Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 24, 1936.

To Chairman Eccles

Subject: ~~Stabilization Fund Operations.~~

From Lauchlin Currie

L.C.

GPO 16—852

The examples I sent you yesterday I had prepared for me by a man in the Foreign Section. He has just reworked the figures and discovered some arithmetical mistakes. They do not affect the principle but they cut down the loss a little. On the off chance that you might have occasion to use the examples sometime, I am enclosing a corrected draft.

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

1. a. L-\$ 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 L7.14 at rate of \$4.90; (3) buys 1 oz. gold from British Fund at 142s. 9½ d.

   Net result: no gold loss.

2. a. As result of capital movement from England to U. S., L-\$ rate falls to \$4.85
   b. British Fund, therefore, raises selling price of gold to 144s. 4¾d.
   c. U.S. Fund (1) sells 1 oz. gold to Treasury and receives \$35; (2) buys L7.22 at rate of \$4.85; (3) buys 1 oz. gold from British Fund at 144s. 4¾d.

   Net result: no gold loss.

3. a. U. S. Fund desires to push L-\$ rate back to \$4.90.
   b. British Fund leaves gold price unchanged at 144s. 4¾d.
   c. U. S. Fund (1) sells 1 oz. gold to Treasury and receives \$35; (2) buys L7.14 at rate of \$4.90; (3) buys 0.989 oz.gold from British Fund at 144s. 4¾d.

   Net result: loss of 0.011 oz. gold, = \$0.38 at \$35 an oz.

4. a. L-\$ rate: \$4.90
   b. British Fund raises price of gold from 142s. 9½d. to 144s 4¾d.
   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 L7.14 at rate of \$4.90; (3) buys 0.989 oz.gold from

British Fund at 144s $4\frac{3}{4}$d. Net result: loss of 0.011 oz. gold = $0.38 at $35 an oz.

General Conclusion:

U. S. Fund can maintain the $-L rate without loss so long as the $-L 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 $-L rate without paying more than $35 an oz. for gold.