

December 11, 1956

DRAFT FOR DISCUSSION PURPOSES OF A SUGGESTED REPLY TO THE SECRETARY
OF THE TREASURY.

The opinion of the Board of Governors of the Federal Reserve System has been requested by the Secretary of the Treasury with reference to a method by which the Treasury Department would absorb by its funds imports of gold and thereby prevent such imports from becoming bank reserves. The Board understands that the Secretary of the Treasury desires an expression of the Board's opinion as to whether the suggested method would effect the expressed purpose of preventing a further increase of excess reserves arising from this specific source. The Board recognizes that the question of whether the proposed method is put into effect is a matter within the jurisdiction of the Treasury Department and is appreciative of the spirit of cooperation which has prompted the Secretary of the Treasury to bring the matter to the attention of the Board before deciding to put such method into effect.

1. The Board of Governors is of the opinion that the method proposed would effect the stated objective.

2. The Board of Governors feels that it should draw the attention of the Secretary of the Treasury to the question of the advisability of so timing the going into effect of the suggested method that it will coincide with action if and when taken by the Board to bring about a further reduction of the present volume of excess reserves. The Board feels that the timing element is of importance because if the effectiveness of the proposed method were announced coincident with Board action to reduce excess reserves, assurance would be given to the banks and to the public that no further occasion should arise from this specific cause requiring additional readjustment of the reserve position of the banks, whereas, prior announcement of the proposed method would tend to obscure the occasion for action by the Board to deal with the excess of reserves already existing, the volume of which would not be reduced by the proposal of the Treasury.

3. The Board of Governors is of the opinion that such proposal of the Treasury if so timed would be appropriate under existing circumstances, but that circumstances may subsequently arise which would make it advisable to consider and adopt other means of dealing with the same problem arising from the same cause.