

Office Correspondence

FEDERAL RESERVE
BOARDDate October 21, 1935.

Chairman Eccles

Subject: Suggestion for the ultimateFrom Lauchlin Curriedisposal of the Stabilization Fund.

••• 16-852

File

One of the most serious problems with which we will be faced in the future will arise in connection with the disposal of the Stabilization Fund. It is not necessary for use in stabilizing the dollar now, and it will probably not be necessary in the future. It is questionable how long it can be held for this purpose. Congress will probably want to utilize it in some manner. If it is spent or used in reducing debt it will result in the creation of two billion dollars more excess reserves without giving us any additional power to wipe out the excess. It would be desirable for the Administration to get the jump on Congress by suggesting the use of the Fund in such a manner as not to give rise to excess reserves during the upswing.

Mr. Gardner in our Division suggested segregating it and holding it as a Depression Fund. This is a good idea, but is probably not politically feasible. My suggestion is that it should be the Government's contribution to the Social Security Fund and should remain in the form of gold. It will then be used only at a time when unemployment is large or increasing. Its use at such a time would be constructive. I think this proposal could be made attractive as a political proposition.