BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

1939

OFFICE OF THE CHAIRMAN

MEMORANDUM:

TO - The President

FROM - Chairman Eccles

The war in Europe, with its resulting expansion of demand for our exports, is likely to increase the flow of gold to the United States. A re-examination of our gold policy therefore seems appropriate at this time.

1) Any drastic action with regard to gold--such as the discontinuation of purchases--would probably be unwise, not only because of its repercussions on the situation abroad, but also because of its depressing effect on domestic business (unless offset by a fully developed program of Government spending).

2) We must realize, however, that there are dangers inherent in a continued large influx of gold.

a. The inflationary possibilities of a further expansion of the credit base are well known. At present there is no occasion for alarm; but if a boom were actually under way, the difficulties of controlling it would be increased by the existence of redundant gold stocks.

b. If Great Britain and France are drained of their gold, the possibility of re-establishing an international gold standard after the war is diminished. If some form of gold standard is not adopted, the United States will be able to derive no benefit from the stocks of gold already accumulated.

c. There are already signs of public uneasiness regarding gold imports: jokes about digging gold up in South Africa only to bury it again in Kentucky, et cetera. In some quarters there is even a tendency to compare our present accumulation of gold with the unrepaid foreign loans of the Twenties. Regardless of the justification for this feeling, it should be considered in formulating policy.

3) Although no formal action is suggested, something might be done indirectly to check the inflow of gold. In particular, an informal suggestion to the British and French Governments that they finance their purchases here as far as possible through the sale of their holdings of American or other securities rather than by gold movements might be effective. This would impose no hardship, since their gold would still be available for use if necessary. The United States, through the repatriation of its securities, would be relieved of the burden of future dividend payments abroad. Doubtless the influx of gold would not be stopped by such a policy, but it might be kept at a manageable level.