TREASURY DEPARTMENT
FISCAL SERVICE
WASHINGTON

December 20, 1946

Dear Governor:

I am enclosing, for your confidential information and for the information of your associates who may be interested, a copy of a memorandum approved by Secretary Snyder with respect to the manner of utilizing the gold held for account of the Stabilization Fund when payment is made on our subscription to the International Monetary Fund. This information will not be released prior to its publication in the Daily Treasury Statement. I have also sent a copy to Mr. Sproul.

Very truly yours,

(Signed) E. F. Bartelt.

E. F. Bartelt,
Fiscal Assistant Secretary.

Honorable Marriner S. Eccles
Board of Governors of the
Federal Reserve System
Washington 25, D. C.

Enclosure

November 14, 1946

MEMORANDUM FOR THE SECRETARY:

In connection with the establishment of the International Monetary Fund present estimates indicate that the Treasury will be called upon in December to pay the subscription of the United States in the amount of $2,750,000,000, less $275,000 heretofore paid on account of administrative expenses and the partial payment of $5,000,000 to be made this month. Payment of $1,800,000,000 (less the previous payments of $5,275,000) will be paid from the Stabilization Fund and the balance of $950,000,000 will be paid from the general treasury.

The amount payable from the Exchange Stabilization Fund is now held in gold, and as the minimum amount of the subscription of the United States which is required to be paid in gold is only $687,500,000, the payment from the Fund will free $1,112,500,000 in gold. This gold will be deposited with the Federal Reserve System in exchange for a dollar credit on its books, which dollar credit in turn, to the extent of $1,107,225,000, will be paid over to the International Monetary Fund along with a dollar credit of $950,000,000 from Treasury funds, making an aggregate of $2,057,225,000 of dollar funds being paid to the International Monetary Fund on account of the subscription of the United States. It is understood that the International Monetary Fund will immediately repay to the United States $1,787,500,000 and accept in exchange therefor non-interest-bearing notes of the United States.

If these transactions can be synchronized so as to take place simultaneously on the books of the Treasury, the books of the Federal Reserve Bank of New York and the books of the International Monetary Fund, it will not be necessary for the Treasury to withdraw its balance from depositary banks to cover the payment of $950,000,000 to be made from the Treasury and it will be possible for the Treasury to repurchase from the Federal Reserve System $837,500,000 in gold. If this procedure is followed it would not be necessary for the Treasury to withdraw any funds from depositary banks to effectuate payment of its subscription to the International Monetary Fund and we would not take immediate advantage of monetizing $837,500,000 of the gold presently held in the Exchange Stabilization Fund. It is suggested that such gold in the amount of $837,500,000, plus $144,000,000 in gold representing the unexpended balance of the increment on gold which accrued to the Treasury at the time the weight of the gold dollar was changed in 1934, a total of $981,500,000, be held in the general fund balance and paid into the Federal Reserve System gradually over such period of time as may be determined. It may be desirable to hold a stated amount of gold (say $100,000,000) indefinitely to be used as an emergency fund if occasion should arise. This is the basis on which we have been carrying since July 30, 1945, $144,000,000 in gold in the general fund.

If the gold is used in this manner its payment into the Federal Reserve System could be synchronized in connection with International financial operations, such as the redemption of the non-interest-bearing notes held by the International Monetary Fund and International Bank for Reconstruction and Development from time to time as these agencies need dollars, or for payments on the British credit. These commitments, payable on demand, aggregate $5,503,285,000, as follows:

International Monetary Fund: Non-interest-bearing notes - - - - - - - -	$1,787,500,000
International Bank for Reconstruction and Development: Non-interest-bearing notes (includes subscription payable in February and May, 1947) - - - - - - - -	565,785,000
British credit (balance) - - - - - - - - - - - -	3,150,000,000
	$ 5,503,285,000

On the other hand, if the gold is used immediately to obtain dollar credits from the Federal Reserve System and if the dollar credits are repaid to the Treasury by the International Monetary Fund for our non-interest-bearing notes, the effect of such operations will be to increase the balance in the general fund available to meet our current expenditures, including public debt retirements, and will reduce by a like amount our calls upon depositary banks. The effect of this will be to increase excess reserves of the commercial banks or to increase their holdings of Government securities which they will obtain either by repurchase from the Federal Reserve System or by purchases on the open market. This would be followed by pressure on bank reserves at a later date as the Treasury liquidates its International commitments.

I shall be glad to discuss this matter with you at your convenience.

(Signed) E. F. Bartelt
Fiscal Assistant Secretary

Approved:

(Signed) John W. Snyder
Secretary of the Treasury

December 26, 1946.

Mr. E. F. Bartelt
Fiscal Assistant Secretary
Treasury Department
Fiscal Service
Washington, D. C.

Dear Mr. Bartelt:

In the absence of Chairman Eccles, I wish to acknowledge receipt of your letter of December 20, and the attached memorandum setting forth proposed procedure in handling the payment on the U. S. subscription to the International Monetary Fund. Chairman Eccles will be much interested in the material and may want to communicate with the Secretary on the matter after his return to Washington during the first week in January.

Very truly yours,

Ronald Ransom
Vice Chairman

RM/ec