

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

## Office Correspondence

Date July 1, 1936To Chairman Eccles

Subject: \_\_\_\_\_

From Mr. Gardner

W.R.G.

When we discussed Stabilization Fund data the other day it was not my impression that you desired a memorandum on the subject. After talking with Mr. Wyatt, however, whom you have asked to report on the legal aspects of the question, I have prepared the accompanying brief statement of the situation and what might be done about it.

July 1, 1936

THE STABILIZATION FUND AND FEDERAL RESERVE POLICY

1. The Stabilization Fund administered by the Secretary of the Treasury has from time to time played a significant part in the movement of gold to the United States and its role may become of greater significance if France leaves the gold standard. The inward movement of gold has been the dominant factor in building up excess member bank reserves. Excess reserves constitute perhaps the chief problem now before the Board of Governors of the Federal Reserve System. Information as to the operations and policy of the Stabilization Fund would materially aid the Board in its formulation of Federal Reserve policy.

2. The New York Federal Reserve Bank already has such information by reason of its fiscal agency relations with the Treasury. As fiscal agent it not only carries out the Treasury's orders for account of the Fund, but it is freely consulted as to the effect of proposed actions, and its officers discuss the policy of the Fund with Treasury officials. The information so obtained is guarded by the New York bank as a Treasury secret. It is not passed on to the Board. In fact the New York bank finds itself in the position of protecting the Treasury against the Board, thus tending to create divided loyalties within the system. A curious situation develops in which the New York bank comes to the Open Market Committee meetings in possession of essential information of which the Board is ignorant, or of which it is informed only at the discretion of the New York bank.

3. It is possible that the Board, as the supervisory body of the Federal Reserve System with special responsibility for foreign transactions, could require the New York Federal Reserve Bank to give it complete information daily regarding its transactions on behalf of the Stabilization Fund. But such a power presumably would not be used without the assent of the Treasury, helpful though it might be in gaining that assent. Even without the power, the Board may properly request the Treasury to supply it with the information as an aid to the intelligent conduct of Federal Reserve policy.

If the Treasury is willing to cooperate, there are several possible working arrangements that might be made. A confidential statement with regard to the daily operations of the Fund might be circulated to Board members. More comprehensive memoranda with regard to policy might occasionally be prepared by the Treasury. Perhaps the arrangement best calculated to meet both the Treasury's desire for secrecy and the interests of the Board would be to assign the job to a single Board member who would proceed to familiarize himself with the Fund's operations and their international background with a view to discussing developments with the Treasury officials. Out of such a working relationship the Board would gain maximum familiarity with the Fund's operations and policy, and the Treasury would have the satisfaction of divulging its secrets to one man only, with, however, the understanding that as occasion arose he would inform the Board of those developments most significant for Federal Reserve policy.