April 1, 1947

To Policy Group

From Staff Group on Foreign Interests

The Staff Group desires to present the following specific conclusions and recommendations on the matters covered in its memorandum of March 28 concerning "Policy Problems Relating to Gold":

1. Procedure on Gold Transactions in the United States by Foreign Monetary Authorities

Some of the existing uncertainty concerning U. S. gold policy could and should be removed by public announcement that hereafter and until further notice Treasury procedures will permit foreign monetary authorities to convert any free (i.e. unblocked) dollar balances into gold (for earmark or for export) without any formalities under the Gold Reserve Act of 1934 or the provisional regulations issued pursuant thereto. The Staff Group does not recommend any change at the present time in the procedures governing the purchase of gold by the United States from foreign countries.

2. The U. S. Treasury's 1/4 Per Cent Charge on Gold Transactions

The 1/4 per cent charge which by Treasury regulation has been levied on purchases and sales of gold since 1934, has served to deter capricious shifts back and forth between gold and dollars by foreign monetary authorities and has provided revenue for the U. S. Treasury (and the U. S. Stabilization Fund). On the other hand, the elimination of this charge would seem to give the international gold standard a "fixed point of reference" (i.e. a flat and unqualified price for gold in terms of dollars), and the elimination or reduction of the charge would tend to reduce the volume of requests for loans on gold.

Some members of the Group believe that the latter arguments warrant asking the Treasury to consider elimination or reduction of the charge. Other members of the Group, however, feel that there are no strong grounds for so doing and that the loss of revenue in particular is a sensitive point. They point out also that the whole subject of gold charges by the International Fund and by all member countries has been under discussion in the Fund, and consider that no action should be taken until the Fund has at least formulated a tentative proposal.

3. Sections 8 and 9 of the Gold Reserve Act

These Sections appear to delegate to the Secretary of the Treasury certain administrative freedom of action in fixing the price of gold in terms of dollars, and their existence seems to have nourished some of the speculative rumors in the market concerning a possible change in the dollar price of gold. Some members of the Group believe that in order to allay some of these rumors legislation should be sought repealing these Sections and providing that notwithstanding the provisions of any other law, no agency or instrumentality of the United States Government may deal in gold at prices differing from the official parity by more than the established handling charge. Other members of the Group believe that under present circumstances, as a result of the Bretton Woods legislation, the Secretary of the Treasury has no real freedom of action under Sections 8 and 9, and that to seek legislation would be an unnecessary catering to the unfounded and not very significant market sentiment.

4. Gold Operations by U. S. Banks in Foreign Markets

The Staff Group is agreed that participation by U. S. commercial banks in transactions in gold against dollars at premium prices in foreign markets, whether directly or through the financing of such transactions, is undesirable as a matter of national policy. It recommends that the Treasury and the Federal Reserve System issue a joint statement to this effect.

5. Engel Bill Regarding Gold Transactions

The Staff Group is agreed that the purposes of this bill are contrary to the public interest. It sees no reason for conferring a special bounty upon domestic gold production and it considers that the creation of a dual price for gold in the United States, such as would result from the bill, would be inconsistent with our national gold policy and would stimulate highly undesirable speculative activities.