

STERILIZING FUTURE ACQUISITIONS OF GOLD

The most practical and satisfactory device for neutralizing gold imports through Stabilization Fund operations under existing law would be as follows:

- A. The Fund would buy all imported gold.
- B. To pay for this gold it would use funds obtained from the General Fund of the Treasury in exchange for its gold transferred to the Treasury.
- C. The Treasury would obtain such funds by increasing the amount of Treasury bills sold to the market.

An illustrative example of the detailed operation of a transaction is as follows:

- (a) X, in New York, imports \$50,000,000 worth of gold.
- (b) Delivers the gold to assay office for account of Stabilization Fund (Secretary's special account).
- (c) Federal Reserve Bank of New York, as fiscal agent (for Stabilization Fund), pays X for gold by issuing its cashier's check.
- (d) X deposits check in its member bank.
- (e) Member bank deposits check with Federal reserve bank, receiving credit in its reserve account, thus increasing excess reserves.
- (f) Amount of Federal reserve bank's check is charged to account of Stabilization Fund (Secretary's special account).
- (g) This account is replenished by transfer from account of Treasurer of United States (General Fund) on books of Federal reserve bank.
- (h) Stabilization Fund turns over to Treasurer gold equivalent to transfer, which gold will be impounded in General Fund.
- (i) At selected dates the Treasurer's account with the Federal reserve bank will be replenished by the sale of Treasury bills to the market in amounts sufficient to compensate for the purchases of gold during a given period.
- (j) Bills will be paid for, directly or indirectly, by a drawing on a member bank's reserve account with Federal reserve bank, the increase in reserves mentioned in "(e)" above being thus neutralized.

Note 1: Since any purchase of gold increases bank deposits and hence changes the ratio of deposits to reserves, this plan slightly more than neutralizes the increase in excess reserves. Should it be desired exactly to equate this, slightly less than \$50,000,000 in bills could be sold.

Note 2: Any purchase of gold increases bank deposits. If it is desired to neutralize such increase, a corresponding amount of Government deposits could be transferred from member banks to Federal reserve banks to the extent of such deposits.