Form No. 131

# Office Correspondence

FEDERAL RESERVE BOARD

Date January 7, 1937

To Chairman Eccles

Subject:

From Mr. Goldenweiser EAG

GPO 16—852

I transmit a memorandum from Mr. Gardner which shows that the Treasury, perhaps unconsciously, is going beyond its undertaking to offset future acquisitions of gold. It is sterilizing gold previously held under earmark by the Stabilization Fund by selling it to the Treasury, which is putting it in the inactive account and selling bills against it. Mr. Gardner says that this action is desirable from the Board's point of view, but I wish to call your attention to the fact that it constitutes an open market operation. If carried through consistently the amount involved may be as much as $150,000,000.

Carl Wayne Taylor

Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date January 8, 1937

To Chairman Eccles

From Mr. Gardner W.R.G.

Subject: Reduction of member bank reserves by latest application of Treasury gold policy

Probably without knowing it the Treasury has begun to use its new gold policy in such a way as to reduce member bank reserves. The possible scope of this new action is not great, but I believe the facts will interest you.

The Stabilization Fund appears to be bringing home gold that it formerly held abroad. The first shipment arrived last Monday and was sold to the Treasury. Payment for the gold was made by a transfer from the Treasury's general balance with us to the special deposit of the Fund without effect on member bank reserves. But the Treasury will not replenish its balance with us by utilizing the gold to make a deposit in our gold certificate account, for it has added the gold to its "inactive" holdings under the new gold policy. Hence the Treasury balance will have to be replenished by sale of Treasury bills. This sale will reduce member bank reserves.

A second shipment of Fund gold, which will presumably be handled in the same way, is understood to be on the water. Should the Fund dispose of the bulk of its gold to the Treasury in this manner, member bank reserves would be reduced about $150,000,000 below the level that would have obtained without this operation. To this extent the Treasury would be going beyond automatic offsetting operations into the field of changing the volume of member bank reserves. The change, however, would be in a direction helpful to the Board of Governors, since by reducing reserves it would increase the Board's powers of control.

Another aspect of this latest move of the Stabilization Fund is that it impairs the significance of the published gold figures. As a result of the first shipment, gold imports of $10,000,000 were recorded, and reported monetary gold stock increased by $10,000,000. Prima facie this would indicate that the United States had gained $10,000,000 of gold from foreign countries. In fact there was no such gain. The gold inflow meant absolutely nothing in terms of our international balance of payments at the time that it occurred. Uncertainties as to the interpretation of our figures of international gold movements and monetary gold stock are making it difficult to forecast the volume of excess member bank reserves during the weeks ahead. We still lack any direct reports from the Treasury on Fund operations.