

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, December 1, 1939, at 4:30 p.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Davis
Mr. Draper

Mr. Bethea, Assistant Secretary

Mr. Harrison, President of the Federal Reserve Bank of New York

Mr. Harrison said that he wished to advise the Board with respect to some new developments regarding the handling of payments for purchases of the British and French Governments through the accounts which the respective central banks of Great Britain and France regularly maintain with the Federal Reserve Bank of New York. He referred to the earlier conversations which he had had with the Board and the Treasury during the past two months following which it had been decided that the Treasury would not request the New York Bank as its fiscal agent to open special accounts for those Governments. He pointed out that when Chairman Eccles and he had conferred with the Secretary of the Treasury in October they had both expressed the opinion that the regular central bank accounts should be used rather than for the New York Bank to open special accounts as fiscal agent of the Treasury for the British and French Governments, but that Secretary Morgenthau had indicated a preference

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for having the particular transactions in which the Treasury was interested segregated from the regular central bank transactions with the thought that in this way the Treasury could more easily keep informed regarding them. At the time, he said, Under Secretary Hanes and he had expressed the view that the segregated central bank accounts, opened for this purpose, should not be "exclusive" accounts (that is the only such accounts in this country and exclusive of any such accounts which might otherwise be opened by the respective Governments or central banks with commercial banks here) but that Chairman Eccles had agreed with the Secretary that it would be desirable to have these accounts exclusive so that payments for all goods bought by the British or French Governments would be effected through the accounts of the Bank of England and the Bank of France with the Federal Reserve Bank. Mr. Harrison said that he had then expressed the opinion that, if the Treasury desires to route all these payments through the Federal Reserve Bank for the purpose of keeping fully informed, it would be better to have the purchasing agents of those Governments in this country advise the Treasury directly regarding their activities. Chairman Eccles, he said, seemed to feel that such a procedure would be of advantage but only as a double check on information which the Treasury might obtain from the New York Federal Reserve Bank. Mr. Harrison said that he did not know what position the Treasury had since taken

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on the question of opening exclusive accounts but indicated that he would not be disposed to take any further action in the matter of opening special central bank accounts in the absence of appropriate requests from those central banks, inasmuch as it is not the practice of the Federal Reserve Bank to solicit accounts.

Mr. Harrison then discussed briefly the inaccurate and misleading stories which have appeared in the press recently characterizing the activities of the Federal Reserve Bank of New York as a violation of the spirit of the Neutrality Act and criticizing the Federal Reserve Bank for taking desirable business away from commercial banks.

Mr. Davis said that, when he was in Minneapolis recently, Mr. Peyton had shown him some similar articles which had appeared in the local press and that subsequently Senator McNary had called him on the telephone with regard to press reports. He said that on both occasions he had endeavored to make it clear that there was no violation of the letter or spirit of the Neutrality Act.

Mr. Harrison stated that the newsmen had not consulted him before writing the articles and that as a matter of fact the Bank has not done anything new and that no new accounts had been opened.

The Treasury, he said, was concerned about the delay in the opening of the special accounts with the Federal Reserve Bank, and at a conference there today with Messrs. Cochran and Stewart, at

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which Mr. Butterworth was also present, the matter was discussed and he (Mr. Harrison) had advised the Treasury that there was nothing he could do until the Bank of England or the Bank of France approached the Federal Reserve Bank on the matter. He said that Mr. Osborne, representative of the British Treasury working with the British Purchasing Mission, had inquired of him as to the procedure for setting up special accounts and that he had advised him that it would be necessary for a central bank merely to ask that funds be transferred from its regular account to a special account in its name to be designated, say "Account A", and to submit the necessary signing authorities.

Mr. Harrison indicated that he would like to get rid of the present procedure whereby the Federal Reserve Bank makes payments on behalf of the Bank of England and the Bank of France to member banks in New York in connection with the purchase of airplanes by the British and French Governments from the Lockheed Aircraft Corporation, such payments being made only to designated member banks against certificates signed by the airplane manufacturer and confirmed by the member bank. In this connection, he said that he had gathered through Mr. Catterns of the Bank of England that American manufacturers might want the full amount of their contracts placed in blocked accounts before expanding their plants or taking new orders, and that Mr. Catterns had asked whether the New York Federal Reserve Bank would be willing to advise the

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Lockheed Company, for example, that it had on deposit, and segregated for the purpose, a specified amount in dollars with which to make payment for the full amount of its contract with the British Government. He said that he had discussed the question with the Treasury and had Messrs. Sproul, Logan, Knoke and Rounds working on the problem. It was Mr. Harrison's offhand impression, however, that while there would be no legal or practical difficulties which would prevent the Federal Reserve Bank from making such certificates to American manufacturers in accordance with a request from a foreign central bank, nevertheless he hoped it would not be necessary to do so.

Mr. McKee interposed at this point with the remark that it would seem to him that the Federal Reserve Bank of New York could only recognize the foreign central bank and that, if the New York Federal Reserve Bank gave a letter containing such a certificate, it would have to block the amount of the funds in such a way that they could be used for no other purpose. It would be similar, Mr. McKee said, to certifying a check.

Mr. Harrison indicated agreement and stated that the proposal contemplated that the Federal Reserve Bank would certify that it has a certain amount of funds in dollars set aside with which to meet payments when due--which of course is a regular banking function and a service which commercial banks would render. He said that he would prefer that the Federal Reserve Bank not perform

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the service, but that he was impressed by the fact that if American manufacturers insist, then unless the Federal Reserve Bank were willing to place funds in blocked accounts and issue such certificates, it would be impossible to accomplish what the Treasury had in mind, that is, to keep the account with the Federal Reserve Bank an exclusive one. He said that the Federal Reserve Bank of course could, for example, pay the funds over to the Guaranty Trust Company, and let that institution make the certificates to American manufacturers. On the other hand, the idea of blocked accounts had been proposed to the French, he said, and Mr. Leroy-Beaulieu, Financial Attaché of the French Embassy, had objected on the ground that it would be a reflection on the credit of the French Government. Mr. Harrison said that, as the Board knew, it was the present practice in handling transactions with the Lockheed Company for the British Government through the Bank of England's account at the Federal Reserve Bank to make progress payments--perhaps three or four on one airplane--but the procedure now being discussed would require that the total amount of the contract be placed in a blocked account in advance. Mr. Harrison said that he had seen Mr. Pinsent, Financial Counselor of the British Embassy, when he was at the Treasury and he had told him of the attitude of the French with regard to the blocked account arrangement and that Mr. Pinsent had indicated that the British would not be willing to go along on such a basis either. Mr. Harrison said

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that he had suggested to Mr. Pinsent that it would be advisable for him through British Treasury representatives at London to get together with officials of the Bank of England and come to some common understanding as to the position to be taken by the British on this question. He said that he also advised Mr. Pinsent that he was not prepared to say whether the Federal Reserve Bank of New York could render the service. Mr. Harrison added that, before funds placed in a blocked account could be released, it would be necessary to know whether the American manufacturer is entitled to the money, and it would not be as though payment was being made against a signed draft of the Bank of England. He said that he would not want the Federal Reserve Bank to handle transactions on that basis if it could be avoided, but that Mr. Rounds had advised him that there would be no mechanical difficulties and he (Mr. Harrison) did not want to take the responsibility for a breakdown of the whole program. He also said that he had asked Mr. Sproul to get in touch with Mr. Purvis of the British Purchasing Mission and find out what the British proposed to do. He added that it should be borne in mind that the proposal would involve the question of protecting American manufacturers in the event the country of the foreign buyer were invaded and that commercial banks would be glad to handle transactions in the manner proposed. Mr. McKee said that while he did not like it very much he thought we should handle the business as requested rather than be responsible for a breakdown of the program.

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Mr. McKee inquired whether Mr. Harrison knew anything with respect to the proposal reported in the press that the Federal Reserve Bank would handle securities for a corporation being formed to finance foreign war purchases in this country. Mr. Harrison stated that representatives of the press had buttonholed him earlier today on this question and that he had told them that he knew nothing whatever about it.

Mr. McKee also inquired whether Mr. Walter Kennedy Whigham, who the Board had been advised by letter would call at the New York Bank, had discussed with Mr. Harrison anything relating to the arrangement referred to above or with regard to the handling of British funds in connection with war purchases in this country. Mr. Harrison stated that Mr. Whigham's visit had been merely a courtesy call, that he had asked him whether he had in mind discussing these matters but that he had replied that he had no authority to negotiate with respect to such matters as they were for Mr. Purvis and the Bank of England to settle. Mr. Harrison said that he had raised the question in order that he might ascertain whether there might be any need to contact the Board before getting into a discussion on the subject.

Under the existing situation, Mr. Harrison said, the Bank of England had no place to deposit the proceeds of securities which were being liquidated by British nationals except in its regular account with the Federal Reserve Bank, and that the Treasury was not

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satisfied with the arrangement as it felt such funds should be segregated in a special account which was what was contemplated under the arrangement agreed upon between the Secretary of the Treasury and the British Chancellor of the Exchequer. Mr. Harrison said that foreign liquidation of securities aggregating about a million dollars a day is being absorbed in the market without apparent difficulty and that British nationals had been selling securities under licenses issued by the British Government and turning the dollar exchange over to it.

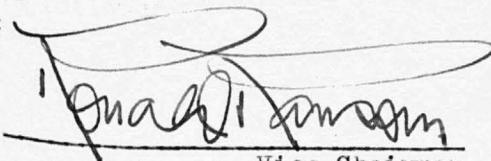
In conclusion, Mr. Harrison said that he merely wished to report these matters to the Board and to ask for any suggestions or criticisms which it might have.

Mr. McKee stated that it seemed to him that it would be necessary for the New York Bank to proceed cautiously with regard to any transactions that might entail liabilities on the part of the Bank, and Mr. Harrison said that, if it appeared that the operation of any of these accounts would involve any such liabilities, he would feel obliged to take the matter up with his directors in accordance with his understanding with them.

Thereupon the meeting adjourned.


Assistant Secretary.

Approved:


Vice Chairman.