Deputy on an International Ad Hoc

Committee to review the duties and remuneration of executive directors and their alternates on the World Bank.

In addition, the System on numerous occasions has furnished advisory and consultative assistance to foreign countries and foreign central banks in connection with banking and monetary matters. Members of the staff of the Board of Governors have participated in missions of this kind to a number of countries, including the Philippines, Honduras, Paraguay, Guatemala, and many others; and in some instances, as in Ecuador, Cuba, Guatemala, the Philippines, Ceylon and others they have assisted in the preparation of central banking legislation. Other missions have been sent abroad to study credit policies and financial conditions in foreign countries and, on various occasions, representatives of the System have served with joint international monetary commissions and have attended conferences of central bank experts. In addition, the Federal Reserve Bank of New York has also sent representatives abroad to cooperate with agencies of the Government dealing with foreign financial problems or to provide advice and assistance to banking and monetary authorities in foreign countries; and, to a lesser extent, representatives of some of the other Reserve Banks have had foreign assignments. With all such advisory missions sent abroad by the System I have kept in constant contact.

IV. PROSPECTIVE ROLE OF THE FEDERAL RESERVE SYSTEM

As we have seen, the basic authority of the Federal Reserve System in the foreign field was conferred by the original Federal Reserve Act although it has been strengthened by subsequent amendments to the law. From some sources have come suggestions that the adequacy and effectiveness of the tools available for use by the System in this field should now be reviewed. Nevertheless, it is apparent that the powers of the System are extensive and that, within these powers, the functions and activities of the System with respect to international financial relations have developed greatly over the years. Through its operations and influence, the System has contributed actively to the formation of basic objectives of United States policy relating to international finance and trade and to the development of appropriate programs for the achievement of these objectives; and Congress has recognized by law the importance of the System's foreign functions.

At the present time, apart from its agency operations in the foreign field, the Federal Reserve System is maintaining greatly expanded correspondent relations with all important foreign central banks; and it continues to extend loans on gold to foreign banks for temporary purposes. On the private side, the System continues to carry out its responsibilities in the regulation of foreign branches of member banks and the activities of international banking corporations. Finally, in a consultative capacity, the System is lending its assistance through technical missions in the establishment of stable banking and monetary mechanisms in foreign countries.

With the powers and experience of the System in mind, the time is ripe to consider the manner in which the System may best discharge its responsibilities in the international field in the light of the special problems which today exist in that field.

As I have already indicated, one of the principal needs at the present time is for the restoration of free convertibility of currencies; and by a convertible currency I mean one which may be transferred freely to other countries in payment for trade and services, including countries where the currency can be sold for gold or for dollars. Only when currencies are convertible in this sense can countries engage in normal trade on a multilateral basis.

Certain conditions must exist, however, before the convertibility of a country's currency can be accomplished and maintained. In the first place, payments on current and normal capital accounts must be approximately held in balance since a continuous deficit would constitute a drain on the country's foreign exchange reserves and impede the removal of exchange restrictions. In the second place, currencies received by the country from its trade partners must also be generally convertible since otherwise the country could not use its foreign exchange earnings to meet its foreign exchange debts. Finally, an adequate reserve of gold and dollars must be accumulated in order to enable the country to meet short-run fluctuations in its foreign exchange receipts. Apart from these conditions to convertibility of currency, it is also necessary, of course, that the country have sound domestic fiscal, monetary, exchange rate, and wage policies, and that appropriate measures be taken to increase its productivity.

In order that foreign countries may be able to satisfy the prerequisites for a convertible currency, it is pertinent to consider how the Federal Reserve System may best utilize its foreign powers to that end. For example, as a means of replenishing inadequate gold and dollar reserves, consideration might be given to the advisability of extending special stabilization credits to foreign central banks similar to those which were extended in the comparable period from 1924 to 1928 when somewhat similar conditions existed. Such credits, of course, should be granted only where it is expected that they will achieve their objective without the necessity for their use to meet deficits in balance of payments.

In addition to operations of this kind through the Federal Reserve Banks, it would also be worthwhile to consider at this time the extent to which the Federal Reserve might appropriately exercise its powers and responsibilities to foster private activities in the field of foreign trade and credit. In connection with this aspect of the problem, we should perhaps examine again the possibility of developing the foreign acceptance market and encouraging private investments in foreign ventures either through international banking corporations or other means; and to this end it might be helpful to discuss these matters with interested commercial banks and businessmen throughout the twelve Federal Reserve Districts of the country.

Through the many technical and official missions which the System has sent abroad much has been accomplished indirectly toward the promotion of internal banking and monetary reform in a number of foreign countries; and I believe that we should consider whether these missions should be further developed with increased participation by representatives of the Federal Reserve Banks. I am now having prepared a memorandum on this subject for suggestions from the Federal Reserve Banks

and ultimate approval by the Board of Governors.

The problem with which we are confronted is of vital concern to the economic welfare of our own country. It is a problem in which the Federal Reserve System has a special interest because of its broad powers, responsibilities and experience in the international monetary and financial field; and each of the Federal Reserve Banks has an individual interest in the problem by virtue of its participation in the current foreign operations of the System.

The problem involves broad questions of policy, as well as procedure, and I have here attempted to mention only some of them. These questions challenge the best thinking of all of us. Particularly, they merit the most careful consideration by the directors and officers of all of the Federal Reserve Banks and their branches and not simply because of their official connection with the System. The directors of the Reserve Banks, with their broad experience as bankers or businessmen, and the executive officers of the Reserve Banks, with their wide knowledge of credit and financial matters, are especially qualified to discuss this problem and to offer their advice and suggestions. They are in a position to make a valuable contribution toward the determination of the nature and extent of the role of the Federal Reserve System in international relations at this time and, indirectly, toward the removal of impediments to international trade and complete achievement of worldwide economic recovery.