

December 21, 1936.

*Outline
for press
conference
held with
Treasury*

While I do not know that there is much I need add to the statement you already have and the explanation, I came over at the Secretary's request so that as a matter of convenience, in case any questions come up relative to the bearing of this action on the domestic credit picture, I would be able to answer them off the record for background purposes.

The Secretary referred this entire matter upon its inception to the Board of Governors and requested informally a statement of any views or objections that might arise from the standpoint of the Reserve System. The entire subject has been very thoroughly canvassed and considered. The Board authorized me to report that there would be no objections to having the plan become effective as soon as the Treasury considered it practicable.

The Board looks upon the action with favor because it simplifies our problem with respect to excess reserves. It removes from the picture the necessity and responsibility for dealing with future acquisitions of gold after they have become part of the banking reserves. In other words, the action has the effect of locking up this gold before it gets into banking reserves. It enables us to judge with a great deal more accuracy the volume of reserves with which we probably will be left after the holidays when there is a return flow of cash. We know that at that time we will have somewhere between 2 and 2½ billions of excess reserves, and we are in a position to deal with that volume through the two instrumentalities of reserve requirements and open market operations. In fact, there is a leeway now of authority to deal with not far from 4 billions of excess reserves. As long as the Treasury's action remains in effect to offset or mop up new supplies of gold, whether from abroad or domestically produced, the Reserve System is not only in a position to cope adequately with the volume of reserves now in prospect, but in the event that there should be an outflow of gold, that gold could run out from the Treasury stocks to be acquired under this plan with a minimum of disturbance upon the domestic banking structure.

I should like to anticipate the question which I suppose would be in your minds as to what bearing this action might have on the indicated intention of the Reserve authorities to reconsider the problem of excess reserves early in the new year, and I would like to point out that there is not necessarily any bearing other than the fact that we will now be in a better position to know, as I have said, what volume of excess reserves we probably will have to deal with in the future, whether at that period or later on. And, of course, what the decision might be, I cannot undertake to predict since it would depend upon factors which we cannot judge with finality this early. Nor could I, of course, undertake to speak for the other members of the Board whose views I could hardly attempt to forecast. It is recognized that this action deals with effects rather than with causes and that possibly some further steps may become desirable if the inflow of gold does not abate in the future.