Form F. R. 131

Office Correspondence

Date __October 23, 1936.__

To ___Chairman Eccles___

From ___Lauchlin Currie___
L.C.

Subject:_____

I have had some examples worked out illustrating the point I was trying
to make to you the other day in connection with the Stabilization Fund's
operations.

Office Correspondence

Date: October 23, 1936.

To _____ Chairman Eccles

From _____ Lauchlin Currie

L.C.

Subject: _____

G P O   16—852

Examples illustrating loss to Stabilization Fund if operations
are engaged upon to maintain the $-Ł rate despite a rise in the
price of gold in England or to drive up the $-Ł rate after it has
fallen and the price of gold has risen correspondingly:

1. a. Ł - $ rate: $4.90
   b. British Fund's selling price for gold: 142s.- 9½d.
   c. U.S. Fund (1) sells 1 oz. of gold to Treasury and receives
      $35; (2) buys Ł7.14 at rate of $4.90; (3) buys 1 oz.
      gold from British Fund at 142s.-9½d.

      Net result: no gold loss.

2. a. As result of capital movement from England to U. S.,
      Ł-$ rate falls to 4.85.
   b. British Fund, therefore, raises selling price of gold to
      143s.-11½d.
   c. U.S. Fund (1) sells 1 oz. gold to Treasury and receives
      $35; (2) buys Ł7.24 at rate of $4.85; (3) buys 1 oz.
      gold from British Fund at 143s.-11½d.

      Net result: no gold loss.

3. a. U. S. Fund desires to push Ł-$ rate back to $4.90.
   b. British Fund leaves gold price unchanged at 143s.-11½d.
   c. U.S. Fund (1) sells 1 oz. gold to Treasury and receives
      $35; (2) buys Ł7.14 at rate of $4.90; (3) buys
      0.986 oz. gold from British Fund at 143s.-11½d.

      Net result: loss of 0.014 oz. gold, = $0.49
      at $35 an oz.

4. a. Ł-$ rate: $4.90.
   b. British Fund raises price of gold from 142s.-9½d to
      143s.-11½d.
   c. U.S. Fund wishes to maintain rate at $4.90 and prevent
      it from falling to $4.85.
      (1) Sells 1 oz. gold to Treasury and receives $35;

(2) buys £7.14 at rate of $4.90; (3) buys 0.986 oz.gold
from British Fund at 143s.-11½d.

Net result: loss of 0.014 oz.gold = $0.49
at $35 an oz.

General Conclusion:

U. S. Fund can maintain the $-£ rate without loss so long as the
$-£ rate is such and the price of gold in sterling is such as to make
gold equal to $35 an oz. in England. If the price of gold in England
rises more than in proportion to the fall in sterling, the U. S. Fund
cannot maintain the $-£ rate without paying more than $35 an oz. for
gold.