

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

## Office Correspondence

Date June 22, 1937To Chairman EcclesSubject: Reserve against foreignFrom Lauchlin Curriedeposits proposalConfidential

You may be interested in the results of some thinking and inquiries I have made on the gold problem. The problem is not only important in itself but will, I fear, unless carefully handled, result in renewed misunderstanding with the Treasury.

The main stumbling block we have run into is our belief that the Treasury wishes to de-sterilize immediately and at one fell swoop one billion dollars of its inactive gold account. It was to avoid this, as I recall, that you worked out and presented the proposal that we should handle new inflowing gold up to one billion dollars at our discretion. I have checked with White, however, and he tells me that it is not the Treasury's idea to de-sterilize the one billion dollars at one step. The Treasury's position, as he understands it, is first to get the power and then for us to use it gradually, say, \$50 million or \$100 million at a time, after full consultation with the Treasury. They would continue their current sterilization operations and they would expect no commitments from us as to how far we would use the power. They are as anxious to avoid disturbance to the government bond market and capital market generally as we are. The presumption is that we would cooperate fully in the public interest in any de-sterilization operations that took place.

All this, it seems to me, puts a wholly new complexion on the matter. I wish you would confirm it and, if you find the situation to be as I have indicated, I see no reason why we cannot go along with the Treasury.