

Upon call of the Governor, a special meeting of the Federal Reserve Board was held in the office of the Governor on Friday, May 21, 1926, at 3:30 p.m.

PRESENT: Governor Crissinger
 Mr. Platt
 Mr. Hamlin
 Mr. Miller
 Mr. James
 Mr. Cunningham
 Mr. Eddy, Secretary.

The minutes of the meeting of the Federal Reserve Board held on May 20th were read and approved as amended.

Mr. Miller, a member of the committee of three appointed at the meeting yesterday to confer with the Secretary of the Treasury regarding the plan for the future operation of the Havana agency, suggested by Mr. James, submitted draft of a letter to the Secretary of the Treasury on the subject, requesting an expression of the attitude of the President of the United States or the State Department at this time toward the maintenance of Federal reserve agency functions on the Island of Cuba. After discussion the proposed letter was amended to read as follows:

"In connection with the recent financial disturbances in Cuba, notably the runs upon the American and Canadian banks operating branches in Cuba, the Board has had occasion, through Mr. George R. James, to make a thorough inquiry into the operation of the two Federal Reserve Agencies authorized by it in the year 1923 and established by the Federal Reserve Banks of Boston and Atlanta, respectively. Copies of Mr. James' report and recommendations are enclosed herewith.

"It is not necessary to recall to you the considerations that led the Board to authorize the establishment of the two agencies in Cuba and to apportion the agency functions between them. The Atlanta Reserve Bank Agency was assigned the currency function and the Boston Reserve Bank Agency, dealings in exchange. The working of this system of divided responsibility has not proved in all respects satisfactory, and some members of the Board are of the opinion that an efficient performance of the agency functions undertaken by the Federal Reserve in Cuba will necessitate the consolidation of these functions in the hands of a single agency. This matter is now under consideration by the Board.

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"Before proceeding further in the matter, some members of the Board feel that the whole question as to the necessity of the Federal Reserve System undertaking agency functions in Cuba should be re-considered, more particularly with a view of determining, (1) whether or not there is any obligation, legal or moral, imposed upon the United States Government to provide facilities in Cuba not provided in other countries, because of the political relationship of the Republic of Cuba to the United States of America; (2) whether any obligation is imposed upon the United States Government for the condition of American currency in use in the Island of Cuba, because of the fact that about one hundred million dollars of this currency is in circulation in the Island and clothed with the power of legal tender under Cuban laws.

"These aspects of the agency question were given consideration when the agencies were authorized by the Board in 1923. The Board was then advised by the President, in a communication addressed to it, under date of May 8, 1923, (copy attached hereto) that it was the opinion and the desire of the Administration that Federal Reserve Agency facilities should be provided in Cuba for other than strictly financial or Federal Reserve considerations. There is, however, a doubt in the minds of some members of the Board as to whether it can still properly and safely be assumed that this continues to be the attitude of the Department and of the United States Government.

"The Board is, therefore, addressing this communication to you as its Chairman from a desire to ascertain the attitude of the Government as interpreted by the President or by the Secretary of State with respect to the two following questions:

"(1) Is there an obligation, legal, moral, or otherwise implied, imposed upon the Government of the United States under the relations which obtain between it and the Government of Cuba, to assume responsibility for the condition of American currency circulating in the Island of Cuba and, therefore, to maintain at its expense agency facilities in Cuba for exchanging fit for unfit circulation?

"(2) Is it the view of the President or the State Department that it is in the interest of our national policy toward Cuba that currency facilities of the kind referred to should be provided by the United States for Cuba?

"There is another question the Board must determine - a purely banking question - that is, whether or not it is the duty of the Board to assist the banks in Cuba, of which three are branches of American banks, by keeping a supply of currency on hand in Cuba which will enable the banks to maintain a lower reserve against deposits than that which they would otherwise have to maintain, and to facilitate the transfer of funds between the United States and the Island. While the answer to the two foregoing questions need not necessarily cover this, the views of the President, or

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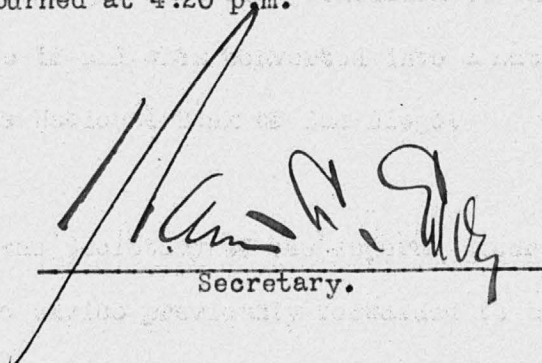
of the State or Treasury Departments will greatly facilitate the Board's approach to the problem."

Mr. Cunningham moved approval of the proposed letter as amended.

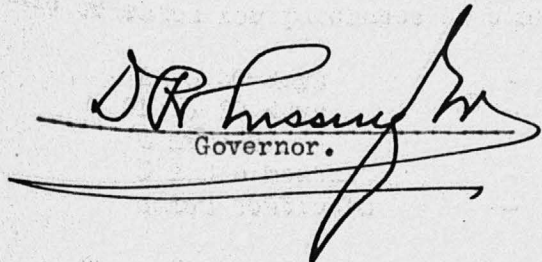
Carried, Messrs. Crissinger and James not voting.

Mr. Hamlin stated that he voted in favor of the letter with the understanding that should the Secretary of the Treasury advise against approaching the President or the State Department regarding the matter the Committee appointed on May 20th will report back to the Board.

The meeting adjourned at 4:20 p.m.


Secretary.

Approved:


Governor.