

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, April 11, 1940, at 3:30 p.m.

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

Mr. Bethea, Assistant Secretary
Mr. Goldenweiser, Director of the Division
of Research and Statistics

Mr. Ransom stated that he had called this meeting in order to report certain developments with respect to Danish and Norwegian balances and other property in this country. He said that at 11:50 a.m. yesterday he had been requested to attend a conference at the Treasury, at which there were representatives from the Treasury Department, the State Department, Attorney General's Office and the Securities and Exchange Commission, for the purpose of discussing what action should be taken to regulate transactions in foreign exchange, transfers of credit and the export of coin and currency involving property in which Norway or Denmark, or any national thereof, has an interest. He said that the discussion at the meeting indicated that the Treasury was not satisfied that the recommendations of the New York Bankers' Foreign Exchange Committee (of which Mr. Loree, Vice President of the Guaranty Trust Company, is chairman) were adequate to meet the situation; that the Treasury took the position that the procedure recommended by such Committee would impose a great deal of responsibility on it without proper authority; and that consideration was being given to the issuance of an Executive Order which would prohibit all transactions affecting such property except such as may be specifically authorized by regulation or license issued by the Secretary of the Treasury. He said

4/11/40

-2-

that the Treasury seemed to favor the issuance of an Executive Order; that the Treasury had gotten the impression that Mr. Harrison, President of the Federal Reserve Bank of New York, and the Loree Committee did not think well of this course; that he (Mr. Ransom) had told the Treasury representatives that he would like to mention the matter to Mr. Harrison and get his views on it; that he (Mr. Ransom) had expressed no opinion at the conference other than the statement that the Board would cooperate with the Treasury in whatever policy was adopted, although he would prefer the voluntary action of the banks for the time being; and that Mr. Cochran of the Treasury Department seemed to share his views and feel as he did that a number of perplexing problems would arise if an Executive Order were issued.

Mr. Ransom stated that at 2:35 p.m. yesterday he called Mr. Harrison on the telephone in the presence of Messrs. Szymczak, Wyatt, Goldenweiser, Morse and Bethea, with the loudspeaker in operation and advised him what had transpired at the Treasury conference and asked him to indicate his views on the matter. Mr. Harrison advised Mr. Ransom that in his opinion: (1) there was no necessity for the issuance of such an Executive Order, (2) the issuance of such an Order might establish a bad precedent and be misinterpreted, and (3) similar situations had arisen at the time of the Czech and Polish crises and had been handled satisfactorily without Government intervention. He (Mr. Harrison) also said that the banks would naturally be cautious in putting through transactions in order to protect themselves but that they were reluctant to agree not to make any payments because of the large number of legitimate transactions

4/11/40

-3-

which would be bound to come through, many of which had been initiated prior to the invasion of Denmark and Norway. He stated that as a result of the recommendations of the Loree Committee announcement had been made of the suspension of dealings in Danish and Norwegian exchange and that the banks would report everything to the Secretary of the Treasury and had even suggested that transactions be handled subject to his approval. Mr. Harrison added that he thought it would be a mistake to deny banks the right to make payments in their discretion.

Mr. Ransom said to Mr. Harrison that the Treasury seemed to feel that the banks would not be fully protected under the existing procedure and that there were some definite advantages to be gained by the issuance of an Executive Order. He also said, however, that he recognized that there might be a bad psychological reaction to the issuance of such an Order as it might involve some problems concerning neutrality. He stated further that he had advised the Treasury that he could not express any views on behalf of the Board and that, although he knew that the Board and the Reserve Banks would wish to assist in any way that the System could, he thought the Treasury should again contact Mr. Harrison before he met with his Committee, who were familiar with the operating details and the practical problems to be met, before deciding on the course to be pursued.

Mr. Harrison stated that he felt certain that the Loree Committee would be perfectly willing to change the existing procedure in any way that would meet with the approval of the Treasury, although in his judgment the existing arrangement was entirely adequate. Mr. Ransom replied

4/11/40

-4-

that on this point the Treasury held a contrary view and in fact had raised a question as to whether the procedure had been satisfactory in dealing with the Czech and Polish situations. At Mr. Ransom's suggestion Mr. Goldenweiser took the telephone at this point and advised Mr. Harrison that it was his own opinion that there were only two alternatives: (1) for the banks to be left free to act in their discretion, or (2) for the Government to take complete control, in which event an Executive Order should be issued.

In concluding the conversation, which lasted approximately ten minutes, Mr. Ransom advised Mr. Harrison that he understood the Treasury would contact him later that afternoon and that he merely wished to give him this background information as a basis for a further discussion of the matter at that time.

Mr. Ransom said that immediately following this conversation he put in a call for Mr. Gaston, Assistant Secretary of the Treasury, and reported to him the substance of his conversation with President Harrison.

Mr. Ransom referred to the fact that the President had issued an Executive Order late yesterday which prohibits, except under license, all transfers of credit, all payments, all transactions in foreign exchange, and the export or withdrawal from the United States or the earmarking of gold or silver coin or bullion or currency by any person within the United States, if involving property in which Norway or Denmark or any national of either has at any time on or since April 8, 1940, had any interest of any nature whatsoever, direct or indirect.

4/11/40

-5-

He stated that he had been called to the Treasury to attend meetings at 10:30 a.m. and again at 2:30 p.m. today, which were held primarily for the purpose of discussing the forms, regulations and procedure to be adopted in effectuating the provisions of the proclamation. He said that the Federal Reserve banks would act as Fiscal Agents for the Treasury in issuing licenses but that individual transactions would have to be submitted to the Treasury for approval. He stated that the Treasury had set up a committee consisting of Messrs. Cochran, White and Bernstein to pass on such transactions; that the Treasury had asked that the Board cooperate by having a representative meet with that committee at 11:00 a.m. and 4:00 p.m. daily; and that he had asked Mr. Goldenweiser, and in his absence Mr. Morse, to attend such meetings. He said that banks, after having applied for and being granted a license for a specific transaction, would have to submit a report to the Treasury upon consummation of the transaction. He further stated that the Treasury was proposing to take an inventory or census of all assets of Norway and Denmark in this country through the Federal Reserve banks and that it was proposed that a running inventory would be kept thereafter. Mr. Goldenweiser said that the Department of Commerce had been doing substantially the same thing for all countries for some time and that the same forms used by the Department of Commerce, after being elaborated in certain respects, would be used by the Federal Reserve banks for the purpose.


Mr. Ransom concluded his report by saying that the Treasury is working as rapidly as possible to develop the necessary forms and regulations to be issued pursuant to the Executive Order and, in addition, is

4/11/40

-6-

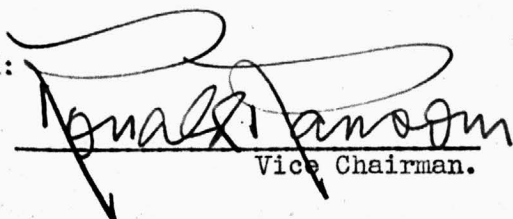
preparing a clear-cut statement that might be made public if and when the Administration deems it advisable to make a comprehensive explanation of the purposes and effect of the Executive Order.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Vice Chairman.