

MEMORANDUM ON INTER-NATIONAL EXCHANGE
FOR INFORMATION OF THE SECRETARY OF THE TREASURY.

The informal committee which met today to discuss the subject of inter-national exchange begs to submit the following memorandum of its views:

The committee consists of the following gentlemen:

Mr. Benjamin Strong	
Mr. J. E. Gardin	Mr. D. G. Wing
Mr. J. E. Rovensky	Mr. James Brown
Mr. Albert Strauss	Mr. J. F. Curtis

GENERAL POLICY.

The committee recommends that an announcement be made by the Secretary of the Treasury to the effect that while there will be no hinderance on the export of gold, silver, or currency for legitimate purposes arising out of commercial transactions, as limited by a proper regard for war conditions, all applications for the export of coin, bullion or currency will be subjected to close scrutiny, to the end that such exports shall be made only when compatible with the public interests.

The committee recommends that upon the passage of the Trading with the Enemy Bill, imports into this country be so regulated as to curtail the importation of luxuries and other articles not essential for the public welfare. Such control forms a necessary step in the proper regulation of exchange, and will automatically reduce the demand for the export of gold; but it can be ultimately effective only if similar control is exercised by our Allies in cooperation with us.

The committee is informed that considerable amounts of gold and gold certificates are being carried from the country by individual travellers and by steamship officials; and it is suggested that due consideration be given to this aspect of the situation.

MACHINERY FOR REGULATION.

The committee recommends that committees be appointed in each Federal reserve district, to serve under the general direction of the Federal Reserve Board.

These committees should examine into all financial transactions between residents of this country and residents of foreign countries, American financial transactions between foreigners, and financial operations that may appear to be incompatible with the public interests.

Under the supervision of such committee only such concerns as shall be licensed shall be permitted to conduct foreign exchange transactions, and they should be required to report daily to the committee all operations for and between all foreign accounts; such reports to include a statement of all credits and debits to such account, with full details

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giving names of individuals affected; also the sale and transfer of securities for foreign account, and any other information that in the opinion of the committee may be necessary. All dealers in inter-national exchange should be required to obtain from their customers full information as to the details of all transactions to be reported. Every resident within each district, (whether or not a licensed dealer in foreign exchange) should be required to report to the committee the amounts due from enemies or allies of enemies, and also all property owned by him in enemy or ally of enemy countries; also all property held in any way, directly or indirectly, for enemy account or allies of enemy account.

Every member of a committee should take an oath at the time of qualification to the effect that he will not use for personal advantage, directly or indirectly, any information acquired as a member of the committee, nor reveal any information obtained by him in that capacity except to the proper officials.

The central organization should work in close cooperation with the export and import commissions, as soon as appointed, and the similar foreign exchange organizations of our Allies; and should have the benefit of all information acquired through the Departments of State, Justice and Commerce; the censorship of the mails, cables, and telegraphs, and all other available Governmental agencies.

The appropriation for the expenses of administering this section of the law should be increased to \$350,000.

The propriety of charging nominal fees for licenses to deal in inter-national exchange should be considered.

METHOD OF CONTROLLING INTERNATIONAL-EXCHANGE.

The committee is unanimously of the opinion that the quotation for the pound Sterling in the United States should not be allowed to decline, as such a decline, apart from the moral damage to the cause of the Allies, would, without relieving the United States, place an additional burden upon its allies in the increased cost to them of commodities purchased in other markets; but this end must be accomplished in cooperation with the Allies and without any material diminution of the gold supply of the United States, which must, in the interest of the other Allies as well as of the United States, be retained here as a basis for our important credit operations.

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The committee is also of the opinion that if demands on the United States for gold for shipment to other countries are not promptly controlled through an agreement with our Allies concerning the trade underlying these transactions, the only effective method of controlling the export of gold will be through restriction or prohibition of arbitrage operations. The effect of such restriction or prohibition will be to limit exchange transactions between the United States and foreign countries to such direct operations as are necessary to liquidate the direct trade between each country and the United States.

Any hardships which may be involved in this procedure would be mitigated if banks in foreign countries which are unfavorably affected by these measures would employ their funds in loans or investments in this country, instead of exacting gold.

In this connection, steps must be taken to prohibit our own banks for the future, from ear-marking gold or taking it into custody. Such ear-marking or custody has in every respect the same effect as exportation and it may be advisable to ask all banks to state, for the confidential use of the Government, what amounts they have ear-marked or held in custody at this time and for whom, and to report any future applications to ear-mark or hold in custody.

SILVER FOR SUBSIDIARY COINAGE AND FOR EXPORT.

The Committee recommends that the silver now lying inert in the Treasury for the redemption of silver certificates, be rendered available for use through the redemption of silver certificates and the substitution in their place of Federal Reserve Notes. The silver bullion so released should be used so far as required for subsidiary coinage and the balance will be available for export in place of gold. Silver certificates to the amount of about \$456,000,000 are now outstanding.

The result of such steps will be the permanent substitution of gold for silver as the support of a substantial part of our currency and the immediate exportation of silver which is not needed in this country in substitution for gold which is urgently required. Legislation will probably be required to accomplish this. Steps must also be taken to expedite the printing of small bills by the Bureau of Engraving and Printing.

Respectfully,

BENJ. STRONG	JOHN E. GARDIN
D. G. WING	ALBERT STRAUSS
JOHN E. ROVENSKY	JAMES BROWN
J. F. CURTIS.	

Washington, Sept. 13, 1917.