Operations of the Exchange Stabilization Fund -- 1934-1939

Draft submitted by William A. Brown, Jr.
July 11, 1942

Note of Items Needing to be Further Checked or Confirmed

Page 1	-	Accuracy of statement concerning manner in which gold in circulation was held at the beginning of 1934.
Page 5	-	Correct legal reference to the Act of March 17, 1862.
Page 6	-	Confirmation of the procedure employed in Treasury gold purchases, January 1933.
Page 9, 12 & 33	-	Confirm or correct reference to the origin of the gold taken over by the Stabilization Fund in May 1934.
Page 10	-	Check statement that new type gold certificates were given in exchange for gold in the Redemption Fund for Federal Reserve Notes.
Page 32	-	Note 4: Confirm or correct statement that gold bought by the Stabilization Fund in May 1933 was taken from the General Fund.
Page 39	-	Confirm or correct statements made with regard to Secretary's powers to deal in Government securities for the Stabilization Fund.
Page 44	-	Confirm or correct the inference that no transactions in sterling or Swiss francs were contemplated when the fiscal agency arrangements of September 4, 1934 were set up.
Page 45	-	Check date on which Guaranty Trust Company was appointed as agent for the Stabilization Fund.
Page 50	-	Confirm or correct inference that the Fund's operations in francs were influenced by the assasination of King Alexander of Yugoslavia.
Page 61 & 106	-	Confirm or correct the statement that no interest cost was allowed for in calculating the Fund's ability to buy gold in London at $34.77.
Page 80	-	Check gold export point, Paris to New York, at time of crisis of May June 1935.
Page 89	-	Confirm cost of shipment of silver, London to New York.
Page 89	-	Improve statements concerning Treasury's purchase of silver from China in August 1935.

Page 94	-	Correct statement concerning Chinese deliveries of silver purchased by the Treasury in May 1935.
Page 96	-	Correct statements concerning changes in Treasury Silver Policy in November 1935.
Page 134	-	Check whether Treasury took the initiative in negotiations with Sweden at the time of the Tripartite.
Page 153	-	Check statements concerning the requirement under the Tripartite that gold earmarked must be the property of the institution for whose benefit the earmark was created.
Page 158	-	Check date and contents of Netherlands Bank letter.
Page 178	-	Check statement that Bank of France placed all or most of the gold bought from the Fund in its earmark with the Federal Reserve.
Page 189	-	Check statements concerning purchases by the Fund in the open market in London. In general, I do not feel entirely confident that I have accurately separated the Fund's gold purchases in London, made in the open market, from those made from the Bank of England.
Page 197	-	Check inference that the Fund sold gold in the open market in London, November 8, 1937.
Page 201, bottom & 202, top	-	Confirm the figures relating to the adjustments made by the Fund when desterilization was begun.
Page 205	-	Check statement that after desterilization the Fund's transactions with the General Treasurer were continued under the Secretary's letter of November 6, 1936.
Page 216	-	Check the statement that the Bank of England acquired dollars for pegging sterling at 4.06-1/8, June-August 1939, through release of gold from earmark.

In addition, I have been unable to clear up completely a question concerning the date on which approval was obtained from the President for sale of gold to all or any Central Bank or Treasury in 1936. The difficulty is stated on Page 112.

Part I

I. The Treasury's Gold Accounts Prior to the Passage of the Gold Reserve Act of 1934.

A. The Monetary Gold Stock of the United States Prior to the Passage of the Act.

From May 1933 to January 30, 1934, the Monetary Gold Stock of the United States was virtually constant at just over $4,300,000,000. It was held partly in the vaults of the Treasury, partly in the vaults of the Federal Reserve Banks and partly by persons who had not yet complied with the gold hoarding orders issued under the Emergency Banking Act of 1933.[1] On November 29, 1933, for example, the distribution of the total monetary gold stock between these holders was in round figures as follows:

In Treasury	3,201,000,000
At Federal Reserve Banks	811,000,000
In circulation	311,000,000 [ii]
Total	4,323,000,000

Of the 3,201,122,000 gold coin and bullion held by the Treasury on that day only 33 million was free gold in the General Fund, all the rest being held in trust as indicated by the following statement of the gold liabilities of the Treasury:

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[1] (Check accuracy)

[ii] When the Gold Reserve Act went into effect on January 30, 1934, gold coin in circulation, then estimated at $287,000,000 was excluded from the Monetary Gold Stock. For reasons see Federal Reserve Bulletin, February 1934, p. 95.

Nov. 29, 1933

Treasury's Gold Liabilities, November 29, 1933

To the Federal Reserve System		$2,762,259,000
Gold Certificates held in vault by the Federal Reserve Banks -	942,794,000	
Gold Fund, Federal Reserve Board (of which Federal Reserve Agents Fund, 1,105,174,000; gold settlement Fund, 673,403,000)	1,778,577,000	
Gold Redemption Fund, Federal Reserve Notes	40,888,000	
To Others		405,755,000
Gold Certificates in circulation outside the Federal Reserve Banks and the Treasury	219,387,000	
Reserve Against United States Notes	156,039,000	
Reserve Against Federal Reserve Bank Notes and National Bank Notes	30,329,000	
Total Gold Liabilities		$3,168,014,000
Free Gold at the disposal of the Treasury		33,108,000
Total Gold Coins and Bullion held		$3,201,122,000

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1) Compiled from Tabulation attached to Statement of Governor Black concerning the Gold Reserve Bill (S2366) - Federal Reserve Bulletin, February 1934, No. 74-5 and the Treasury Daily Statement of November 29, 1933. There are slight discrepencies in these sources and where these occur the Treasury Daily Statement figures are taken.

Of these gold liabilities the Gold Redemption Fund against Federal Reserve Notes and the gold held against Federal Reserve Bank Notes and National Bank Notes were liabilities of the General Fund, and the remainder liabilities of the Treasury's gold account.

This situation remained virtually unchanged until the Gold Reserve Act went into effect on January 30, 1934.

B. Gold Acquired by the Government as a Result of the Gold Purchase Program.

In addition to the gold held in the Treasury and included in the Monetary Gold Stock at $20.671834 per ounce the Treasury and the Reconstruction Finance Corporation held, on the eve of the passage of the Gold Reserve Act;[10] gold purchased at various prices higher than $20.67+ in the course of the three phases of the gold purchase program.

The first phase of this program lasted from September 8 to October 24, 1933. During this period the Treasury accepted newly mined domestic gold at the Mints and Assay Offices on consignment for sale to persons licensed to acquire gold for non-monetary purposes or for sale to foreign purchasers. The secretary was authorized under Executive Order of August 29 to sell such gold at prices based on the world price.[11] The second phase was carried out by the

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~~10) Confirm whether the Treasury took over the~~ R.F.C. gold ~~on January~~ 15 or ~~January 31 and February 1.~~ I conclude from the record ~~that it was the latter.~~

11) The daily prices are given in the Secretary's Annual Report for 1934, p. 205.

Reconstruction Finance Corporation under Executive Order of October 15. Late in October the Corporation began to purchase gold both at home and abroad gradually increasing the price paid from $31.36 per fine ounce on October 25 to $34.01 on December 1[1]. The gold acquired abroad was purchased by the Guaranty Trust Company in Paris and London either from the Bank of issue or in the open market with foreign exchange bought by them at rates within ~~the~~ limits agreed upon with the Federal Reserve Bank of New York acting as Fiscal Agent for the Reconstruction Finance Corporation. The gold so acquired was bought from the Guaranty Trust Company by the Reconstruction Finance Corporation with its own notes payable in gold[2]. The amount of gold purchases authorized under this arrangement was at first $25,000,000 but additional purchases up to $20,000,000, $25,000,000 and $25,000,000 were authorised on December 12, 1933, December 20, 1933 and January 3, 1934. On November 23, 1933 the Guaranty Trust Company was instructed to transfer the gold it had acquired abroad from its London and Paris offices to the Bank of England and the Bank of France. Up to January 15 the Reconstruction Finance Corporation had bought $23,000,000 of domestic gold and $108,000,000 of foreign gold in London and Paris at the total cost of $132,000,000 and an average cost of $32.75 per ounce[3].

On January 15 the President sent a special message to Congress asking for powers to devalue the gold dollar, to vest title to all gold in the United States in the Government and to establish an Exchange Stabilization Fund out of the devaluation profit. On the same day the execution of the gold purchase program was transferred from the Reconstruction Finance Corporation to the Treasury.

1 Ibid.

2 Letter of November 1, 1933 from the Guaranty Trust Company of New York to the Federal Reserve Bank of New York in the "Gold -- General -- Fiscal Agents and Depositaries" file

3 The R.F.C. gold was taken over by the Treasury on February 1, 1934 at this price. Treasury memorandum in "Transactions--General" file. (Check whether this was also the cost to the R. F. C.)

phase 3?

In order to carry out Treasury gold purchases Mr. Morgenthau obtained the consent of the President for an issue of $250,000,000 U. S. bonds to be dated January 16, 1934 and maturing April 18, 1934. In describing the purposes of this issue the Secretary said in his letter to the President: "Such bonds will be used to purchase through the Federal Reserve Bank of New York gold coin containing an amount of gold equivalent to gold purchased abroad by a bank, member of the Federal Reserve System, designated by the Federal Reserve Bank of New York. The price to be paid for such gold coin will be the cost in dollars of the equivalent amount of gold purchased abroad, at? prices advised by me from time to time with your approval, including handling charges and cost of transportation to New York and insurance plus 1/4% of such dollar cost to cover the overhead of such transactions.[1] The bonds will also be used to purchase from the Federal Reserve Bank of New York gold coin containing an amount of gold equal to the domestic gold purchased by the Federal Reserve Bank of New York with my approval".[2] The purchase of coin rather than gold bars with these United States securities was necessitated because the legal authority of the Treasury to buy gold at above the old statutory price was limited to coins. It was found in the Act of March 17, 1862 (31 U.S.C. 734 and 752--check). This Civil War Act authorised the Secretary of the Treasury to use bonds and notes for the purchase of <u>coin</u> at such rates as he deemed in the public interest. It was therefore necessary for gold acquired abroad to be coined or exchanged for gold coin before it could be bought by the Treasury.[3] The following modus operandi therefore was

1 The 1/4% handling charge which was later imposed on all gold purchases and sales under the Gold Reserve Act appears here for the first time and it can be inferred that it was not made part of the new monetary system and because of any desire to widen the gold points but solely for revenue purposes.

2 "Gold--General--Fiscal Agents and Depositaries" file.

3 Memorandum November 8, 1933 in "Gold--General--Procedure and Policy" file.

worked out to accomplish this result:

Modus Operandi for the Purchase of Gold Abroad[1]

1. At the direction of the Secretary of the Treasury, the Federal Reserve Bank of New York will request the Guaranty Trust Company to buy a specified amount of gold bars in London or Paris. The Guaranty Trust Company will use their own funds in London or Paris and will recoup themselves by purchasing in the exchange markets the funds so used within the limit of exchange rates fixed by the Secretary of the Treasury.

2. When the gold is purchased it shall be delivered to the Bank of England or the Bank of France to be held subject to the order of the Federal Reserve Bank of New York. The latter will arrange to have the gold held earmarked in a special account at the Bank of England or the Bank of France and will advise the New York Assay Office that the gold is held in London or Paris for the account of the Treasurer of the United States.

3. The Treasurer of the United States will instruct the Assay Office in New York to hold at the disposal of the Guaranty Trust Company an amount of gold coin equivalent in fine weight to the gold held abroad.

4. The Guaranty Trust Company will sell this gold coin to the Treasury and receive in payment Treasury notes maturing in about thirteen months, with interest at a rate to be agreed upon, such notes to be in a face amount equal to the cost in dollars of the gold purchased abroad plus estimated shipping charges to New York.

5. The Secretary of the Treasury will authorize the Federal Reserve Bank of New York to purchase these notes from the Guaranty Trust Company once a week when the Guaranty Trust Company will pay the Federal Reserve Bank of New York the shipping charges which the Federal Reserve Bank of New York will use to defray the cost of shipping the gold from London or Paris to the New York Assay Office. If these estimated shipping charges should prove to be insufficient to cover the cost of shipping all of the gold held in London or Paris to New York, the Federal Reserve Bank of New York will not be expected to ship the uncovered balance of gold unless the Treasury pays the additional shipping costs.

The price fixed by the Treasury for newly -mined domestic gold when coined was $34.45 per ounce[2] and the gold bought abroad under the above program was acquired at a roughly equivalent price.[3]

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1 "Gold--General--Fiscal Agents and Depositaries" file. Several plans were worked out and the one quoted in the text is not attached to the formal letter of the Secretary to the Federal Reserve Bank of New York of January 15, 1934, putting the plan into effect, but it appears to be the procedure actually used.-(Check)

2 Secretary's Annual Report for 1934, page 205.

3 This is inferred from the fact that the price of the gold coin held on Jan. 31 works out at $33.42 per ounce.

The foreign gold transactions of the Treasury at this time, therefore, amounted to an exchange of gold coin at home for gold bullion abroad at the statutory price and the repurchase of the gold coin at prices fixed by the Secretary. The face value of the coin so purchased was $32,438,350 valued at $54,122,155.[1]

Under the gold purchase program as a whole the Government acquired foreign and domestic gold at a total cost of $191,000,000 and at average cost of $33.09 per ounce. Of this, over 61% was purchased in London and 33% in Paris and was distributed between the Reconstruction Finance Corporation and Treasury purchases as follows:

[1] Memorandum of May 26, 1934 in "Gold--General" file, which states that on that date this amount of coin, purchased abroad under arrangements made with the Guaranty Trust Company of New York prior to January 31, 1934 was still held by the Federal Reserve Bank of New York for account of the Treasury (check). On November 23, 1934 the Federal Reserve Bank of New York still held $58,218,704 in gold coin acquired under the arrangements of January 15, 1934 for the Treasury, and was instructed on that day to have it melted into bullion under the terms of the Gold Reserve Act. ("Transactions--Buying and Selling Gold--General" file). This appears to include ~~the~~ $3,000,000 in coin purchased in the United States under these arrangements. (In his Annual Report for 1934 the Secretary says that on January 31, 1934 the Treasury held $30,623,145 face amount of gold coin acquired at a cost of $49, . I cannot reconcile the difference in these figures.)

Cost of Gold Purchased as of January 31, 1934[1)]

R.F.C.	ozs.	$ (millions)	Treasury ozs.	$ (millions)
Domestic Gold	695,000	23	94,817	3
Foreign Gold		108		55
In U.S.	154,000			
In Paris	772,000		529,000	
In London	2,407,000		1,130,000	
Total Cost to Treasury		132		58
Average Cost per oz.		32.75		
Value at $35 per ounce		141		61

II. The Treasury's Gold Accounts After the Passage of the Gold Reserve Act and Before the Establishment of the Fund.

The foregoing details of the ways in which, and the purposes for which, gold was held by the Federal Reserve Banks and the Government just before the Gold Reserve Act went into effect have been given in order to make clear the precise effects of that Act on the gold accounts of the Treasury up to the moment when the Stabilization Fund was established.

A. The Transfer of the Gold Reserves of the Federal Reserve Banks to the Treasury.

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1) Condensed from Tables given in "Transactions General" File.

On January 30, 1934, the Government took title to all the gold owned by the Federal Reserve System under Section 2 of the Gold Reserve Act which reads:

> "Upon the approval of this Act all right, title and interest, and every claim of the Federal Reserve Board, and of every Federal Reserve Agent, in and to any and all gold coin and gold bullion shall pass to and are hereby vested in the United States; and in payment therefor credits in equivalent amounts in dollars are hereby established in the Treasury in the accounts authorised under the sixteenth paragraph of Section 16 of the Federal Reserve Act, as heretofore and by this Act amended (U.S.C. Title 12, Sec. 467). Balances in such accounts shall be payable in gold certificates, which shall be in such form and in such denominations as the Secretary of the Treasury may determine."

This transfer was carried out as follows:

The gold held by the Federal Reserve Banks amounting to $178 millions and the gold held by the Federal Reserve Agents amounting to $628 millions, the gold held in the Gold Settlement Fund amounting to $727 millions and the gold held in the Federal Reserve Agents Fund, amounting to $1,035 millions--in all $2,568 millions[1]-- was taken over by the Treasury in exchange for credits payable in gold certificates of a new type bearing on their face the wording:

> "This is to certify that there is on deposit in the Treasury of the United States of America - - dollars in gold, payable to the bearer as authorized by law".[2]

The Federal Reserve Agents Fund and the Gold Settlement Fund which had theretofore appeared in the Treasury Daily Statement under the heading "Gold Fund, Federal Reserve Board", became the "Gold Certificate Fund, Federal Reserve Board", and the whole amount of gold taken over from the Federal Reserve System as noted above was placed in this fund.

1 Copies of the detailed receipts issued to the Federal Reserve Banks and Agents for these amounts are in the "Gold--General" file. They include $13,800,151 in gold held abroad by the Federal Reserve Bank of New York which subsequently became part of the first gold purchased by the Stabilisation Fund. See page 33.(Confir

2 Treasury Press Release January 31, 1934. The wording of the old $20 gold certificate was as follows: "This certifies that there have been deposited in the Treasury of the United States of America twenty dollars in gold coin payable to the bearer on demand." The considerations leading to the change in wording of the gold certificates are set forth in a memorandum from Mr. Bell to the Secretary of September 18, 1933, which is in the "Gold--General" file.

The gold held in custody in the General Fund for the Redemption Fund against Federal Reserve Notes was brought into the Gold Account, and the Redemption Fund was set up as a liability of that Account. New type gold certificates were given for this gold, and also in exchange for the old type gold certificates held by the Federal Reserve Banks.[1]

The statements of the Gold Account of the Treasurer in the Treasury Daily Statements of January 29 and 30, 1934, show the effect of the transfers (Table 1). Both sides of the gold account were increased by just over $800,000,000. The gold reserves of the Federal Reserve Banks were converted from gold bullion held in vault gold certificates evidencing the deposit of a certain ~~weight~~ of ~~gold bullion~~ to gold certificates of a fixed dollar value.[11]

Table I -- Gold

January 29, 1941

Assets		Liabilities	
Gold Coin	825,913,605.20	Gold Certificates Outstanding	1,126,967,919.00
Gold Bullion	2,401,653,668.06	Gold Fund, Federal Reserve Board	1,761,798,715.79
		Gold Reserve (U.S. Notes)	156,039,088.03
		Gold in General Fund	182,761,550.44
Total	3,227,567,273.26	Total	3,227,567,273.26

1) Check - no authority.

~~11) Check the exactness of this by~~ comparing the ~~text of~~ the old and new gold ~~certificates~~.

January 30, 1934

Assets		Liabilities	
Gold	4,029,092,988.86	Gold Certificates Outstanding	
		(Outside the Treasury)	1,126,234,369.00
		Gold Certificate Fund	
		(Federal Reserve Board)	2,567,771,258.66
		Redemption Fund	43,355,766.73
		(Federal Reserve Notes)	
		Gold Reserve (U.S. Notes)	156,039,088.03
		Gold in General Fund	135,692,506.44
Total	4,029,092,988.86	Total	4,029,092,988.86

B. The Inclusion of the Gold Acquired Under the Gold Purchase Program in the Monetary Gold Stock and the Devaluation of the Dollar.

On January 31, 1934 at 3:10 p.m. the President's Proclamation reducing the gold content of the dollar went into effect. The Treasury immediately took over the gold purchased by the Reconstruction Finance Corporation, revalued this gold together with the gold it had itself bought under the gold purchase program, and included the total in the Monetary Gold Stock at $35 per ounce. At the same time the gold in the Treasurer's Gold Account was revalued.

On January 31 a memorandum was prepared in the Treasury Department showing in round figures that the revaluation would work out as follows:

Gold Held in the Treasury January 31, 1934[1]

		Old Value Before Revaluation	Value at $35 per ounce
In Gold Account		$4,032,000,000	$6,826,000,000
Treasury gold	3,226,000,000		
Gold acquired from			
FR Banks	178,000,000		
FR Agents	628,000,000		
Gold Acquired from R.F.C. (Cost)		132,000,000	141,000,000
Gold Purchased by Treasury (Cost)		59,000,000	61,000,000
		4,223,000,000	7,028,000,000
Profit		2,804,000,000	

Before the close of business on January 31 additional gold was deposited in the Treasury bringing its gold account to $4,034,867,780 as of 3 p.m. and increasing the revaluation profit to over $2,805 millions. Moreover, on February 1, the Treasury carried out a number of gold transactions abroad. It disposed of $14,500,000 of the gold acquired from the R.F.C.[2] and bought $3,154,391 in gold abroad. These purchases however did not appear to have entered the accounts until February 2,[3] leaving the total in the Treasury's Gold Account on the day after the revaluation $7,018,263,925.70.

Since the gold liabilities of the Treasury were expressed in gold dollars and not in the form of a warehouse receipt for a specific amount of gold bullion or specific gold coins deposited, they were not increased, and consequently the

1 Table in "Transactions--General" file.

2 Check carefully wording of table in "Gold--General" file showing gold held by the Treasury on April 30, 1934 and gold purchased from the R. F. C.

3 On February 2 the Treasury acquired 30,125 ounces of gold in Paris and 60,000 ounces in London according to a memorandum in the "Gold--General" file. At $35 per ounce these amounts work out at $3,153,375 and I assume they are the same as the purchases referred to elsewhere in this file as having been made on February 1.

whole increment resulting from the reduction in the weight of the gold dollar was reflected in an increase in gold held in the General Fund. The devaluation profit realized on January 31 and February 1 was $2,805,512,060.87 and the item "Gold in the General Fund" on the Daily Statement increased from $ on January 31 to $3,132,484,953 on February 1. On February 1 the Gold Account of the Treasurer stood as follows:[1]

Assets		Liabilities	
Gold	$7,018,263,925.70	Gold Certificates	
		Outstanding outside	
		the Treasury	$1,118,757,359.00
		Gold Certificate Fund	
		(Federal Reserve Board)	2,567,627,658.66
		Redemption Fund	
		Federal Reserve Notes	43,355,766.73
		Gold Reserve (U.S. Notes)	156,039,088.03
		Gold in General Fund	3,132,484,953.28
Total	$7,018,263,925.70	Total	7,018,263,925.70

[1] Treasury Daily Statement.

C. The Accounting Treatment Given to the Devaluation Profit in the Books of the Treasurer.

As directed by Section 7 of the Gold Reserve Act, the Devaluation profit was shown in the Treasury Daily Statement as a miscellaneous receipt. Since, however, the major part of the profit was to be set aside under the Act to establish an Exchange Stabilization Fund of $2,000,000,000, and the remainder was reserved for non-budgetary purposes, this treatment of the profit was inappropriate and in some respects misleading. It obscured the true budget position as indicated in the Comparative Analysis of Receipts and Expenditures published on page 2 of the Treasury's Daily Statement. In this statement for February 1, an excess of receipts of $973,716,937.20 was shown for the fiscal year 1934 as compared to a deficit of $1,864,940,663.53 for the same period the previous year, though the actual budget deficit had really increased slightly. The large net balance in the General Fund was also misleading.

Consequently on February 28 the Treasury transferred the devaluation profit, which had by then increased to $2,808,221,137.09, from the General and Special Funds (Budget) side of the Daily Statement to the Trusts and Contributed Funds side, which was given the new title "Trusts and Contributed Funds and Increment in Gold".[1] On the daily statement of February 28, $2,808,221,137.09 was deducted from Miscellaneous Receipts of General and Special Funds and added to the receipts of Trusts and Contributed Funds and Increment in Gold. Consequently this statement

[1] Memorandum from Under Secretary Bell to Secretary Morgenthau, February 28, 1934.

showed an excess of expenditures over receipts of General and Special Funds for the fiscal year 1934 of $2,352,170,239.42, whereas on February 27 it had shown a surplus of $478,961,717.93, and the true budget position was accurately indicated. Expenditures changeable to the devaluation profit were thenceforth to be treated as expenditures from Trusts and Contributed Funds and Increment in Gold and eliminated from the budget side of the Daily Statement entirely. Among these expenditures were losses on gold melting as they accrued and the Stabilization Fund, the balance remaining at the discretion of the Secretary unless specially appropriated by Congress.[1])

This rearrangement of the Accounting Treatment of the gold increment still left the swollen net balance in the General Fund, pending the actual establishment of the Stabilization Fund, and the disposition of the balance of the gold increment for Special purposes.

III. The Establishment of the Fund.

On March 17, 1934, the $2,000,000,000 appropriated under the Gold Reserve Act of 1934, for the establishment of an Exchange Stabilization Fund under the exclusive control of the Secretary, was made available to him. A check for this amount was issued by the Treasurer of the United States under a Treasury Settlement Warrant and made payable to the Secretary. The Fund, however, was not actually established until a month later.

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1 A Treasury memorandum of January 29, 1934 in the "Gold--Procedure and Policy" file indicates that $10,000,000 of the devaluation profit was set aside as a reserve to take care of losses through abrasion.

A. Accounting Procedure Employed.

The first steps were taken on April 16. On that day the Secretary returned the check for $2,000,000,000 to the Treasurer with the request that two new checks should be issued, one for $1,999,900,000 to be held pending further instructions and one for $100,000 to be put in a disbursing account in the name of the Secretary. A checking account with the Treasurer (Symbol 17-610) was opened by the deposit of the check for $100,000 and designated "Secretary of the Treasury, Exchange Stabilization Fund". Pending the payment into this account of the bulk of the Fund represented by the second check for $1,999,900,000 this check was not shown as an expenditure from the gold increment in the Trust and Contributed Funds section of the Daily Statement but was treated as a Suspense item.[1)]

The Secretary was thus placed in a position to meet the preliminary expenses of organizing the administrative machinery of the Fund and distributed the $100,000 among three disbursing accounts. $93,000 was deposited in a disbursing account designated Exchange Stabilization Fund, Disbursing Accounts, Secretary of the Treasury (Symbol 17615) which became the active checking account of the Stabilization Fund with the Treasurer of the United States, and the remaining $7,000 was divided between two small accounts in the name of Special Disbursing Agents.

On April 27 the Stabilization Fund was formally set up. The Treasurer's

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[1)] I infer this - check correct accounting term.

check for $1,999,900,000 was deposited in the account designated Secretary of the Treasury Exchange Stabilization Fund (Symbol 17-610) and the total amount paid into this account, $2,000,000,000, appeared in the Daily Statement of that day as an expenditure under the heading Trust and Contributed Funds and Increment in Gold. Two checks were drawn on Symbol 17610, one for $99,900,000 which was deposited in the Secretary's Active checking account with the Treasurer (Symbol 17-615), and one for $100,000,000 which was deposited in gold certificates in the Gold Certificate Fund (Federal Reserve Board) by the Treasurer of the United States for the credit of a new account to be opened by the Federal Reserve Bank of New York and designated "Secretary of the Treasury, Special Account".

The $2,000,000,000 paid to the Secretary by the Treasurer of the United States was thus divided into three parts: An account of $100,000,000 with the Federal Reserve Bank of New York, disbursing accounts with the Treasurer amounting at the outset to $100,000,000, and an inactive deposit with the Treasurer of $1,800,000,000 (Symbol 17-610). Under instructions from the Secretary a new heading was added to the Liabilities side of the Treasurer's Gold Accountswith the designation "Exchange Stabilization Fund", which was to show the balance in Symbol 17-610;[1)] and $1,800,000,000 in gold was transferred from gold in the General Fund to this new account. Gold in the General Fund was further reduced by the $100,000,000 deposited in the Gold Certificate Fund of the Federal Reserve Board for the credit of the Secretary's new Special Account at the Federal Reserve

1) Letter of Secretary Morgenthau to the Treasurer of the United States, April 27, 1934.

Bank of New York, and the disbursing accounts were included among the liabilities of the General Fund under the heading "Deposits of Government Officers, Postmasters, Clerks of Courts, etc."

These transfers were all carried through on April 27, 1934, and are reflected in the following changes in the Treasury Daily Statement between April 26 and April 27.

(in millions of dollars)

1. In the Gold Account (Liabilities)

Gold Certificate Fund of the Federal Reserve Board	+ 101
Exchange Stabilization Fund	+1,800
Gold in the General Fund	-1,901

2. In the General Fund

Assets		Liabilities	
Gold	-1,901	Deposits - Postmasters, Clerks of Courts, Disbursing Officers, etc.	+ 90
		Net Balance	-2,007

The Secretary's Special Account at the Federal Reserve Bank of New York was included at the outset in the item Government Deposits on the balance sheet of the Bank, and this item showed an increase of $150 millions between April 25 and May 2. But after a few days the Special Account was included under "Other Deposits" and the balance sheet heading Government Deposits was changed to United States Treasurer, General Account.

B. The Secrecy of the Fund's Operations.

The $200,000,000 which constituted the active part of the Stabilization Fund was by these means made available to the Secretary with a minimum of disclosure to the public of the actual disposition made of it. Once in active operation the transactions of the Fund were effectively screened. Its dollar assets were divided between two accounts, "Deposits of Government Officers, Postmasters, Clerks of Courts, etc." in the General Fund and "Other Deposits" at the Federal Reserve Bank of New York, through which many other transactions were passed. Such gold, silver, government securities ~~in~~ and foreign exchange as the Fund might acquire would not be shown in any published statements unless and until the Fund made public its own balance sheet.

III. The Powers of the Federal Reserve Banks to Hold or Deal in Gold under the Reserve Act of 1934.

The changes in the monetary standard of the United States made by the Gold Reserve Act of 1934 and the Proclamations, Orders and Regulations issued thereunder were in effect for nearly three months before the Exchange Stabilization Fund was definitely established and put in a position to intervene actively in the gold, silver and foreign exchange markets. During that interval certain steps were taken by the Treasury affecting the powers of the Federal Reserve Banks to hold and deal in gold under the Act which had a bearing on the later relations between the Fund and the Federal Reserve Bank of New York.

The first of these was the authorization given to the Federal Reserve Banks to act as fiscal agents for the Treasury in the purchase and sale of gold in accordance with the general monetary policy officially announced by the

Secretary on the day following the passage of the Gold Reserve Act.

A. Powers to Buy and Sell Gold as Fiscal Agent of the United States.

On January 31 the Treasury announced that it would sell gold for export to foreign central banks whenever the exchange rates in gold standard countries reached gold export point, making all such sales through the Federal Reserve Bank of New York as fiscal agent at $35 per ounce plus 1/4 subject to the regulations issued under the Gold Reserve Act. [1] In a general statement to the press, in which he summarized the provisions of the Gold Reserve Act, the Secretary also announced that he would buy through the Federal Reserve Bank of New York as fiscal agent, for account of the United States, any and all gold delivered to the United States Mints and Assay Offices at $35 less the usual mint charges less 1/4. These purchases would be subject to compliance with the regulations issued under the Act, and the price was subject to change at any time by the Secretary of the Treasury without notice.

On the same day the Secretary wrote to the Federal Reserve Bank of New York officially advising it of these public statements and authorizing and requesting it to act in accordance with their terms, and to make written contracts or agreements with such parties as the Secretary might approve to buy gold on the terms indicated or on such other terms as the Secretary might approve. This letter also stated that no gold held illegally[2] was to be bought, that the Treasury would fully recompense the Federal Reserve Bank of New York for all amounts paid and for its out of pocket expenses, and that the bank would incur no liabilities except for its own negligence.

1 Treasury Press Release, January 30, 1934.

2 In non-compliance with sections 2 and 3 of the Act of March 9, 1933 or regulations thereunder or with the Gold Reserve Act.

These arrangements provided the basic mechanism for stabilizing the dollar exchange rate on other gold standard countries, provided that no devaluations were carried out by such countries and the Secretary did not alter the buying and selling prices mentioned in his two announcements. They also established a rather wide spread between the gold export and import points between the United States and other gold standard countries.[1]

They did not provide for two types of intervention in the exchange markets, which had become part of the technique of managing the international gold standard in the post war period. One of these was intervention designed to prevent exchange rates from moving temporarily beyond the gold points due to lack of transport or some similar reason. The other was intervention designed to hold exchange rates at the gold point for short periods and thus prevent gold movements that would otherwise take place, and which might be rendered unnecessary if the rate could be temporarily pegged pending a change in market conditions. Flexibility of this sort was, however, possible under those sections of the Act which permitted the Federal Reserve Banks to deal in or hold gold as principals.

B. Powers to Deal in and Hold Gold under Sections 3 and 6 of the Act.

Under section 6 of the Gold Reserve Act the Federal Reserve Banks were authorized to redeem gold certificates held by them at such times and in such amounts as, in the judgment of the Secretary, were necessary to maintain the equal purchasing power of every kind of currency of the United States. And under section 3 the Secretary was directed to prescribe the conditions under which the Federal Reserve Banks might acquire, hold, transport, melt or treat, import, export or hold under earmark, gold for the purposes of settling international balances.

1 ~~There is nothing in the files to indicate why this was thought~~ desirable.

1 4 p 5. note 1

The regulations governing the exercise of these powers were grouped together in Article IV, sections 28 and 29, of the Provisional Regulations of January 1934. They authorised the Federal Reserve Banks to acquire for the two purposes specified in the Act: 1) gold abroad; 2) gold not held illegally in the United States; and 3) gold held by the Treasury for redemption of gold certificates, but only in amounts deemed necessary by the Secretary of the Treasury. The regulation specified that the Federal Reserve Banks could hold, transport, export and hold under earmark gold so acquired, provided that if, after six months, this gold had not been used for these purposes it must be deposited with the Treasury in exchange for dollar credits payable in gold certificates. The six months period might, however, be extended by the Secretary.

The Act and the regulations thereunder thus clearly contemplated an active role, subject to the judgment of the Secretary, for the Federal Reserve Banks in carrying out, as principals, gold transactions connected with currency stabilization, and did not entrust this function exclusively to the Federal Reserve Banks as fiscal agents and to the Stabilization Fund.

On March 23, 1934 the Secretary wrote to the Federal Reserve Bank of New York giving it authority to acquire gold bullion held in the General Fund either through the release from earmark of gold held by the Bank for the Treasury, or from the Assay Office,[1] for sale directly or through intermediaries to foreign central banks which bought gold at a fixed price. Such sales were authorised "whenever and so long as" the exchange rates were below gold export point from New York. Gold so acquired was to be paid for by a credit to the Treasurer of the United States of $35 per ounce plus 1/4 but if not used for the purpose

1 "Gold--General - Buying and Selling - General" file.

specified had, under Article 4 of the Regulations, to be resold to the Treasury at $35 per ounce.[1] On the same day the Secretary wrote to the Assay Office authorizing it to deliver gold to the Federal Reserve Bank under the conditions specified.[2]

In April 1934 two letters were drafted by the Treasury and the Federal Reserve Bank of New York which broadened this authority sufficiently to permit the Federal Reserve Bank to undertake stabilization operations designed to hold the exchange rates of gold standard countries at gold export point. These drafts provided that the Federal Reserve Bank might acquire gold for the Treasury for sale to Central Banks of gold standard countries if the exchange rates were <u>at</u> or below gold export point from New York and if the gold so sold was to replace or provide exchange or currency of such countries previously sold when the exchange was at or below gold export point. They provided further that the Bank give advance notice to the Treasury that its sales of exchange were in anticipation of purchases of gold for export not exceeding a definite amount.[3]

These drafts were submitted by Mr. Logan of the Treasury to Mr. Crane of the Federal Reserve Bank of New York on April 24, the day on which the Secretary issued his instructions for setting up the Stabilization Fund. Neither of them was actually used to supersede the letter of March 23, but on August 15, 1934 the Secretary wrote to the Federal Reserve Bank of New York stating that the authorization given in the letter of March 23 to sell gold to foreign central banks when the rate was below gold export point included authority to acquire such gold from the Treasury at any time for sale by the Federal Reserve Bank either directly or through intermediaries to such central banks and to replace exchange previously sold at a rate at or above gold export

1 "Gold--General--Buying and Selling" file.
2 "Transactions--Buying and Selling" file.
3 "Transactions--Buying and Selling Gold" file.

point.[1] This authority permitted the Federal Reserve Bank of New York to cooperate with foreign central banks in preventing the exchange rates of gold standard countries from actually reaching gold point and causing private gold arbitrageurs opportunities to appear, and enabled it to obtain gold for this purpose from the Treasury without redeeming gold certificates. This letter was sent at a moment when the Paris T/T rate on New York had gone above gold export point.[2] Consequently on August 15 the Federal Reserve Bank of New York acquired 38,544 ounces of gold ($1,282,270) from the Treasury of which $1 million was sold to the Guaranty Trust Company for shipment to the Bank of France to replace 15 million francs sold by that bank at 6.69-1/2, and the balance was sold to the Bankers Trust Company for shipment to the National Bank of Belgium. (15 mill)(.06695) = 1,004,250. $\frac{1282270}{38544}$ = 33.267694

Small gold shipments to the Bank of France were made in the same way on August 25, the gold being obtained from the joint custody of the Federal Reserve Agent of the Federal Reserve Bank of New York, and further shipments were made to the Bank of France and the Bank of the Netherlands up to September 4, 1934, when the Treasury established new fiscal agency arrangements for intervention in the foreign exchanges by the Stabilization Fund.[3] No further use appears to have been made of this method of exchange intervention until February 5, 1936.[4]

In addition to these limited powers of initiative in exchange stabilization operations, the Federal Reserve Bank of New York continued to act, under rigidly

1 "Gold--General--Buying and Selling--General" file. August 10 the Secretary wrote to the Federal Reserve Agent at New York authorizing him to release gold bars held in joint custody by the Federal Reserve Agent and the Federal Reserve Bank of New York for the purposes specified in the letter of March 23, 1934.

2 On August 15 the Federal Reserve Bank of New York calculated the gold export point to Paris at 6.6926¢ while the Paris T/T rate was 6.69-1/2¢. It also calculated the gold export point to Brussels at 23.7714 while the Brussels T/T rate was 23.08.

3 See page 43.

4 See page ~~138~~ 138, note 2

determined limitations, as an intermediary in gold transactions of foreign central banks and in some cases in gold transactions between foreign central banks and the Stabilization Fund through gold earmarking operations.

C. General License to Hold Gold under Earmark for Foreign Central Banks.

Under section 3 of the Gold Reserve Act the Secretary of the Treasury was given broad latitude to permit transactions in gold for purposes which "in his judgement are not inconsistent with the purposes of this Act." The holding of gold by the Federal Reserve Banks under earmark for foreign central banks was deemed to be such a purpose by the Secretary, but under section 34 of the Provisional Regulations it was necessary for them to obtain a license[1] from the Treasury to continue this long established central banking practice. This was done, and on February 5 license NY-18-1 was issued to the Federal Reserve Bank of New York authorizing it to transport, import, export, melt or treat gold held by it under earmark for a foreign central bank, or sent to it after January 30, 1934 from abroad by a foreign central bank, or delivered to it for account of a foreign central bank pursuant to a license granted by the Secretary of the Treasury; and to earmark such gold and hold it in custody for a foreign central bank[2]. Without this license all earmarking of gold at the Federal Reserve Banks would have been illegal, and even under its terms the customary freedom of inter-central bank gold transactions was restricted. Transfers of earmarked gold from the account of one central bank to another were permitted only when the central bank requesting the transfer had received ~~the~~ a license from the Treasury to make it. This restriction gave the Treasury an opportunity to make sure

1 Form T.G. 18.

2 This license has not been made available to me, but its terms were summarized by the Federal Reserve Bank of New York in letters to its correspondents. The terms as stated in the text are taken from a letter from the Federal Reserve Bank of New York to the Bank of Venezuela in July 1936.

that such transfers were not carried out by central banks for third parties, and were in harmony with the Treasury's policy that all earmarked gold should be exclusively the property of the foreign central bank for whom it was earmarked and subject to their instructions only.[1] This became a matter of lively interest to many central banks particularly when the question of reciprocity in gold dealings was under discussion at the time of the Tripartite Agreement of 1936.[2]

In addition the Federal Reserve Bank of New York was authorized on February 7, 1934 to buy, as fiscal agent for the Treasury, gold held by it under earmark for any foreign government, or central bank or for the Bank for International Settlements.[3]

These carefully defined powers to deal in gold retained by the Federal Reserve Bank of New York were a subsidiary part of the general framework of the new monetary system of the United States put into effect under the Gold Reserve Act of 1934. Within this general framework the Stabilization Fund had a useful though somewhat restricted field of operations, but before it engaged in any exchange stabilization activities it demonstrated its usefulness as a convenient piece of machinery for executing various special transactions in which the Treasury was interested. Its first foreign transaction was the exchange for silver of gold acquired by the Treasury on February 1, 1934 and still held abroad at the end of April.

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1 There is no indication in the files to show why this policy was adopted.

3 "Gold--General--Buying and Selling--General" File. cf. p136

2 cf. pp. 136-138.

PART II

Preliminary Operations and Fiscal Agency Arrangements of the Fund - 1934

I. The Exchange of Treasury Gold Held Abroad for Silver and the Entry of the Stabilization Fund into the Silver Market.

A. The Legality of Silver Purchases by the Fund.

B. Fiscal Agency Arrangements for the Exchange of Gold for Silver and the Purchase and Sale of Silver.

C. The Actual Exchange of Gold for Silver and the Entry of the Stabilization Fund into the Silver Market.

D. The Fund as a Channel through which Foreign Silver was Bought Under the Silver Purchase Act.

II. The First Investments of the Fund in Government Securities.

III. Fiscal Agency Arrangements for Intervention by the Fund in the Exchange Market.

IV. The First Intervention in the Exchange Market - French Francs.

I. The Exchange of Treasury Gold Held Abroad for Silver and the Entry of the Stabilization Fund into the Silver Market.

Even before the devaluation of the dollar the Treasury began to transfer to the United States gold acquired abroad under the gold purchase program[1] and by February 7 all the 1,130,309 ounces deposited at the Bank of England by the Federal Reserve Bank of New York for the Treasury had been repatriated through the release of an equivalent amount of gold heldunder earmark for the Bank of England by the Federal Reserve Bank of New York.[2] The gold acquired by the Treasury in Paris was also imported.[3] In addition gold purchased for the Reconstruction Finance Corporation abroad began to be imported in February.[4] Towards the end of April there remained in the hands of the Treasury in London less than $50,000,000 in gold.[5]

On April 24, 1934 Secretary Morgenthau asked and obtained the approval of the President of the purchase of silver with the Stabilization Fund at the London market price up to the value of gold held in London by the Federal Reserve Bank of New York as fiscal agent for the Treasury ($44,589,000).[6] On the next day this authority was extended to include the conversion of foreign funds realized from the sale of this gold into silver in New York as well as in London.[7]

1 By January 31, 1934, 499,695 ounces of gold acquired in London in January had been so transferred.

2 There is no indication in the files as to why the Bank of England wished to carry out this transaction.

3 9,400 kilos were imported from the Bank of France in February 1934. This is about three-fifths of the total acquired by the Treasury in Paris.

4 These imports of gold previously bought by the R.F.C. and the Treasury and already included in the monetary gold stock of the country caused difficulties for the Federal Reserve Bank of New York in reporting its gold import and export figures. Letter of the Federal Reserve Bank of New York to the Treasury February 5, 1934, "Gold--Procedure and Policy" file.

5 See page 33. The disposal of this gold was the first foreign transaction of the Stabilization Fund.

6 No reasons are suggested in the files as to why this exchange of gold for silver was considered desirable.

7 "Gold" file.

A. The Legality of Silver Purchases by the Fund.

Under section 9 of the Gold Reserve Act the Secretary is empowered to "sell gold in any amounts, at home and abroad, in such manner and upon such terms as he may deem most advantageous in the public interest", and in section 10 he is authorized to deal for account of the Stabilization Fund in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary in order to stabilize the exchange value of the dollar. Neither of these sections mentions silver. Consequently Mr. Morgenthau wrote to the Attorney General on April 24 for an opinion concerning his power to dispose of the gold held by the Bank of England and acquire silver in place of it.[1]

This letter was supplemented by a letter from the Treasury's General Counsel, Mr. Oliphant, to the Attorney General enclosing a memorandum supporting a broad interpretation of the Secretary's powers. In this memorandum Mr. Oliphant

[1] Letter of April 24 not in file but is referred to in Mr. Oliphant's letter of May 14, and the Attorney General's letter of opinion of May 29.

said that the question to be decided was whether the Secretary was authorized under section 10 of the Gold Reserve Act to sell gold <u>or other assets</u> in London or elsewhere and acquire silver in New York or other silver markets, both spot and futures. Mr. Oliphant argued for a liberal interpretation of the word "deal" in the Act and presented a detailed argument to show that silver was a money material and could be accepted and held by the Stabilization Fund. On May 29[1] Mr. Cummings sent an opinion letter to the Secretary, in which, after citing sections 9 and 10 of the Act, he concluded:

"Section 9 expressly authorizes you to "sell" gold at home or abroad, and the authority of section 10 to "deal" in gold contemplates selling, no less than buying. Considering the recognized mediums of exchange, you would perforce sell gold for (1) gold or some form of obligation or currency payable in or linked to gold, or (2) silver or some form of obligation or currency payable in or linked to silver, unless some form of currency linked to no metallic standard or an obligation payable in such currency also be considered.

"To trade gold for gold as a stabilizing operation would, I suppose, accomplish nothing; to trade gold for a representative of gold might also fall short of accomplishing the intended result. In such manner it may well be reasoned that in particular circumstances silver would be the logical, perhaps the only reasonably acceptable medium for the conversion of gold in a stabilizing operation. There is, in fact, no more reason for believing that Congress

1 Letter and memorandum in "Transactions, Buying and Selling Foreign Exchange--General", file.

intended to exclude silver or (what would amount to very much the same thing) obligations or exchange payable in or linked to silver, than it intended to exclude other recognized mediums of exchange. Especially is this true of stabilization of the price of the dollar, as it may be affected or influenced by silver, is the purpose sought to be accomplished.

"For these reasons it is my opinion that you are authorized to dispose of the gold mentioned in your letter and to acquire silver in lieu thereof."[1]

The wording of this opinion was broad enough to cover not only the purchase of silver with gold by the Secretary, but, as Mr. Oliphant had argued, to bring silver within the recognized mediums of exchange in which the Stabilization Fund could deal for the purpose of stabilizing the dollar. It appears to have been so interpreted by the Secretary for on June 5 the Federal Reserve Bank of New York was authorized to buy silver for the Fund not only from the proceeds of gold sold abroad, but from the Secretary's Special Account at the Federal Reserve Bank of New York.

Under this broad interpretation of sections 9 and 10 of the Gold Reserve Act the Secretary was in a position not only to use the Stabilization Fund for the exchange of gold for silver, but to sell the silver so acquired and to purchase additional silver. The Stabilization Fund therefore became a convenient and effective piece of machinery in the hands of the Secretary for carrying out some of the purposes of the Silver Purchase Act of 1934 which became law on June 19. In order to set this machinery in motion the depository and fiscal

1 "Gold" file.

agency arrangements developed to carry out the original plan of exchanging gold held in London for silver were adapted to the requirements of the Silver Purchase Act.

B. Fiscal Agency Arrangements for the Exchange of Gold for Silver and the Purchase and Sale of Silver - 1934.

On April 24 the Secretary wrote to the Federal Reserve Bank of New York requesting it (1) to purchase spot silver in London directly or through agents "at market, but within such maximum amounts and prices (at the current dollar-sterling exchange) as indicated in specific instructions to be given from time to time by the Treasury; (2) to sell the $44,589,000 gold held abroad under earmark for the Treasury in amounts sufficient to make these purchases; (3) to select silver depositories in London, subject to the approval of the Secretary, and pay all reasonable charges of transportation and storage and cost of transportation into the United States when so directed by the Secretary; and (4) to deposit, as fiscal agent of the United States, balances accruing from the sale of gold and not immediately used to purchase silver, in any banking institutions in London which had been designated as depositories of the United States. The Treasury specifically directed that these sterling balances should be kept at a minimum. The following day these instructions were extended to cover the purchase of spot silver in New York. The Federal Reserve Bank of New York and its agents were authorized to advance, at current rates of debit interest, sums needed to cover the cost of silver in New York and to reimburse themselves from the proceeds of gold sold in London at the market rate of exchange without profit or loss to themselves. The Treasury also authorized, effective May 1, the purchase of forward as well as spot silver in carrying out the gold-silver exchange.[1]

[1] Confirmed in the Secretary's letter of May 16 to the Federal Reserve Bank of N. Y.

The firm of Mocatta and Goldsmid and the National Provincial Bank, Ltd. were selected as depositories of silver in London, and seven New York silver depositories were chosen by the Federal Reserve Bank of New York and approved by the Secretary.[1] The Guaranty Trust Company's London branch was chosen as depository for the sterling proceeds of the gold sold,[2] and under oral instructions given pursuant to these arrangements the Guaranty Trust Co. began at once to carry out the gold-silver exchange.[3]

These fiscal agency arrangements were made before the Stabilization Fund was actually set up on April 27, and while the gold held under earmark in London was still part of the gold in the General Fund of the Treasury.[4] On May 1 the Guaranty Trust Co. of New York asked for official confirmation that the proceeds of the gold sold abroad were by law under the exclusive control of the Secretary.[5] On the same day the Secretary purchased $14,500,000 of this gold from the Treasurer of the United States, and on May 10 he bought the remaining $30,089,047.20. The Secretary was therefore able to give the assurance requested by the Guaranty Trust Co. and on May 9 the Federal Reserve Bank of New York wrote them a formal letter of appointment as agent to carry out the purchase of silver and the other operations incident to the gold-silver exchange, and confirmed that the proceeds of the sale of gold deposited in their London office were under the exclusive control of the Secretary of the Treasury and that the Federal Reserve Bank of New York as fiscal agent was authorised to draw upon them.

[1] These were: Chase Safe Deposit Company, Bank of Manhattan Safe Deposit Co., Irving Safe Deposit Co., Chemical Safe Deposit Co., Guardian Safe Deposit Co., Bowling Green Safe Deposit Co., National City Safe Deposit Co.

[2] Letter of the Secretary of the Treasury to the Guaranty Trust Co. of New York April 24, 1934.

3 A memorandum in the "Gold--General" file shows that the gold held abroad by the Treasury on April 30, 1934 was as follows:

Held abroad by the Federal Reserve Bank of New York for account of the Treasurer of the United States (acquired under the Gold Reserve Act)	$23,365,381
Purchased through the Federal Reserve Bank and held in custody for account of the Treasurer of the United States on January 31, 1934	14,067,488
Bought abroad on February 1, 1934	3,154,391
	$40,587,260

This accords with the fact that the Guaranty Trust Company had begun to carry out the exchange before May 1, but appears inconsistent with the purchase of the whole $44,589,000 in gold by the Stabilization Fund on May 1, and May 10. (I have not been able to reconstruct these details completely.)

4 This is inferred but may be incorrect. When the gold was bought by the Stabilization Fund gold in the General Fund did not decline correspondingly while the Treasurer's balances at the Federal Reserve Bank did decline. This suggests either that the gold was not in the General Fund or that some additional gold transactions were carried out of which I have found no record. This should be checked and corrected.

5 Letter of the Guaranty Trust Co. of New York ("Gold" file).

At the same time the Federal Reserve Bank of New York was instructed to transfer all the gold held in custody for the Treasurer of the United States to a new custody account for the Stabilization Fund, designated "Secretary of the Treasury, Special Account." All gold released to provide funds for the purchase of silver in London by the Guaranty Trust Co. was thereafter to be taken from this account.[1] On May 14 the designation of this account was changed to Secretary of the Treasury Special Custody Account #1 and a new Special Custody Account #2 was opened for silver purchased for the account of the Fund. These were the first of a series of custody accounts which were opened as the Fund acquired various kinds of non-dollar assets.

These fiscal agency and depository arrangements were made to take care of the gold-silver exchange, but as the silver program of the Government developed they were further expanded. As noted above the Secretary on June 5 authorized the Federal Reserve Bank as fiscal agent to purchase silver, under specific authorizations, not only with the proceeds of gold sold abroad, but with the Secretary's special account, that is with the dollar assets of the Stabilization Fund. This instruction was given just before the passage of the Silver Purchase Act on June 19. On August 8, the day before the nationalization of silver at 50.01 cents per ounce[2] the Secretary authorized the Federal Reserve Bank of New York to sell the silver bought under the authorization to purchase when so directed by specific instructions from designated officials of the Department. The Secretary did not, however, begin to dispose of the silver held by the Fund until late in October, when arrangements were made for expanding still further the

[1] Letter of May 10, 1934 from the Treasury to the Federal Reserve Bank of New York ("Transactions - Buying and Selling Gold - General" file)

[2] Presidential Proclamation, August 9, 1934.

Fund's activity in buying silver. On October 26 the Secretary wrote two letters to the Federal Reserve Bank of New York, one authorizing the bank to purchase silver for account of the Fund in markets other than New York and London and providing for the payment of a commission of .02 cents per ounce on such silver, and the other enclosing a form letter approved by the Secretary, to be written by the Federal Reserve Bank of New York to agents which it might select to carry out purchases of silver in markets under the various letters of authority to purchase.[1]

The Chase Bank and the National City Bank of New York were appointed as agents under the letters of October 26 and on November 24, 1934 the number of London depositories of silver was increased to seven by adding to the list the remaining five bullion brokers, Samuel Montagu & Son, Pixley and Abell, Sharp and Wilkins and N. M. Rothschild & Son.

By the end of the year 1934 the Stabilization Fund therefore was in a position to buy spot or forward silver in any market through the Federal Reserve Bank or its agents, the Guaranty Trust Co., the Chase Bank and the National City Bank, and to hold silver so bought in any one of fourteen depositories, seven in London and seven in New York. It was also in a position to sell silver so acquired through the Federal Reserve Bank of New York but no detailed arrangements had been made for disposing of silver in the market and no banks had been appointed agents to carry out such sales. On July 2, 1935 the Federal Reserve Bank of New York submitted a draft letter to be written to such agents as it might select for the sale of silver under authority of the Secretary's letter of August 8, 1934 in order to be in a position to act quickly if specific

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1 The series of letters giving authority to purchase is composed of the letters of April 24, 25, May 16, June 5 and October 26 from the Secretary to the Federal Reserve Bank of New York.

instructions to sell should be issued.[1] The Treasury took the view that if such letters were sent to a number of banks rumors might arise that the Treasury was contemplating a change in its silver policy and was getting ready to sell silver.[2] It therefore advised the Federal Reserve Bank of New York that it would go over the proposed letter and have it ready to send out shortly before sales of silver were contemplated. In this particular the detailed fiscal agency arrangements for Stabilization Fund operations on both sides of the silver market were left incomplete.

C. The Actual Exchange of Gold for Silver and Entry of the Stabilization Fund into the Silver Market.

The purchase of Treasury gold held abroad by the Fund was completed on May 10, payment being made by drawing on the Fund's checking account with the Treasurer (Symbol 17-615). The first weekly balance sheet of the Fund was drawn up on May 14,[3] showing that $10,732,000 in gold had already been exchanged for silver. By June 4 this had been increased by a further $13,350,000, leaving

1 "General Fiscal Agency" file.

2 Memorandum from Mr. Leylin to Mr. Oliphant of July 5, 1935. (General Fiscal Agency file)

3 On this date the assets of the active part of the Fund were distributed as follows:

Dollars		$135,875,000
Special a/c - F.R.B. of N.Y.	$100,000,000	
Treasurer of the U.S. (Symbol 17-615)	33,869,000	
Disbursing Accounts	6,000	
Gold - Special Custody a/c at F.R.B. of N.Y. #1		33,859,000
Silver- " " " " " #2		10,690,000
Foreign Exchange-Fiscal Agency a/c of F.R.B. of N.Y. at Guaranty Trust Co.		40,000
U.S. Government securities		19,500,000

the Fund with $20,50?,000 in gold held by the Bank of England and $24,058,000 in silver in various depositories. The exchange of gold for silver, as originally contemplated was not carried further, but during the next two weeks $6,000,000 in silver was bought in accordance with specific instructions issued under authority of the Secretary's letter of June 5, and paid for by debits to the Secretary's Special Account at the Federal Reserve Bank of New York.[1] In all 67 million ounces of silver had been bought abroad at an average cost of 44.80 cents per ounce. In June this was imported into the United States and held in a special account for the Secretary by the Assay Office.[2]

D. The Fund as a Channel Through Which Foreign Silver Was Bought Under the Silver Purchase Act.

The weekly balance sheets of the Fund show that its holdings of gold and silver were virtually unchanged from June 16 to October 22, 1934, but on October 26 the Fund began to act as a channel for the purchase of silver abroad and its sale to the Treasurer of the United States under the Silver Purchase Act. Not only were the fiscal agency and depository arrangements for the purchase of silver further expanded as noted above, but the sale of silver already acquired was begun. On October 26 Mr. Morgenthau wrote to the Mint authorising it to sell the 67 million ounces held for the Fund to the Treasurer at the rate of 5 million ounces per week till 50 million ounces were delivered. This transaction was a purchase by the Secretary under section 3 of the Silver Purchase

[1] No reasons are suggested in the files for this change of policy.

[2] Letters of the Secretary of the Treasury to the Director of the Mint and Superintendent of the Assay Office, June 13, 1934. ("Buying and Selling Silver" file)

Act of 1934 from the Stabilization Fund at 50.01 cents per ounce, and the proceeds were credited to the Fund's checking account (symbol 17-615) with the Treasurer.[1] On December 28, 1934, when 45 million ounces had been sold, the Secretary instructed the Mint to sell the remaining 5 million ounces under authority of his letter of October 26, and to transfer the balance of 17 million ounces to the Fund. This balance was then sold directly by the Fund to the Treasurer.[2]

This whole transaction - sale of gold, purchase of silver abroad and sale of silver to the Treasurer at 50.01 cents per ounce - yielded the Stabilization Fund a profit of over $3-1/2 millions.[3]

In the same week in which this series of silver transactions was completed, the Stabilization Fund again became a buyer of silver in London. This was the first of a series of purchases in which it acted as the channel through which current purchases of silver abroad were made under the Silver Purchase Act.[4]

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1 ~~Letter~~

2 Letter of December 28

3 Letter of July 1, 1935

4 This is clearly indicated by the weekly balance sheets, which show silver being bought abroad, held in London for short periods, imported into the United States and sold to the Treasurer and replaced by fresh purchases abroad.

II. The First Investments of the Fund in Government Securities.

Under section 10 of the Gold Reserve Act the Secretary was given very broad powers to deal in Government securities for the account of the Fund. Section 10(a) specifically authorizes him to deal, for the account of the Fund, "in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary" for the purpose of stabilizing the exchange value of the dollar; and section 10(b) states:

> "The fund shall be available for expenditure under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portion of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar. The proceeds of all sales and investments and all earnings and interest accruing under the operations of this section shall be paid to the fund and be available for the purposes of the fund."

It was therefore possible for the Fund to enter the Government bond market for two purposes - first to influence the state of the market as part of its general stabilization activities, and second as one of the Government's investment accounts.*

* [Is this form of statement correct? All the $200 million was set aside for stabilization operations. Use of part of this to purchase Government bonds did not require the consent of the President as far as the files indicate. Does section 10(b) refer to possible uses of the inactive part of the Fund?]

These sections of the Act vested in the Secretary the power to carry out "open market" operations in Government bonds through the Stabilisation Fund. In Hearings held before the Senate Committee on Banking and Currency in June 1941 Mr. Morgenthau rejected the view that such powers should be restricted to one Government agency, the Federal Reserve Board, but made it clear that the possibility of conflict between the Treasury and the Federal Reserve authorities in the conduct of such operations had been eliminated by close cooperation between them. Moreover he made the unequivocal statement that the primary purpose for which the Fund bought and held Government securities was to obtain earning assets. Referring to the Government securities held by the Fund at that time Mr. Morgenthau said:

> "We have them there to furnish a certain amount of income against the expenses that we incur. I don't have to have them. I like to feel that there is enough income there to pay our monthly bills. I like, wherever I can, to have enough income to take care of the administrative expenses; that's the only purpose."[1]

When the Fund was first established the desire of the Secretary to provide it with earning assets without making the Fund an active influence in the Government bond market coincided with the need of certain other Government agencies which had Government bonds to sell. Before the Fund was established the Comptroller of the Currency was faced with the problem of disposing of 2% Consols held to secure the notes of insolvent National Banks. In April he was anxious to sell $20 millions of these to the Treasury. The Treasury could

[1] Devaluation of the Dollar and Stabilisation Fund. Senate Hearings on H.R. 4646. June 13 and 19, 1941, pp. 20-21.

buy them either for one of its investment accounts, or for the General Fund. If the Consols had been sold to the General Fund they would have been retired and this might have indicated to the public and to Congress that there was a change of policy with regard to the retirement of National Bank notes. At a time when Congressional pressure was strongly for inflation rather than deflation, such a step might have created an impression not desired by the Treasury, even though the balance in the General Fund was ample to buy the $20,000,000 Consols offered.[1] Under these circumstances it was very convenient for the Comptroller to sell them to an "investment account under the control of the Secretary"[2]. The first substantial securities transaction of the Stabilization Fund, therefore, was the purchase of $19,500,000, 2% Consols at par from the Comptroller of the Currency. Payment was made by drawing on the account of the Fund with the Treasurer (Symbol 17-615).

On May 16 the Comptroller asked the Secretary to arrange for bids to be submitted to him through the Federal Reserve Banks for about $10 millions of 3%, 3-1/8% and 3-3/8% Treasury bonds held to secure the circulation of insolvent banks. These bonds were bought by the Federal Reserve Bank of New York for the Stabilization Fund on May 18, and paid for from the Secretary's Special Account with the bank. This was the first use made of this account in any of the Fund's operations. The first purchases of Government bonds in the open market by the Fund were also made at this time. On May 21 and 22 it bought a total of $5,000,00 Treasury 3's and 3-1/8's through the Federal Reserve Bank of New York. On May 23 the Farm Credit Administration offered $2,815,000 in Government securities of various issues to the Secretary, which he bought directly for the Fund at prices

1 Memorandum to Mr. Coolidge dated April 14, 1934. Unsigned ("Investment in United States Securities, General" file.

~~2 Letter of~~

in line with the market as quoted by the Federal Reserve Bank of New York. Thus between May 18 and May 23 $13,000,000 in Treasury bonds waskept off the market by the purchases of the Fund from Government agencies and $5,000,000 were bought by it in the market through the Federal Reserve.[1] [~~Add here a sentence~~ concerning the market effect of this substantial support.]

No further purchases of Government securities other than 2% Consols and Panama 2's were made during 1934. On May 14 the Treasury adopted the policy of bidding for these issues when offered for sale by the Treasurer in connection with the disposal of bonds pledged by insolvent National Banks to secure postal savings deposits.[2] The first purchases of this sort were made on May 18. The Fund also continued to buy Consols from the Comptroller, $3,000,000 being bought on September 13 and again on December 14, and smaller amounts in the interval. In making these purchases the Fund used its account with the Treasurer of the United States when it submitted bids directly to other Government agencies, and its account with the Federal Reserve Bank of New York when it submitted bids through that bank.

By the end of 1934 the Fund had purchased $44,529,910 par value of Government securities, all but $5,000,000 of which were bought from other Government agencies. Of the total $24,526,950 was in 2% Consols and $1,831,460 in 2% Panama Canal bonds.[3] On two occasions the Secretary had indicated [illegible]

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1 There is nothing in the files to indicate the reason for the Fund's purchases in the open market.

2 Memorandum of May 14 to Under Secretary Coolidge (unsigned). "Transactions in United States Government securities - General" file.

3 Statement of securities held by the Fund on January 10, 1935. (Insolvent National Banks file). There had been no changes between December 31, 1934 and January 10, 1935. On both dates the Government securities item on the balance sheet was $45,067,000.

for 2% bonds bearing the circulation privilege as an earning asset for the Fund by selecting these issues for purchase from lists submitted by other Government agencies[1], and on January 11, 1935 the Federal Reserve Bank of New York was instructed to sell all the securities held by the Fund except its 2% Consols and 2% Panama Canal bonds. These sales were carried out from January 12 to January 21, 1935. The market for ~~Treasury~~ bonds was (now firm)* ~~and the~~ Fund made a profit of $230,000.[2]

III. **Fiscal Agency Arrangements for Intervention by the Fund in the Exchange Market.**

On September 4 the Secretary, with the oral approval of the President[3] authorised the Federal Reserve Bank of New York as fiscal agent of the United States, acting directly or through such agents as they might select to deal in foreign exchange for account of the Stabilisation Fund.

This letter established the basic fiscal agency arrangements for the intervention of the Fund in the exchange market and contained the following points:

1) The Bank was authorised to purchase or sell or agree to purchase or sell for the account of the Fund foreign exchange, (including foreign coins and currencies and/or the coins or bullion into which such coins might be convertible) for present or future delivery.

2) The kinds of exchange to be dealt in, the rates and the maximum amounts to be bought or sold within designated times and at designated places would be

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*~~Check -- inference that no further support was needed~~.

[1] Memorandum of May 14 cited above and Memorandum of December 14. ("Transactions in United States Securities - General" file)

[2] Insolvent National Banks file, January 12, 1935.

[3] Written approval was given on September 21.

specifically authorised from time to time by the Secretary of the Treasury or an official of the Treasury designated by him. Specific authorization would constitute a determination that the transaction fell under section 10 of the Gold Reserve Act.

3) The Treasury agreed to provide the Federal Reserve Bank of New York or its designated agents the dollars and foreign exchange required to fulfill all contracts and agreements entered into under the authorization and to pay all out of pocket and necessary expenses and customary charges, including debit interest when incurred.

4) No liability would be incurred by the Federal Reserve Bank of New York except for its own negligence.

A form letter approved by the Secretary of the Treasury to be written by the Federal Reserve Bank of New York to each of the agents chosen by it as fiscal agent to carry out these operations was enclosed, and the Federal Reserve Bank of New York was authorised to agree with such agents that they incurred no liability except for their own negligence.

The Federal Reserve Bank of New York was authorised to pay to such agents a commission of .00125 cents per French franc, and .005 cents per Dutch guilder and Belgian franc on all purchases and sales, made through them, this to be added to the customary charges made by brokers.[1]

The form letter to the agents repeated the substance of the Secretary's letter to the Federal Reserve Bank of New York and advised the agents that the operations

[1] No commission was fixed for sterling or for Swiss francs. The files do not suggest any reason for these omissions. The inference is that no transactions in these exchanges were contemplated. Check this inference.

authorized were approved by the President, that the form of letter written to the agents was approved by the Secretary, and that the agents might rely on the agreements made under it by the Federal Reserve Bank of New York as fiscal agent as binding on the United States.[1]

Under this authority the Federal Reserve Bank of New York at once appointed the Chase National Bank and the National City Bank, and on September 25 the Paris offices of these banks were designated as depositories for the Federal Reserve Bank of New York as fiscal agent. The Guaranty Trust Co. of New York was already acting as agent,[2] and on February 11, 1935 the Bankers Trust Co. was added to the list.

IV. The First Intervention in the Exchange Market - French Francs.

While the formal details of these fiscal agency arrangements were still being worked out the Stabilization Fund undertook its first large scale exchange stabilization operation. On September 5 it entered the market for French francs in support of the dollar.

During the last two weeks of August and the first days of September the franc had been very firm both in dollars and in sterling. Gold coming in to the London market had been going either into hoards or to Paris, rather than to the United States. The impression was gaining in Europe that a further devaluation of the dollar, or at least a substantial inflation in the United States was very probable, and that the British authorities would allow sterling to follow the dollar should it depreciate in terms of the gold currencies. There wasa good

1 "General Fiscal Agency" file.

2 Check whether the Guaranty was appointed under the letter of September 4 as well as under earlier letters.

deal of speculative selling of dollars and a strong movement of capital from London to Paris. A circumstance that increased this movement was that the French Government was at this time under legal obligation to reduce the outstanding volume of French treasury bills, and French banks were consequently actively increasing their balances at the Bank of France by transferring funds from London. At the same time sterling was in good demand in New York to pay for Treasury purchases of silver under the Silver Purchase Act.[1] Consequently sterling was weaker in Paris than it was in New York, and arbitrageurs were able to make a profit by selling sterling for dollars, dollars for francs and francs for sterling. This further weakened the dollar in terms of francs, and on several occasions late in August the dollar-franc rate went to 6.69-5/8. Gold export point from New York to Paris at this time was about ~~6.69-1/2~~ ? and gold was allowed to move from New York to Paris. In the week ending September 1 the exchanges were very irregular and sterling broke sharply from 5.06 to 4.98. Francs, however, continued firm and the gold movement to France from America continued, amounting in all to $28,430,000.[2]

These gold exports were in accordance with the policy of the Treasury announced on January 31, that gold would be permitted to move freely to gold standard countries when their exchange rates reached gold export point, but ~~it~~ was brought to an abrupt end by the intervention of the Fund.

On Wednesday, September 5, the Fund acquired a supply of spot francs by selling Fcs 134,301,220 three months forward against spot. It sold during the day a total of Fcs 85,155,038 of the spot francs and also an additional

1 (Not checked from Treasury sources)

2 This summary of market conditions is based on the market reports of the Commercial and Financial Chronicle of August 25, September 1 and September 8.-- pp. 1134-5, 1290-1 and 1450. ~~The gold shipments were announced early in September (check)~~. See p. 27 for the part played by the Federal Reserve Bank of New York in this gold movement.

Fcs 5,744,999[1] three months forward. These transactions were all carried out by the Guaranty Trust Co. as agent for the Federal Reserve Bank of New York, fiscal agent of the Treasury. They caught the short interest unaware, and forced it to cover. The dollar-franc rate was driven below gold export point and the Fund was able to make all its sales of spot francs at 6.68 or better.[2] At the same time themarket believed that the British Exchange Equalization Account was also squeezing the short interest. Sterling, like the dollar also improved during the day, but the two "controls" appear to have acted independently.[3]

The total transactions in francs on September 5 were as follows:

000 omitted

Forward Francs Sold		Spot Francs Bought		Spot Francs Sold	
Fcs.	$	Fcs.	$	Fcs.	$
140,046	9,368	134,424	8,984	85,155	5,960
⇒ 6.69 ¢/fc		⇒ 6.68 ¢/fc		⇒ 7.00 ¢/fc.	

This left the Fund with a short forward position of $9,368,000, ? against which it had $3,294,000 in spot francs on hand, leaving a net uncovered short ? forward position of $6,074,000. From September 5 to September 25 it remained in the market as a seller of spot francs at 6.68, a price above dollar-franc parity but below gold export point to Paris. On September 6 and 7 it added to its supply of spot francs by further sales of forward francs against spot, but

[1] If the order in which the individual transactions took place could be safely assumed to be the order in which the specific authorisations appear in the files, an account could be given of the details of this "trapping" manoever.

[2] The recovery of the dollar took place late Wednesday afternoon after the European markets were closed, Commercial and Financial Chronicle September 8, 1934, p. 1450.

[3] There is no reference in the files examined of any collaboration between them at this time.

140,046 − 134,424 + 85,155 = (90777 fcs short)(x) = 6074

⇒ x = 6.69112 ¢/fc.

sold substantially more spot francs than it purchased, thus increasing its uncovered short forward position (Table 2)?. During the next few days only a fraction of the amounts made available to the agents of the Fund for sale at 6.68 were taken by the market and on September 12 sales of spot francs for the account of the Fund ceased. The main operations were now in futures which had to be sold in substantial amounts until September 22 in order to maintain the ceiling of 6.68 over the market. Exchange traders were well aware of the fact that the Fund had taken a short position in forward francs and the franc continued to be firm partly because the market felt the Fund might soon become a buyer of spot francs to cover this position, and partly because it was not yet convinced that there would be no further devaluation.[1] Contradiction

By September 22 the Fund had reduced its holdings of spot francs to the equivalent of $1,325,000 and had increased its short forward position to $17,270,000, leaving it with an uncovered short forward position of $15,695,000[2].

During the week of September 22-29, however, the market gained the impression that the British authorities had become convinced that there would be no further dollar devaluation. Sterling continued to be weak, but the dollar became very firm in Paris, and the Fund was therefore able to enter the market for spot francs to cover its forward position at profitable rates, instead of having to ship gold to Paris. It bought Fcs 15,000,000 on September 25 at 6.66

[1] Commercial and Financial Chronicle, September 15, p. 1589, especially quotation from "L'Information" Paris.

[2] These figures are calculated from the specific authorizations and notations showing actual purchases and sales thereunder in the "Foreign Exchange, French Francs September 21, 1934 to January 15, 1935" file. Correctness has been checked by carrying through the calculations to October 12 and checking the position on October 12 with figures given in the weekly balance sheet of October 15 showing the net short forward position and holdings of spot francs. (Note: After October 12 some of the specific authorizations are missing, and weekly balance sheets from September 10 to October 8 are mission from the files.)

hg

CHART I

and continued to buy on a declining market till October 6. By this time over one third of its forward commitments were covered (Table) but the process was interrupted by the assasination of King Alexander of Yugoslavia and M. Barthou on October 9. The Fund immediately came to the support of the franc with a purchase of Fcs 42,914,000 at 6.63-1/4 ($2,780,000). Three days later it sold substantially the same amount three months forward at ~~a heavy~~ discount,[1] and was thus put in a position to make ~~larger~~ further purchases of spot francs without taking an uncovered long position.[2] Its net short forward position on October 12 was $11,385,000. Between October 22 and November 5, the Fund entered the market, which had now fallen to about 6.60 and bought virtually all of its requirements against its contracts. Beginning December 7 these began to fall due and on January 15, 1935 the whole series of transactions was closed out, and the Fund was out of francs completely. (Table) During these covering operations which began on the day when they were appointed as agents for the Federal Reserve Bank of New York, the Chase Bank and the National City Bank acted for the Fund in addition to the Guaranty Trust Co.

The first substantial intervention of the Fund in the exchange market was thus to impose a check on an outward movement of gold to Paris due to purely temporary causes. By selling forward francs the Fund was able to check a speculative attack on the dollar, and before these contracts fell due it was able to cover its requirements in a weak market for francs. Had the franc continued strong it would have had to ship gold, but as it actually worked out, both the sale of the futures and the covering operations contributed to stability in the dollar-franc rate. [The whole operation therefore was a stabilization operation.]

1 ~~The forward francs were sold at 6.69.~~

2 Is the inference correct that the $2,931,000 in forward francs sold on October 12 were sold for this reason.

It eliminated some shipments of gold in both directions, and as a by-product yielded the Stabilization Fund a trading profit of $335,000.

Transaction rates not given.

TABLE 2

TRANSACTIONS OF THE STABILIZATION FUND IN FRENCH FRANCS
September 1934 to January 1935

(in thousands of dollars)

Date		Forward Francs Sold	Spot Francs Bought	Spot Francs Sold	Spot Francs Delivered Under Forward Contracts	Short Forward Position	Spot Francs Held	Net Short Forward Position
Calculated from Operating Records								
1934								
Sept.	5	9,368	8,984	5,690	-	9,368	3,294	6,074
	6	668	666	1,749	-	10,036	2,211	7,825
	7	233	200	594	@6.68 -	10,269	1,819	8,452
	8	375	-	53	-	10,644	1,764	8,880
	10	792	-	266	-	11,436	1,498	9,938
	11	1,491	-	173	-	12,927	1,325	11,602
	12	1,722	-	-	-	14,649	1,325	13,329
	15	325	-	-	-	14,974	1,325	13,559
	17	320	-	-	-	15,294	1,325	13,969
	18	36	-	-	-	15,330	1,325	14,005
	19	1,610	-	-	-	16,940	1,325	15,615
	21	80	-	-	-	17,020	1,325	15,695
	22	250	-	-	-	17,270	1,325	15,945
	25	-	998 6.66 7/8	-	-	17,270	2,323	14,947
	28	-	332	-	-	17,270	2,655	14,615
Oct.	1	-	1,658	-	-	17,270	4,313	12,957
	2	-	663	-	Falling Rate -	17,270	4,976	12,294
	4	-	331	-	-	17,270	5,307	11,963
	5	-	398	-	-	17,270	5,705	11,565
	6	-	331	-	-	17,270	6,036	10,826
	9	-	2,780 6.63 1/4?	-	-	17,270	8,816	8,454
	12	2,931	-	-	-	20,201	8,816	11,385
						-31	+24	-55
Calculated from Weekly Balance Sheets								
Oct.	15	*	*	*	*	20,170	8,840[1]	11,330[1]
	22	-	1[2]	-	-	20,170	8,841	11,329
	29	-	2,878	-	-	20,170	11,719	8,451
Nov.	5	-	8,213	- ~6.60 t	-	20,170	19,950	220
	12	-	-	-	-	20,170	19,950	220
	19	-	1	-	-	20,170	19,951	219[2]
	26	-	-	-	-	20,170	19,951	219[2]

$17,270,000 Forward fcs sold

[illegible]

TABLE _ (Continued)

(in thousands of dollars)

5887
3351
2845

Date		Forward Francs Sold	Spot Francs Bought	Spot Francs Sold	Spot Francs Delivered Under Forward Contracts	Short Forward Position	Spot Francs Held	Net Short Forward Position
Dec.	10	-	-	-	10,071	10,099	9,880	219
Dec.	17	-	-	-	4,212	5,897	5,678	219
	24	-	-	-	2,536	3,261	3,042	219
	31	-	-	-	506	2,931	2,712	219
1935								
Jan.	7	-	156	-	167	2,931	2,723	208
	15	-	208[2][3]	-	2,931	-	000	000

17492

1 Figures given in balance sheets.

2 Includes interest received on franc balances. columns don't balance

3 Balance needed to close out forward contracts.

* Changes during the week.

PART III

The Operations of the Fund from January 1935 to the Tripartite Agreement of September 1936.

I. The First "Gold Scare".

A. Support of the Foreign Exchanges: January 15 - February 18, 1935.

1. Intervention in support of the franc: January 15-28.

2. The shift in the activities of the Fund to the sterling market: January 24.

3. The condition of the Fund on February 4, 1935 and the replenishment of its dollar balances.

4. Continued support of sterling, February 4-18, and the use of sterling balances to buy gold and silver.

5. The Fund during the first "gold scare" - Summary.

B. Operations of the Fund Immediately Following the Decision of the Supreme Court Upholding the Abrogation of the Gold Clause.

1. Reentry of the Fund into the franc market and the reversal of its market position: February 18, 1935.

2. The use of sterling balances to buy silver and the sale of francs between February 18 and March 25.

3. Sale of gold to the Bank of France: March 6.

II. Disposal of the Fund's Sterling Balances and the Sale of Gold Held Under Earmark at the Bank of England: March 25-June 3, 1935.

III. Advances to Foreign Central Banks Against Gold Earmarked Abroad.

A. Arrangements Made by the Federal Reserve Bank of New York with the National Bank of Belgium and the Netherlands Bank.

B. The Crisis in the French Franc - May-June, 1935.

IV. The Silver Transactions of the Fund: 1935.

A. Summary of Silver Transactions: December 1934-June 1935.

1. The Speculative Boom in Silver: March-April

B. Pegging the Sterling Price of Silver: July-December 1935, and the Accumulation of Silver by the Fund.

1. Preliminary Operations: July 9-10.

2. Pegging at 30-3/11d: July 16-August 11.

3. [illegible]

3. Transition to a New Sterling Price.

4. The Fund in September, 1935.

5. Pegging at 29-15/16d: October 10 to December 5, 1935.

C. The Difficulties of China and the Fund's Far Eastern Purchases.

~~D. Sale of the Fund's Silver to the Treasury: January-August 1936.~~

V. The Silver Transactions of the Fund: 1936

A. Minor Silver Transactions.

B. The Mexican Agreement: January 1936

C. The First Chinese Agreement: May 1936.

D. The Right of the Fund to Sell Silver Futures under the London Agreement.

VI. Gold and Sterling Transactions and Commitments: November 1935-September 1936.

A. Renewed Offer to Purchase Gold from the Bank of France: November 1935.

B. Standing Offer to Purchase Gold in London at the London-New York Shipping Parity.

C. Creation and Liquidation of a Short Forward Position in Sterling: January-May 1936.

D. Gold Transactions from the French Elections of April-May 1936 to the Tripartite Agreement.

1. Purchases of Gold in London at the New York Shipping Parity.

2. Renewal of Arrangements with the Netherlands Bank at Treasury Initiative.

3. Preparations for the Sale of Gold to England: June 1936.

I. The First "Gold Scare".

By the time the Fund had covered all its forward commitments in French francs on January 15, 1935, the gold bloc currencies were much firmer than they had been in November and December, 1934. During the first two weeks in January they ruled at rates sufficiently high to preclude the possibility of gold movements from Paris or other continental centers on an exchange basis. French francs were particularly strong, for confidence was felt in the policies of the Finance Minister, M. Flandin.[1] The situation changed radically, however, when uneasiness spread rapidly abroad concerning the outcome of the gold clause cases before the Supreme Court. On January 15 both sterling and francs were weak. By now the franc had broken through the gold export point to New York of about 6.59 cents, and had reached 6.533 and sterling was 4.864.[2] During the day the two rates fell even further to 6.47 and 4.83-7/8. The situation in the market was described by the Commercial and Financial Chronicle as follows:

"(When the franc fell below 6.59) it became evident that foreign exchange banks were unwilling to assume even the slightest risk of a downward revision of the American gold price while the metal was in transit. As a consequence of this hesitation to buy gold abroad to bring to this side for profit, the foreign exchange panic was on as foreign currencies were thrown overboard in a frantic attempt to buy dollars, which were appreciating widely in terms of sterling and foreign money. With the gold point completely ignored there was no automatic check on depreciation of the exchanges. It was just as though France and other countries had suddenly abandoned the gold standard. Francs

1 Commercial and Financial Chronicle, June 12, 1935, pp. 184-6.
2 Noon cable rates certified by the Federal Reserve Banks to the Treasury.

went to 6.47. At any point around 6.59 for French francs gold could have been imported at a profit, and at 6.47 the potential profit was fantastic. But banks refused to accept the opportunity because of the fear that the price of gold on this side might be lowered while the metal was in transit, and transform the profit into a loss. The Treasury Department was asked to give assurance as to its future gold buying price, but (the Secretary?) merely said that 'until further notice' it would buy gold at $35 per ounce. 'Until further notice' was not sufficient assurance to the banks*****.

The Stabilization Fund intervened at once in this situation and was in the market continuously as a seller of dollars until February 18. For the first two weeks it supported chiefly the French franc, but thereafter its operations were exclusively in support of sterling.

A. Support of the Foreign Exchanges: January 15 - February 18, 1935.

1. [Intervention in support of the franc: January 15-28.]

On January 15 specific authorization was given to the Federal Reserve Bank of New York to buy Fcs. 28,250,000 T/T on Paris at the market, but not over 6.58-3/4, the Bank of France to convert these francs immediately into gold and hold the gold under earmark for the Federal Reserve Bank of New York as fiscal agent.[2] The Fund thus acquired about 53,000 ounces of gold in Paris at a cost of approximately $1,800,000. On the following day it shifted its operations to the Paris market and authorized the Federal Reserve to instruct the Bank of France to sell up to $4,000,000 against francs[3] at 6.57-1/4. ?

1 Ibid. January 19, 1935, p. 359.

2 According to a memorandum prepared in the Treasury Department in February 1934 (undated but filed with February correspondence) gold could be taken by banks from France for shipment to New York if francs could be obtained at 6.58-3/4, but if gold was shipped to London francs would have to be obtained at 6.58.—Mr. Dietrich's "Gold" file.

3 A purchase of francs from the American point of view.

to convert these francs into gold, and to hold this gold under earmark for the Federal Reserve Bank of New York. At this rate gold imports from Paris to New York would still have been profitable, even if the market had responded completely to the support given by the Fund. On the same day a second authorisation was given for the sale of $5,000,000 in Paris by the Bank of France at 6.59 or better. This new limit was well above the market[1] and indicated the Fund's willingness to buy francs at any rate up to, and possibly slightly above the gold export point from Paris to New York.[2] From January 17 to January 28 the Fund was in the market daily as a seller of dollars at any rate up to 6.59 cents in amounts ranging from $5,000,000 to $3,000,000 per day.[3] The Federal Reserve Bank of New York was instructed by the Secretary on January 17 to have all francs thus bought by the Fund converted into gold by the Bank of France, and the gold to be held under earmark by the Bank of France.[4]

As a result of these operations the Fund acquired 1,049,421 ounces of gold in Paris[5] at a cost of about $36-1/2 millions.[6] At an average rate of 6.56 cents per franc this represented a purchase by the Fund of about Fcs. 550,000,000. It was considerably less than the total of the daily limits fixed by the Treasury's authorisations which amount in all to $44,000,000.[7]

1 The noon Paris T/T rate on January 16 was 6.5661 cents.

2 In the files this authorisation comes first, but there is no indication of which was actually first. I infer from the fact that the 6.59 limit was maintained in the following days that the Fund raised its limit during the day.

3 The market responded to 6.584 on January 18 and 19 but fell again to 6.605 by January 28. From January 29 to February 4 francs were just over 6.55 cents and did not move to 6.59 again until February 13.

4 Letter from Mr. Morgenthau to the Federal Reserve Bank of New York of Feb. 18, confirming telephone instructions of January 17.--"Transactions - Buying and Selling Foreign Exchange - Francs converted into gold" file.

5 Memorandum of Federal Reserve Bank of New York to Mr. Dietrich. (March 1942)

6 This figure is not given in the files, but the average cost of the bulk of the gold acquired in Paris was $34.66 per ounce (weekly balance sheets) indicating an expenditure of $36,351,801.

7 The specific authorisations were as follows:

Date		Amount	Date		Amount
January	16	$4,000,000	January	21	$5,000,000
	16	5,000,000		21	4,500,000
	17	5,000,000		22	4,000,000
	18	5,000,000		23	3,900,000
	19	5,000,000		24	3,000,000

The last of these authorizations was given on January 24 for execution on January 25. At the same time a decision appears to have been taken at the Treasury to shift the support of the Fund from francs to sterling and to import the gold acquired by sale of dollars in the Paris market. The first shipment was made on January 24 and on February 14 the last of the 1,049,421 ounces was shipped.[1] The gold acquired as a result of the Fund's initial purchase of francs in New York appears to have been transferred to the Bank of England.[2]

2. The shift in the activities of the Fund to the Sterling market January 24, 1935.

Simultaneously with the initial sales of dollars in Paris the Fund had entered the London market with a small purchase of 14,300 ounces of gold at $34.60 per ounce, and on the following bought an additional 30,100 ounces at $35.65. These purchases amounting in all to about a million and a half dollars were not followed by others during the next week, but on January 24, the day when the last authorization to sell ~~francs~~ Dollars in Paris was given,[3] gold purchases in London were renewed on a more vigorous scale. The Fund, through the designated agents of the Federal Reserve Bank, became a daily buyer of gold. Sterling which after the exceptional weakness of January 15 had remained for ten days within the range of 4.875 to 4.882,[4] fell on January 26 to 4.86 and on that day the Fund supplemented its gold purchases in London by taking a

1 Letter of February 4, 1935 to the F.R.B. of New York confirms instructions to import a total of 1,049,423 ounces of gold from the Secretary's Special Acct. at the Bank of France.--Mr. Dietrich's "Gold" file.

2 There is no evidence in the files of any gold having been imported from Paris before January 24 and no gold washeld at the Bank of France on February 18. (Weekly Balance Sheet) Also the later gold withdrawals from the Bank of England for import to the United States and shipment to France cannot be reconciled with changes in the weekly balance sheets unless this transfer was made. There is however no direct reference to such a transfer in the files.

3 There is nothing in the files to suggest the reasons for this shift from the Paris to the London market.

4 These are noon-cable rates certified to the Treasury by the Federal Reserve Board.

— But Sterling even though not convertible!

long position in sterling. Starting with a purchase of £237,000 in New York on January 26 at 4.8610 and a sale of $5,000,000 in London on January 28, the Fund became an active purchaser of sterling in both markets. By February 4 it had bought £1,299,000 in New York and £1,560,323 in London at a cost of nearly $14 millions.[1] Meanwhile the gold purchases had been substantially enlarged. This acceleration is shown by the following statement of the authorizations given to the Federal Reserve Bank of New York to buy gold in London during the first three weeks of the intervention:[2]

January 15-21	$1,537,745
January 22-28	8,947,679
January 28-February 4	16,828,417

3. The condition of the Fund on February 4, 1935, and the replenishment of its dollar balances.

These heavy purchases of gold and sterling greatly reduced the dollar assets of the Fund. Early in January, just before the intervention began, these had been increased from $125 to $144 millions by the sale of Treasury notes,[3] the proceeds of which were credited to the checking account with the Treasurer, so that when the Fund actively entered the exchange markets its dollar assets were about evenly divided between this account and the Secretary's Special Account with the Federal Reserve Bank of New York from which the payments of gold and exchange were made. During the first week of the intervention the account with the Treasurer was increased by a further $9 millions by sales of

1 The specific authorizations work out at $13,906,236 and the sterling shown in the weekly balance sheet of February 4 was $13,907,000.

2 Compiled from specific authorizations which give the maximum number of ounces and the price and are filed in a separate folder for each of the designated agents.

3 See page 43

CHART II

Treasury notes, and on January 24 the Fund began to import the gold it had acquired in Paris by the sale of dollars.[1] By February 4, $4 million of this gold had reached the United States and had been sold to the Treasurer, the proceeds being credited to the Special Account at the Federal Reserve Bank of New York. This was a very small offset against the debits to this account, for the Fund by that time had spent about $71 millions in support of the exchanges.[2] An additional $14 millions of gold was in transit, but before this arrived the Special account would have been completely exhausted had not a transfer of $50,000,000 been made to it from the Account with the Treasurer.

By February 4 the dollar assets of the Fund had been reduced to $85 millions and its gold holdings reached their peak for this phase of its operations (Chart). The condition of the Fund on that day was as follows:

Principal Assets of the Stabilization Fund February 4, 1935
($000 omitted)

Dollars		$85,028
With Treasurer	$29,502	
At Federal Reserve	55,526	
Sterling at Bank of England		13,907
		73992
Gold		
In London	41,609	
In Paris	18,191	
In transit	14,192	
Silver (in custody)		5,368
Government securities		26,358

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[1] Letter of Treasury to Federal Reserve Bank of New York, February 4 (Mr. Dietrich's "Gold" file.

[2] Foreign operations from January 15-February 4 were:

Increase in gold in London	$21,106,000
Dollar sales in Paris	36,300,000
Sterling bought	13,900,000
	$71,306,000

Since the nervousness of the foreign exchange markets continued unabated and further heavy drains on its dollar resources continued the Fund on February 6 began to import gold from London. The first shipment was of 277,174 ounces ($9,700,000) taken from the gold bought by the Fund in May 1934[1], and this was followed by others until an amount roughly equivalent to the Fund's purchases of January and February was imported[2]. Its dollar assets, however, continued to decline until February 18 (Chart) when the Supreme Court rendered its decision upholding the abrogation of the Gold Clause. Until then the Fund continued to draw down its dollar balances by buying gold, sterling and silver, faster than it built them up by selling gold and silver to the Treasurer.

4. Continued support of sterling, February 4-18, and the use of sterling balances to buy gold and silver.

From February 4 to 18 the Fund was in the market daily in support of sterling. Between these dates it bought about £2,500,000 in New York and £4,710,000 in London at a total cost of about $35,500,000,[3] bringing its total purchases of sterling from January 26 to February 18 to nearly $49,500,000. In addition it bought a further $9,750,000 gold and $3,500,000 silver in the London market without drawing on its accumulated sterling balances. Until February 11 the highest price paid for this gold was $34.71 but on February 16,35,600 ounces were bought at $34.7875 and 43,200 ounces at $34.7758[4] per ounce. The silver

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1 See page 32, and page 33 - note.

2 Letters of the Treasury to the Federal Reserve Bank of New York of February 6 and 21. Gold held on January 15, 1935 was $20,503,000 and on March 4, 1935 was $19,541,000 (Weekly balance sheets).

3 Compiled and calculated from specific authorizations in "Transactions - Buying and Selling Foreign Exchange - Sterling - Authorizations" file.

4 There is no indication in the files as to why the Fund was willing to pay these high prices. The Treasury memorandum of February 1934 cited above states that the highest price the Treasury could pay - allowing for interest - was $34.77.

purchases began on February 6 and by February 18, 7,178,000 ounces 999 fine were bought through the designated agents of the Federal Reserve Bank of New York[1] at prices which were held within the narrow range of 24-5/16 to 24-13/16 pence per ounce .925 fine. This silver, like the gold currently bought, was imported into the United States and sold to the Treasury under the Silver Purchase Act, but the first shipments did not reach the United States until February 21[2].

As a result of these sterling, gold and silver purchases the Fund took a total of £10,000,000 off the market from February 4 to 18. At the same time it disposed of about $18-1/2 millions of its growing sterling balances by buying additional gold and silver in London. The gold purchases amounted to £3,425,470 or the sterling equivalent of $16,718,847.09[3], and were made at prices ranging from 141s 10-1/2d to 142s 10d per ounce[4], through the agents of the Federal Reserve Bank of New York. The silver purchases weremade under an arrangement whereby silver was bought in London by the Fund with sterling, the dollar equivalent of which was credited to the Special Account of the Secretary at the Federal Reserve Bank of New York and charged to the Treasurer's General Account. It was the equivalent of a release of sterling by the Fund to the Treasurer for the purchase of silver under the Silver Purchase Act, a method subsequently

contradicts above stmt.

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1 Memorandum to Mr. Dietrich from the Federal Reserve Bank of New York of March 1942. The specific authorizations add up to 7,275,000 ounces at a cost of $3,627,696. ⇒ 49.87 ¢/oz.

2 Letter of the Treasury to the Federal Reserve Bank of New York of February 18, 1935. "Buying and Selling Silver - National City Bank" file. The $5,343,000 of silver bought in December 1934 in London and held at the beginning of the intervention, was imported in the week of January 21, held in custody for a short time and sold to the Treasurer between February 4 and 18, being replaced by $3,358,000 silver newly bought in London (Weekly balance sheets).

3 Memorandum from Federal Reserve Bank of New York to Mr. Dietrich, April 1942.

4 Specific authorizations.

adopted for certain silver purchases in London[1]. The Federal Reserve Bank of New York was instructed to buy 4,900,000 ounces at 24-5/8 and 24-13/16d per ounce .925 fine, a price which works out at about $2,657,988 (£545,052)[2].

5. The Fund during the first "Gold Scare" - Summary.

The cause of the special strength of the dollar, not only in the gold bloc currencies, but in sterling, during this period was the unwillingness of gold arbitrageurs to perform their ordinary market functions at a time when dollars were in strong demand. The basis of this demand was the belief that a decision by the Supreme Court in the gold clause cases adverse to the Government would be followed by a sharp appreciation of the dollar in terms of other gold currencies. Since the expectation was wide-spread that this appreciation would be brought about by a fall in the American gold price arbitrageurs were unwilling to take the risk of loss involved in such exchange while their gold was in transit. Consequently gold was not taken in substantial amounts from the Bank of France and other Central Banks of gold bloc countries, the supply of dollars was not increased, and exchange rates moved beyond gold points. Gold did, however, move to the United States in substantial amounts from private hoards on the Continent and from London, but this did not keep the rates at gold points, for private holders who had temporarily lost confidence in gold as a store of value, offered it at a "discount" in open market in Paris. The intervention of the Stabilization Fund, even though supplemented by active intervention by the British Exchange Equalization Account in support of sterling in the Paris market[3] was not sufficient to correct this situation wholly.

1 The Federal Reserve Bank of New York states that no sterling was released to the Treasurer to buy silver before Feb. 18 and that the amount of silver purchased through designated agents was only 7,178,000 ounces. The transactions noted however were specifically directed by the Treasury and account for an amount of sterling disposed of and not explained by any other transactions noted in the files.

2 Letters from the Treasury to the Federal Reserve Bank of New York, Feb.14 and 15 in "Transactions - Buying and Selling - Sterling - Authorizations" File.

3 There is no evidence in the files of any cooperation or consultation between the Funds.

From the beginning, however, it had a great influence in steadying the markets. As soon as the markets became aware that banks thought to be operating for the Fund were selling dollars, the exchanges became somewhat more normal. Even so, the franc rate remained persistently below gold export point to New York until February 11[1]. On February 11 Mr. Morgenthau issued a public statement in which he said:[2]

"1. Since January 14th banks and dealers in foreign exchange and gold have practically stopped buying and selling gold, within gold import and export points - which means that the International Gold Standard as between foreign countries and the United States has ceased its automatic operation.

2. Thanks to the foresight of 73rd Congress, we now have a Stabilization Fund.

3. When we saw that the external value of the dollar was rapidly going out of control, we put the Stabilization Fund to work on a moment's notice, with the result that for the past four weeks we have successfully managed the value of the dollar in terms of foreign currencies.

The country can go about its business with assurance that we are prepared to manage the external value of the dollar as long as it may be necessary."

Though the gold arbitrageurs were still dissatisfied because the Secretary's statement did not guarantee that the American gold price would not be reduced, the markets responded to it, and to the continued support of sterling by the Fund.

1 The noon T/T Paris rates certified to the Treasury by the Federal Reserve Board from January 14 to February 11 were as follows:

January 14	.065975	January 23	.065738	February 1	.065620
15	.065336	24	.065480	2	.065508
16	.065661	25	.065394	4	.065520
17	.065690	26	.065155	5	.065672
18	.065843	28	.065052	6	.065616
19	.065848	29	.065511	7	.065662
21	.065641	30	.065521	8	.065635
22	.065759	31	.065556	9	.065775
				11	.065755

2 Treasury Press Release, February 11, 1935.

.0659 - gold export point

Francs shared in the general strength and moved above gold export point to New York.[1]

From January 15 to February 18 the amount of dollars put into the exchange market by the Fund was about $128,000,000, of which $38,000,000 was used to support the franc and $90,000,000 to support sterling. Its operations during this period may be summarised in round figures as follows on the basis of its operating records and weekly balance sheets:

Operations in Support of Francs and Sterling

A. Francs

Francs bought in New York January 15	Fcs.	28,000,000	$ 1,800,000	(6.43)
Dollars sold in Paris January 17-28 (conversion at 6.56)		554,000,000	36,300,000	(6.55)
Total francs bought	Fcs.	582,000,000	$ 38,100,000	(6.55)

B. Sterling

Sterling bought January 26-February 18				
in New York	£	3,800,000	$ 18,600,000	(4.895)
in London		6,300,000	30,700,000	(4.873)
Gold bought in London without use of Fund's sterling balances January 16-Feb. 18		7,700,000	36,500,000	(4.740)
Silver bought in London without use of Fund's sterling balances		800,000	3,900,000	(4.875)
Total sterling bought	£	18,600,000	$ 89,700,000	(4.823)

Total dollars sold in support of franc	$ 38,100,000
Total dollars sold in support of sterling	89,700,000
Total dollar support of exchange market	$127,800,000

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1 Commercial and Financial Chronicle, February 16, 1935, pp. 1024-5. The Paris noon T/T rates in New York February 12-18 were as follows:

February 12	Holiday	February 15	.065946
13	.065944	16	.065975
14	.065946	18	.065833

Disposition + operations on prev. table are equal.

Disposition of Foreign Exchange Bought

Francs converted into gold by the Bank of France		Fcs.582,000,000	$ 38,100,000	→ 6.55¢/fc.
Franc balances retained February 18		None		
Sterling bought by agents and used to buy gold	£	7,700,000	$ 36,500,000[1]	4.74
Sterling balances of Fund used to buy gold		3,400,000	16,700,000[1]	4.91
Sterling bought by agents and used to buy silver		700,000	3,500,000	5.00
Sterling balances of Fund used to buy silver		550,000	2,700,000	4.909
Total sterling disposed of in purchase of gold and silver	£	12,350,000	$ 59,400,000	4.810
Total sterling bought January 15-February 18	£	18,600,000	$ 89,700,000	4.823
Total sterling disposed of Jan. 15-Feb. 18		12,350,000	59,400,000	4.810
Retained by Fund February 18	£	6,250,000	$ 30,300,000[2]	4.848

Of the $91 millions of gold acquired in these operations about $50 millions was imported and sold to the Treasurer by February 18, and by March 1 a further $42,700,000 was imported.[3] The Fund's balance sheet of March 4 shows its gold holdings at $19,541,000 all held under earmark at the Bank of England. This amount was slightly less than the $20,503,000 held since May 1934. The balance of $30,822,000 in sterling which it retained on February 18, therefore, represents in effect its net contribution from its own resources to the stabilization of the exchanges during the "gold scare". Even this may be thought of as not wholly an open position in view of the prospective need ofthe Treasury for sterling for the purchase of silver in London under the Silver Purchase Act.

1 The total gold purchases of the Fund from January 17 to February 18 were 1,520,255 ounces (Memorandum of Federal Reserve Bank of New York to Mr.Dietrich March 1942) 14,300 ounces was bought on January 16. At $35 per ounce the cost works out at $53,709,425 which confirms the approximate correctness of these figures

2 The sterling actually held by the Fund on February 18 (weekly balance sheet) was £6,327,379 valued at $30,822,518. The discrepancy is unavoidable when operating rather than accounting records are used.

3 I have prepared but not included here a detailed note confirming these figures and showing that the gold acquired in Paris on January 16 must have been transferred to the Bank of England.

B. Operations of the Fund Immediately Following the Decision of the Supreme Court Upholding the Abrogation of the Gold Clause.

1. Reentry of the Fund into the franc market and the reversal of its market position: February 18, 1935.

On the morning of February 18 the Fund was still active in support of the exchanges, but shifted its main operations to the French market. It made a small sale of $95,000 in London at 4.87125 and bought about 15-1/2 million francs at a cost of about $1,000,000.[1] On this occasion it supported the franc in New York, Paris and London. Fcs. 1,500,000 were bought in New York at 6.58, $485,000 were sold in Paris at 6.59 and Fcs. 5,600,000 were bought in London with sterling at 74 francs per pound.[2] When the Supreme Court rendered its decision upholding the Government in the gold clause cases, the exchanges responded strongly and the Fund entered the market as a seller of both francs and sterling, selling Fcs. 500,000 at 6.64 and £575,000 at 4.8842 ($2,810,856)? in New York. 2,841,115 ? The episode of intervention to restore the exchanges to "normal" was at an end, but an open position in both francs and sterling remained to be liquidated.

2. The use of sterling balances to buy silver and the sale of francs between February 18 and March 4.

After its initial sale of sterling on February 18 the Fund did not enter the sterling-dollar market again until April 4[3], but it quickly disposed of substantial sterling balances by silver transactions of various kinds.

1 Specific authorizations and weekly balance sheet of February 25.

2 Specific authorizations in "Buying and Selling Francs - Guaranty Trust Co. and Irving Trust Co. files.

3 Specific authorizations in "Transactions - Buying and Selling Foreign Exchange - Sterling - Authorizations" file.

It continued through its agents to buy silver on a moderate scale in London. From February 19 to March 4 specific authorizations were given for the purchase of 1,400,000 ounces of silver at prices from 25d to 25-13/16d per ounce.[1] In addition the Fund released substantial amounts of sterling to the Treasurer for the purchase of silver[2] under the Silver Purchase Act. The greater part of this sterling appears to have been released in the first week after the reversal of the Fund's market position[3]. In the following week the Fund appears also to have taken delivery of 2,000,000 ounces of silver purchased from the Central Bank of China.[4] This was part of a purchase of 10,000,000 ounces originally negotiated for the Fund by the Chase National Bank in November 1934, for delivery to the Chase National Bank in Shanghai. Difficulties had arisen in the delivery of this silver[5] and an arrangement was made in February 1935 for postponing the deliveries according to the following schedule:[6]

2,000,000 ounces	($1,090,000 at 54.50 cents)	March 1935
5,000,000 ounces	($2,609,000 at 53-3/8 cents)	April 1935
3,000,000 ounces	($1,650,000 at 55 cents)	May 1935

1 Specific authorizations for the purchase of silver in London in which the price is quoted in pence per ounce .925 fine gave the option to the Federal Reserve Bank to charge the cost to the Fund's sterling balance at the Bank of England or to the Special Account of the Secretary at the Federal Reserve Bank of New York. The files do not indicate how payment was made in each case.

2 From February 18 to June 10, when the sterling balances were liquidated £745,568 was released to the Treasurer (Memorandum to Mr. Dietrich from Federal Reserve Bank of New York, March 1942) The rates are not given in the files but the dollar equivalent at 4.875 works out at $3,634,644.

3 This is inferred from the substantial reductions in sterling balances at this time not otherwise explained, but is not based on direct evidence.

4 The Fund's silver holdings increased by $1,600,000 in the week of March 4 but its purchases in London through designated agents in those weeks were only $400,000.

5 See page 94 for the nature of these difficulties.

6 "Transactions - Silver - Central Bank of China" file, especially letter of Treasury to the Federal Reserve Bank of New York of February 13, 1935.

Under this arrangement the Central Bank of China was given the option of making delivery in London, subject to a reduction of 3/16 of 1¢ in the price. By May 31, 7,252,000 ounces of the total had been delivered and the balance was still further postponed.[1] The Central Bank of China elected to deliver in London making its first deliveries early in March and its second deliveries early in May.[2]

In these various ways the sterling balances of the Fund were reduced from $30,822,000 to $22,180,000 in the two weeks following the gold clause decision.[3]

3. Sale of gold to the Bank of France: March 6.

On March 6 the Treasury authorized the Federal Reserve Bank of New York to transfer 326,846 ounces of gold held under earmark at the Bank of England to the Bank of France and to sell this gold to the Bank of France at Fcs.16,919.084 per fine kilo[4]. This sale of just over $11,000,000 in gold to the Bank of France reduced the gold holdings of the Fund to $8,186,000.[5] The franc proceeds were immediately sold. On March 6 the Fund disposed of Fcs.165,410,000 at 6.68-1/2[6] ~~or~~

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[1] First to September 10, 1935 and later for the final 2,000,000ounces to November 1935. 748,000 ounces were delivered in July. "Transactions - Silver - Central Bank of China" file.

[2] This is inferred from the reductions in sterling balances at those times which are otherwise unaccounted for in the operating records. There is no direct statement in the files showing the exact delivery dates or that payment was made in sterling.

[3] Weekly balance sheets. The operating records indicate that the reduction was accomplished approximately as follows:

Sale of sterling for dollars	$2,810,000
Sale of sterling for francs	380,000
Release of sterling to Treasury and to designated agents for the purchase of silver	4,300,000
Payment for silver bought from Central Bank of China	1,000,000
	$8,490,000
Actual reduction as per balance sheets	$8,642,000

[4] Letter of March 6, 1935 in "Transactions - Buying and Selling Gold - General" file.

[5] Weekly balance sheet - March 25. The weekly balance sheets of March 10 and 17 are missing from the files.

6 (next page)

~~approximately gold export point from New York to Paris.~~[1] Thereafter it remained inactive in the franc market until a fresh crisis in French affairs called for renewed support of the franc beginning May 18. This crisis produced as one of its effects a strong market for sterling which assisted the Fund in disposing of its remaining sterling balances and gold still earmarked at the Bank of England.

II. Disposal of the Fund's Sterling Balances and the Sale of Gold Held Under Earmark at the Bank of England: March 25-June 3, 1935.

Between March 4 and March 25 the Fund disposed of $700,000 of its remaining sterling balances, probably through further silver purchases,[2] but it did not again become a seller of sterling for dollars until April 4. Sterling in the meanwhile had fallen below the average price at which the Fund's balances had been acquired. Although its sterling was carried on the balance sheet at 4.872 on April 1 the Fund sold £278,500 in New York at prices ranging from 4.84-1/2 to 4.82-3/4 on April 4, reducing its sterling holdings to $19,833,000. From April 8 to 17 it was daily in the market as a seller of small amounts of sterling at prices which rose gradually to 4.85-3/4, but after disposing of $4,700,000 of its holdings in this way again withdrew from the market. In the meanwhile it had made only one small purchase of silver in London at 28-1/2d for which it had paid in sterling and been reimbursed by the Treasurer in dollars, but on April 25 it resumed these purchases on a substantial scale. By May 9 it had authorized its agents to purchase 4,250,000 ounces at prices ranging from 35d to 32-3/8d per ounce, to be charged either to its sterling account with the Bank of England or its special account at the Federal Reserve Bank of New York. As a result it

1/ ~~Check.~~ "French Francs - Buying and Selling - Guaranty Trust Co., Chase National Bank, Irving Trust Co. and National City Bank" files. Fcs. 165,410,000 at 6.68-1/2 is $11,057,658. The only other franc transaction of the Fund at this time was a purchase and sale of Fcs. 500,000 on March 4 on which the Fund made a small profit.

2/ Some silver was released to the Treasurer on March 14 (about $235,000) but from the data available I have been unable to give an exact statement of these minor silver transactions.

disposed of the sterling equivalent of about $1,900,000. In addition the Secretary bought from the Mexican Treasury 2,571,021 ounces of silver .999 fine on May 7 at 33-9/16d per ounce to be delivered to the Bank of England. The cost was met by a debit to the sterling account of the Fund at the Bank of England and silver was shipped to New York on May 9.[1]

On May 10 sterling rose to 4.88-1/2 and continued very firm for some time thereafter. The strength of sterling at this time was due in part to the market reaction to a radio address of Secretary Morgenthau on May 13 in which he said that the United States would not be an obstacle to exchange stabilization, and in part to the movement of funds to London resulting from the increasingly critical situation in France. Consequently the Fund reentered the market as a seller of sterling, and ceased to release its sterling balances for the purchase of silver. It remained, however, a buyer of silver in London, but instructed its agents to have the cost charged to the Secretary's Special Account in dollars at the Federal Reserve Bank of New York.[2] The Fund was thus in the market as a buyer of sterling through its agents in order to pay for silver at the same time that it was a seller of its accumulated sterling balances. From May 10 to 20 it was selling sterling daily in large amounts at rates which rose steadily to 4.91-5/8.[3] In this way it disposed of $8-1/2 millions of its remaining balances,[4] and this, together with payments in sterling for further deliveries of silver in London by the Central Bank of China[5] left it with only a little over £600,000 on May 20.[6] The Fund then ceased to sell sterling but took advantage of the strong sterling market to sell its remaining gold at the Bank of England in London and remit the proceeds home.

1 "Transactions--Buying and Selling Gold and Silver--Silver--G--Mexico" file

2 By June 17 it had bought a further 2,600,000 ounces at from 74.57 cents to 72.10 cents per ounce (Specific Authorizations) bringing its total purchases since the end of the gold scare to about 11 million ounces. (Memo to Mr. Dietrich from the Federal Reserve Bank of New York, March 1942, states that 10,326,000 ounces were bought in London from February 18 to June 10.

3 The highest and lowest rates obtained by the Fund, May 10-20 were 4.87-1/2 on May 15 and 4.91-5/8 on May 18.

4 Specific Authorizations

5 See above. pp 65-7

6 The weekly balance sheet of May 20 shows sterling held at $3,149,000.

On May 25 the Treasury instructed the Federal Reserve Bank of New York to sell on May 27, 32,000 fine ounces of gold in London from the Fund's holdings at the Bank of England at \$34.93,[1] and to hold the sterling proceeds with the Guaranty Trust Company pending the receipt of the dollar proceeds of the sale of this sterling. The dollars were to be credited to the Secretary's account at the Federal Reserve Bank of New York as they became available. This order was executed on May 27 at \$34.98.[2] At this price 225,600 ounces were sold by May 31, leaving only 6,800 ounces at the Bank of England. On June 3 this was sold at \$34.93[3] and in the same day a payment of £600,000 in sterling was made to the Bankers Trust Co., London for silver purchased for the Fund in Saigon, Indo- China[4], and the Fund was left with only a nominal amount of sterling.

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1 Letter of May 25 in "Transactions, Buying and Selling Gold and Silver - Gold - Sales - Guaranty Trust Co." file.

2 The execution note and the specific authorization in the files do not agree as to price.

3 The gold sold at this time was the balance of gold acquired by the Fund in May 1934. It was carried on the books of the Fund at \$35 per ounce, but the cost that would have been incurred if all gold so acquired had been shipped to New York on February 1, 1934 had been transferred to the Fund and placed in an account entitled "Reserve for expenses of shipping 1,273,972.777 fine ounces of gold from London, England, to the U. S. Assay Office." The expenses of importing 277,173.628 to New York on February 6, 1935 (see page [illegible]) and shipping 74,739.956 ounces to Paris on March 7, 1935, (part of shipment referred to on page 69) had been charged to this account leaving a balance of\$202,560.34. All the rest of the 1,273,972.777 ounces was disposed of abroad, in the gold silver exchange described above (page 36), and by the sales made at this time, and on June 5 this balance was transferred to "Profits on the sale of gold" on the books of the Fund. Letter of the Treasury to the Federal Reserve Bank of New York, June 5, 1935.

4 Letter of Treasury to Federal Reserve Bank of New York, June 3, 1935, in "Transactions - Buying and Selling Gold and Silver - Bankers Trust Co." file.

While the Fund was disposing of its remaining gold in London at prices not only lower than that at which the Secretary was ready to sell to Central Banks of countries on the gold standard ($35 per ounce plus 1/4)[1], but even below the official gold value of the dollar ($35 per ounce), the crisis in the French franc was at its height, and the Fund came actively to its support.

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[1] Press Release of January 31, 1934.

III. Advances to Foreign Central Banks against Gold Earmarked Abroad.

During this crisis in the French franc the Fund further developed its technique by using a method previously developed as part of the routine of inter-Central Bank cooperation. Throughout the "gold scare" its support of the foreign exchanges had been either in the form of sterling and francs boughtsin New York or dollars sold in London and Paris for its account, or by the purchase of sterling in order to pay for gold and silver bought in London. None of these operations gave to foreign Central Banks a supply of dollars with which they also could intervene in the exchange market. Such a supply of dollars, however, could easily be provided by the device of earmarking gold abroad against an advance of dollars in New York or by the purchase of gold abroad against immediate payment in dollars. Before the "gold scare" facilities of this sort had been offered to foreign Central Banks by the Federal Reserve Bank of New York but as the Fund took over this central banking function the transaction became more and more an inter-government arrangement. This evolution is clearly shown in the relations between the National Bank of Belgium, the Netherlands Bank and the Bank of France on the one hand, and the Federal Reserve Bank of New York and the Stabilisation Fund on the other hand, after November 1934.

A. Arrangements Made by the Federal Reserve Bank of New York and the Stabilization Fund with the National Bank of Belgium and the Netherlands Bank in November 1934 and April 1935.

Early in November 1934 an arrangement was made under which the Federal Reserve Bank of New York agreed to make advances to the National Bank of Belgium against gold earmarked in their name in Brussels, guaranteed free for export under all circumstances, and to be shipped by the first available steamer to New York. This gold was to be sold to the United States Treasury at its buying price of $35 per ounce less 1/4. The dollar advance of the Federal Reserve Bank of New York was to be made from the moment of earmarking to the delivery of the gold, and interest was to be charged at the New York Bank's discount rate (at that time 1-1/2%). This was a purely inter-Central Bank arrangement into which the Stabilization Fund did not enter.[1] It was made on the initiative of the Belgian Bank "in the interests of the belga-dollar exchange". A limit of $25,000,000 was set, though the actual transactions were expected to be small,[2] and in fact the arrangement was not utilized even when the belga was devalued on April , 1935.[3] On April 10, 1935, coincident with the first belga devaluation[4], the Netherlands Bank approached the Federal Reserve Bank of New York with a similar request. It asked whether the New York Bank would be willing to have the Netherlands Bank draw on them against gold earmarked in Amsterdam for their account. The Netherlands Bank did not intend to make regular use of this facility, but wished to be in a position to sell dollars in Amsterdam in case of erratic exchange movements. It already had an arrangement of this sort with the Bank of France which had proved to be convenient in meeting erratic markets in France. This request was discussed by the Federal Reserve Bank of New York with the Secretary of the Treasury, and the Netherlands Bank was advised that the best method would be for the Treasury to buy the gold

1 There is no reference in the files to any participation by the Fund in the contemplated transaction.

2 "Transactions--Buying and Selling Gold and Silver--Gold--Belgian National Bank" fil

3 There is no reference to any transactions in the files but this has not been verified with the Federal Reserve Bank of New York.

4 Check.

when the Netherlands Bank wanted dollars, and the following arrangement was proposed. The Secretary formally offered to buy from the Netherlands Bank up to $10,000,000 in gold for immediate payment in dollars--the gold to be earmarked in their vaults in the name of the Federal Reserve Bank of New York and shipped to the United States Assay Office in New York at the risk and expense of the Netherlands Bank on the first available steamer. The gold was to be guaranteed free for export under any circumstances and to be settled for on the basis of the outturn of the United States Assay Office at $35 per ounce less 1/4. The Netherlands Bank replied that it would be glad to make use of this facility, understanding by the first available steamer, the first available Dutch steamer in regular service with the United States. It approached the Dutch Government to obtain the necessary guarantee and on April 17 confirmed the details of the arrangement and gave the full guarantee of the Minister of Finance, observing that it expected to use the facility only in case of erratic movements in the exchanges above gold export point. Such movements had occurred in the franc-guilder rate earlier in the month and the Netherlands Bank policy of selling francs at that time had proved satisfactory to them.[1]

By requiring that the Dutch Government should give the guarantee that the gold should be free for export under all circumstances, the Secretary gave to these arrangements something of the character of an agreement between governments to take the place of the more informal type of inter-Central Bank cooperation exemplified by the earlier Federal Reserve Bank-National Bank of Belgium understanding. In one respect, however, the flexibility of the earlier inter-Central Bank dealings was retained for the arrangement was without a definite date of termination

1 The relevant correspondence is in Mr. Dietrich's "Stabilization--General 1934-5" file and in the "Transactions--Buying and Selling Gold and Silver--Gold--Netherlands - Nederlandsche Bank" file.

and was a standing facility that the Netherlands Bank could use at any time up to the amount specified. This matter was taken up in September 1935 after the Fund had intervened on a large scale on similar lines in support of the franc. A difference in point of view between the Netherlands Bank and the American Treasury as to the nature of the transaction was then disclosed. On September 4, 1935 the Federal Reserve Bank of New York suggested that the arrangement of April 10 and 11 should terminate at the end of December. On December 2 the Netherlands Bank asked for an extension of one year. This request was refused on January 7, 1936, but the Federal Reserve Bank of New York on instructions from the Treasury suggested that the Netherlands Bank should approach them by cable when they had need of dollars and assured them that such a request would be given prompt and considerate attention. To this the Netherlands Bank replied on February 11, 1936, that the mere statement that they were free to approach the Federal Reserve Bank of New York and that the Treasury would give their request prompt and considerate attention was not of much use to them for reasons which that they stated as follows:

"As we explained to you on a previous occasion (vide our letter of April 17, 1935) we only wish to be able to sell dollars in this market in case erratic movements of the dollar rate should occur. We do not know whether this is likely to happen in a near future. But if it should happen, it is almost sure to happen suddenly. If on such an occasion we cannot act at once but have first to approach you in order to make an arrangement under which we can operate, precious time will be lost, and at the best our intervention will have a much smaller effect.

"We should, therefore, be greatly obliged if you would kindly once more give your attention to the matter and reconsider whether it would not be possible to arrange beforehand for the desired facility being valid for a certain period. In case the period of a year is considered rather long for the purpose, we should also be grateful when it could be arranged for us to obtain the facility for half a year or even for three months, on the understanding that we could approach you for renewal towards the end of the half year or the quarter."

On March 25, 1936, the Federal Reserve Bank of New York ~~was instructed by the~~ ~~Treasury to reply~~ ~~as follows:~~

"While the desire of De Nederlandsche Bank N. V., Amsterdam, to secure a firm commitment on the part of the U. S. Treasury to purchase gold in Holland at a fixed rate in order that they may take care of any contingency which might arise owing to sudden fluctuations in the dollar-guilder rate is appreciated, the necessity for such an arrangement does not appear as obvious as it was when previous arrangements were made in April of last year. At that time it appeared that the free movement of gold at the gold export point might be interrupted by the inability or hesitation on the part of the commercial banks to assume the risk involved. It was also doubtful whether steamer facilities or insurance coverage was available at times and in amounts necessary to take care of a large movement. In the intervening time it has been demonstrated that these fears were unwarranted and any necessary gold shipments have been taken care of in the normal manner. Therefore the Treasury does not consider it expedient to enter into extraordinary arrangements of this nature at the present time.

"When communicating with De Nederlandsche Bank it would be appreciated if you would assure them that while the Treasury desires to cooperate whenever feasible, the present decision is based on a natural reluctance to enter into an arrangement of this nature unless conditions exist which prevent commercial banks from handling these transactions in a normal way."

Beyond this leisurely clarification of views no further action was taken with respect to the renewal of the arrangements of April 1935 until the end of May 1936 when the guilder was very weak following the Popular Front victory in the French elections of April 26 and May 3. Until this time the only substantial gold transactions of the Fund had been in support of the franc during the earlier crisis of May and June 1935.

B. Crisis in the French Franc, May-June 1935~~ and May-July 1936~~.

The strength of sterling which had permitted the Fund to close out its open position in sterling at profitable rates between May 13 and May 20, 1935 had coincided with pronounced weakness in the French franc and other continental gold currencies. The agitation of Mr. Reynaud for devaluation of the franc was gaining ground in France, the budget difficulties of the French Government remained unsolved, and the Bank of France was losing gold. During the week of May 11-17 the Paris T/T rate in New York ranged from 6.58 to 6.59-1/4 and the franc was also weak in sterling.

Under these circumstances the Secretary was prepared to use the Stabilization Fund once more in support of the franc. On May 17 the following arrangement was made with the Bank of France by the Federal Reserve Bank of New York acting as fiscal agent for the Treasury. The Federal Reserve Bank of New York agreed by telephone to purchase up to $5,000,000 in gold to be earmarked at the Bank of France in the name of the Federal Reserve Bank of New York and guaranteed free for export under all circumstances. This guarantee was included in all the arrangements of this kind, but on this occasion the Treasury did not ask specifically for a guarantee from the French Government in addition to the guarantee of the Bank of France.[1] The Bank of France was authorized to sell dollars for francs up to the specified amount of $5,000,000 at 6.58 or better. As the dollars were sold and the francs were received by the Bank of France, the Bank of France was authorised to earmark the gold equivalent for the Federal Reserve Bank of New York. This authorisation was good for all day May 18 and was repeated daily until May 23. Although the franc was under heavy pressure throughout this period no actual transactions were carried out under these authorizations. The Bank of France was losing gold heavily, and the British Exchange Equalization Account was actively supporting ~~it~~ in London[2] and on May 23 the Bank of France raised its discount rate from 2-1/2% to 3%. With this support the franc-dollar rate did not fall below gold export point and the limit of 6.58 fixed in the authorisations ~~did~~ not bring American official support into the market until it had done so.[3] This was in harmony with the Treasury's attitude that official American support should not be given as long as the gold standard mechanism was functioning normally.[4]

These arrangements differed in form though not in practical effect, from the intervention in support of the francs in January 1935. Instead of intervening unilaterally in the market through its agents the Fund now entered into a cooperative arrangement with the Bank of France under which the actual details of the exchange intervention were left at the discretion of that Bank subject to limitation as to rate and total amount. There was, moreover, an element of risk present at this time which had not been part of the earlier arrangement. In

1 The cable of the Federal Reserve Bank of New York to the Bank of France of May 17 making this proposal concluded as follows: "We should be grateful to you to confirm to us our understanding that such earmarked gold shall be free for export under any circumstances". This cable is not in the files but was furnished by the Federal Reserve Bank of New York in a memo prepared for Mr. Dietrich in April 1942.

2 There is no reference in the files to any consultation or cooperation between the British and American Funds at this time.

3 Check whether the actual gold export point to New York was at this moment lower than 6.58-3/4. This may have been the case owing to the French shipping strike.

4 That this was the attitude of the Treasury is confirmed by the later correspondence with the Netherlands Bank quoted above.

January 1935 there was no question of an imminent devaluation of the franc but this was now a distinct possibility, even a probability. Should the Bank of France deem it necessary under the authorisations of March 18-23 to sell dollars in the New York market after the Paris market had closed for the day the francs purchased wouldnot be paid into the Bank of France until the following morning and the gold equivalent to be credited to the Federal Reserve Bank of New York as fiscal agent would be the gold equivalent of the following day. Should the French Government devalue the franc overnight the Stabilisation Fund would be subject to a loss similar to that which the Bank of France itself and other central banks holding gold in London had sustained when England left the gold standard in September 1931.

In order to guard against this risk the Secretary on May 24 telegraphed to the Governor of the Federal Reserve Bank of New York as follows:

"GOVERNOR. Before you execute any orders to purchase francs in our behalf you are to have an understanding with the Bank of France, confirmed by cable, that any francs so purchased will be immediately converted into gold and earmarked to be shipped to the Federal Reserve Bank of New York on the first available steamer. Should the Bank of France desire to have the francs purchased in this market after the markets have closed in France so that francs cannot be promptly deposited and converted into gold until the following morning, the Bank of France will need to make arrangements to obtain the dollars from us before the Bank of France closes. We are willing to deposit dollars in amounts to be agreed upon to their account in the Federal Reserve Bank of New York against gold earmarked as suggested above and they can instruct the Federal Reserve Bank of New York to make such disposition of these dollars as they desire. H. Morgenthau, Jr."

In conformity with these instructions the Federal Reserve Bank of New York as fiscal agent altered the form in which American assistance was offered to the Bank of France. It renewed its authority to the Bank of France to sell $5,000,000 for francs at 6.58 or better in a cable sent on March 24 by the following conditions:

"ONE that if you sell dollars against this authorization you will advance us the franc equivalent value May 25 and convert such francs into gold to be earmarked by you in our name on May 25 guaranteed free for export to us by first available direct steamer

TWO that as soon as we receive cable advice from you as to the amount of dollars sold by you and gold earmarked for our account we will give you credit on our books for such dollars value May 25." ~~Will you kindly confirm to us tomorrow by cable that you are in agreement with this arrangement."~~

It also offered on the same day to purchase up to $5,000,000 in gold earmarked at the Bank of France subject to the usual guarantee and to be shipped to the United States Assay Office in New York by the first available direct steamer and to be settled for with the Treasury on the basis of the final outturn of the United States Assay Office at $35 per ounce less 1/4 less customary charges at the expense and risk of the Bank of France. Immediately upon receipt of advice that the gold had been earmarked the Federal Reserve Bank of New York would credit the Bank of France with dollars which it was free to dispose of in any way it desired.[1] This arrangement provided the Bank of France with

[1] These three messages are given in a letter from the Federal Reserve Bank of New York to the Treasury of May 24 in the "Transactions--Buying and Selling Gold and silver--Gold--(p) Bank of France" file.

dollars in advance of its actual requirements and available for the purchase of francs at any rate without waiting for it to fall to or below 6.58. It was immediately taken advantage of and on the same day the Stabilization Fund purchased $5,000,000 of gold from the Bank of France under its terms. On May 25 the offer was renewed and a second $5,000,000 in gold bought. The situation in France continued to deteriorate although the Bank of France continued to raise its discount rate, which reached 6% on May 28. The government of Flandin was engaged in a desperate effort to secure emergency powers from the Chamber with which to govern the country and support the franc, and pressure on the franc continued to increase. Therefore on May 27 the Federal Reserve Bank of New York offered to purchase up to $25,000,000 in gold on May 28 on the same terms as previously but Secretary Morgenthau requested that the Bank of France should be advised that this offer should be considered only as a reserve offer to be used in case the normal operations of the commercial banks were not sufficient to meet the demand for dollars. $7,500,000 in gold were bought under this authorization on May 27 and a further $17,500,000 on May 28. At this time the Treasury was considering action on a far more vigorous scale. A draft cable to be sent by the Federal Reserve Bank of New York to the Bank of France was prepared in the Treasury to the effect that the Secretary would purchase up to $200,000,000 in gold from the Bank of France earmarked in their vaults on May 31 "such gold to be guaranteed as heretofore by you as well as by the Treasury free for export under any circumstances, and to be shipped at our option to the United States Assay Office in New York or to London." If shipment to New York were elected settlement was to be on the terms of previous transactions but if shipment to London were elected settlement was to be at $35 per ounce less Mint charges less 1/4 and less expenses of transshipment to New York.[1] This message was not sent but on May 31 the Treasury offered to purchase up to $150,000,000 in gold on the terms of the foregoing draft cable and under this offer $33,775,000 in gold was bought by the Fund. On this day the French crisis reached its height for the Chamber refused to grant the Flandin government the emergency powers it demanded and the Government fell. A new government under Bouisson was formed with Caillaux as Finance Minister, and the crisis appeared for the time being to be under control for the franc moved above gold export point for the next three days. However, the Bouisson government on June 4 was unable to obtain the emergency powers which it in turn demanded and it was not until June 7 that a new government under Pierre Laval was formed and given the powers which all preceding governments had demanded. During this period of crisis the Treasury renewed its authorization to the Bank of France to sell gold to the Fund for the balance of the $150,000,000, namely, $116,225,000.[2]

By June 17 all the $68,773,000 in gold purchased by the Fund during the French crisis had been imported and sold to the Treasurer. As indicated on Chart 2 for three weeks in July theFund was almost wholly a dollar fund once more with over $170,000,000 in balances ~~in~~ with the Treasurer and in the Secretary Special accounts and $26,000,000 in Government securities. Its only non-dollar asset was $4,000,000 in silver. The Fund therefore was in an excellent situation to assist the Secretary in the vigorous renewal of silver purchases which took place at this time.

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[1] In the files this draft is as a modification of the specific authorization to purchase $17,500,000 in gold as noted in the text. It does not appear to have been sent.

[2] The relevant cable correspondence is in the "Transactions--Buying and Selling Gold and Silver--Gold--(p) Bank of France" file.

~~I~~ IV The Silver [illegible] of the [illegible] ...

A. Summary of Transactions: December ~~1935~~-June 1935.

When the Silver Purchase Act went into effect on June 19, 1934 the price of silver in New York was about 45 cents per ounce. Under the stimulus of Treasury buying it rose gradually to just over 54 cents in November 1934 and at this level it was stabilized for the next four months.[1] It was at this level that the four Stabilization Fund operations in silver already described were carried out: (1) the purchase of 10,000,000 ounces in the London market between December 17, 1934 and January 2, 1935 on a dollar basis ranging from 53.08 cents to 54.75 cents per ounce; (2) the purchase of 10,000,000 ounces from the Central Bank of China, subsequently delivered in London, at just over 54 cents per ounce; (3) the purchase of melted down old silver piastres in Saigon, Indo-China; and (4) the purchase of 7,178,000 ounces in London on a sterling basis during the first gold scare within the narrow range of 24-5/16 to 24-13/16d per ounce .925 fine.[2]

1. The Speculative Boom in Silver: March-April 1935.

After February 18 the price of silver began to rise in an accelerating ~~speculative~~ movement. By the end of February it reached 56-1/2 cents, and at that point a speculative movement began. This is described by Mr. G. G. Johnson as follows:

"The price rose 5 cents in March and on April 26 it reached 81 cents, the record post-depression price. As a result of this rise in the world silver price, the price paid by the Treasury to domestic producers (64-1/2 cents) became out of line, and on April 10 a presidential proclamation increased the domestic price to 71.1 cents. When the world price caught up again on April 24, the domestic price was raised further to 77.57 cents.

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1 The average daily price in New York from November 1934 to February 1935 was as follows:

1934		1935	
November	.543	January	.544
December	.544	February	.546

(Survey of Current Business)

2 Cf. pp. [illegible] 63, 68 and 71.

The price movements previous to April 1935 might have been interpreted by the silver group as indicating that the Treasury purchases were improving basically the position of silver throughout the world, but the price movements thereafter conclusively proved the peculiar nature of the Treasury's position and the artificiality of the increased silver price. The Treasury's position has been peculiar because it has been substantially the only buyer on the world (London) market, except in temporary periods of intense speculation. The price has been artificial because it has generally been the bid price of the Treasury and not a world price at all. Consequently, over a period, the Treasury has been able to make the world price anything it desires, so long as it is willing to take up the entire offering on the market at that price.

"When the Treasury stopped buying on April 26 because the speculators were unwilling to sell in expectation of further price rises, the market began to fall off."[1]

The sterling acquired by the Fund during the gold scare and released subsequently to the Treasury for the purchase of silver in London was for the most part disposed of before the price rise became pronounced, and during the period of rapidly rising silver prices the purchases of the Fund were intermittent and on a small scale, as shown by Table 3 .

Table 3
Specific Authorizations to Buy Silver in London:
February 19-April 25,1935.[2]

Date	Ounces	£ Price (pence per oz. .925 fine)
February 19	450,000	25
27	600,000	25-11/16
27	350,000	25-11/16
March 7	275,000	27-3/8
April 8	400,000	28-1/2
25	1,300,000	35

The Treasury did not completely withdraw from the market on April 26, but continued to support it on a small scale through the Fund as indicated by Table 4 .

1 The Treasury and Monetary Policy 1933-1938, ~~Howard~~ Harvard University Press, 1939, p.183.

2 "Transactions - Buying and Selling Gold and Silver - Silver - Chase National Bank - Bankers Trust Co. - National City Bank" files.

Table 4
Specific Authorizations to Buy Silver in London:
April 26–June 17, 1935[1]

Date	Ounces	£ Price (pence per oz. .925 fine)	$ Price (cents per oz. .999 fine)
April 29	250,000	34-11/16	
May 2	1,000,000	32-3/8	
8	1,450,000	32-3/16	
9	250,000	32-1/2	
21	300,000		74.57
June 4	1,000,000		72.10
6	100,000		72.40
6	250,000		72.40
14	250,000		72.98
17	780,000		72.36
	9,005,000		

This table shows that when the Fund had disposed of substantially all its sterling balances except an amount needed to pay for silver purchased in Saigon[2] it ceased to instruct its agents to buy silver on a sterling basis and changed to a dollar basis.[3]

B. Pegging the Sterling Price of Silver : July-December 1935, and the Accumulation of Silver by the Fund.

The substantial silver purchases of the Fund in the first half of 1935 were regularly imported and sold to the Treasury. At no time prior to the middle of July did it hold much over $6 millions in silver and in the first part of July the greater part of its holding of $4,382,000 was in transit from Indo-China. In the middle of July this policy was changed. The Treasury entered the silver market on a large scale, holding the New York price at slightly over 65 cents per ounce as shown in Table 5. Silver purchases became the main, almost the sole business of the Fund which accumulated large holdings in its own hands (Chart 2) and in addition made sterling available to the Treasury

1 "Transactions - "Buying and Selling Gold and Silver - Silver - Chase National Bank - Bankers Trust Co. and National City Bank" files.

2 See page 92.

3 There is nothing in the file to indicate whether these silver purchases were made to steady the silver market during its decline or to support sterling.

Table 5

Average of Daily Prices of Silver in New York by Months: July-December 1935[1]
(cents per oz. .999 fine)

July	.682	October	.654
August	.664	November	.654
September	.654	December	.584

for purchases under the Silver Purchase Act. The Fund was regularly in the market to buy sterling for the purchase of silver in London from July 8 to December 5. During this period it purchased for its own account about 170,000,000 ounces and made sterling available to the Treasury for the purchase of about 28,000,000 ounces more,[2] and in September the Fund itself held about 126,000,000 ounces of silver.

1. Preliminary Operations: July 8-10, 1935.

On July 9 and 10, 1935 the Fund reentered the sterling market for the first time since May 20[3] and bought about £145,000 at from 4.96 to 4.98, and sold it to the Treasury for the purchase of silver under the Silver Purchase Act, and on July 9 it bought 350,000 ounces of silver through its agents at 67.21 cents per ounce.

2. Pegging at 30-3/16d: July 16 to August 10, 1935.

From July 16 to August 10 the Fund bought silver through the designated agents of the Federal Reserve Bank of New York[4] at this fixed price. At a sterling rate of 4.96-1/4 which was approximately the average for this period,

1 Survey of Current Business.

2 Compiled from Specific Authorizations, except for silver purchases from July 16 to Sept. 9 which are taken from a memorandum of the Federal Reserve Bank of New York to Mr. Dietrich, April 1942. My compilations from specific authorizations were somewhat less for this period than the actual figures, so the statement in the text is probably a slight underestimate.

3 "Transactions - Buying and Selling Foreign Exchange - Sterling - Authorizations"

4 The Chase National Bank, the Bankers Trust Co., The Guaranty Trust Co. and the National City Bank.

this is the equivalent of 67.33 cents per ounce.[1] At this price the Fund was almost a daily buyer[2], and acquired over 45,000,000 ounces at a cost of over $30 million.[3] In executing these purchases the Federal Reserve Bank of New York was given the option of charging the Secretary's special account in dollars or its account as fiscal agent with the Bank of England in sterling. Consequently the Fund was in the market for sterling as well as silver while its designated agents were independently in the market for sterling to pay for silver in London. No sterling balances, however, accumulated in the hands of the Fund at this time.[4]

3. Absorption of Heavy Offerings from the East and Transition to a New Sterling Price.

The offerings of silver, especially from China[5] became increasingly heavy during the period when the London price was held at 30-3/16d, over a third of the total purchases at that price being made from August 7 to August 10. On August 12 the Fund began to let the sterling price fall slightly but on August 15 it once more pegged it at 29d per ounce. The purchases of the Fund on these four days were as follows:[6]

Day	Ounces	Dollar Cost
August 12	6,300,000	$ 4,245,000
13	11,150,000	7,448,000
14	21,000,000	10,096,000
15	5,300,000	3,446,000
Total	43,750,000	$25,275,000

1 Not calculated, but taken from a specific authorisation of August 7. On that day the Fund was buying sterling at 4.96-1/4. The range of the Fund's sterling purchases from July 16 to August 10 was 4.95-5/8 to 4.97. Cost of shipment to New York was approximately cents. (fill in)

2 No purchases were made August 3-5.

3 Compiled from specific authorisations which show 45,575,000 ounces at a dollar cost of $30,725,947. This underestimates the actual amounts because silver was often delivered in excess of the amounts contracted for. Memorandum of Federal Reserve Bank of New York to Mr. Dietrich, April 1942.

4 Weekly balance sheets.

5 James G. Paris - American Monetary Policy 1932-8, p. . (check from better source)

6 Compiled from Specific Authorizations ; Silver.

In addition the Fund purchased ~~sterling~~ £473,646 which it released to the Treasurer for the purchase of silver under the Silver Purchase Act on August 12, 13 and 14.[1] Under this concentrated support sterling rose to 4.98-1/4. ~~so the dollar~~ price of silver bought in London was temporarily steady at about 66 cents ~~per ounce~~[2].

For the rest of August sterling was steady at about 4.98 and the London price of silver was pegged at 29d, so that the dollar price of the silver bought by the Fund was kept within the range of 65 to 64.90 cents per ounce which was approximately maintained until December 5. The Fund did not purchase additional sterling for the Treasury in August but continued to absorb large amounts of silver taking for example 11,650,000 ounces ($7,700,000) on August 19 and 4,800,000 ounces ($3,120,000) on August 20.[3] Towards the end of August these silver purchases declined but the Fund was in the market again from September 4 to 9 buying moderate amounts at up to 29-3/16d per ounce. As the pressure of silver offerings diminished late in August and early in September the Fund also accumulated a moderate sterling balance which on September 9 amounted to $3,829,000.[4]

4. The Fund in September 1935.

During the period from July 15 to September 9 the Fund purchased silver through designated agents as follows:[5]

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1 Specific Authorizations - Sterling. At roughly 8 ounces of silver per £ sterling this provided for additional purchases of 3,800,000 ounces in London.

2 Check. ~~This has not been calculated~~.

3 Specific Authorizations - Silver

4 Weekly balance sheets

5 Figures supplied by the Federal Reserve Bank of New York in a memorandum to Mr. Dietrich in April 1942.

Market In Which Purchased	Ounces .999 Fine	Dollar Cost	Manner of Payment
London	43,644,910.95	$28,620,555.67	Paid to designated agents £5,770,927-8-1 from Fund's a/c with Bank of England
	92,554,835.51	61,466,352.75	Dollars paid to designated agents.
	136,199,746.46	90,086,908.42	
Bombay	286,887104	184,747.43	Paid to designated agent £37,000-0-0 from Fund's a/c with Bank of England.
	136,486,633.50	$90,271,655.85	

Of the 136,000,000 ounces of silver thus bought by the Fund only about 16,000,000 ounces had been sold to the Treasurer and on September 9 its holdings of silver reached their peak (Chart 2) of about 120,000,000 ounces. Of this about 90,000,000 ounces were held in London.[1] At this time the principal assets of the Fund were as follows:

		(000 omitted)
Dollar Assets		96,931
Account with the Treasurer	29,232	
Special account, Federal Reserve Bank of New York	67,699	
Sterling		3,829
Silver		77,915

Thereafter silver purchases continued on a smaller scale, but the silver imported from abroad and sold to the Treasury on balance exceeded the new purchases. The Fund had proved a valuable agency in the hands of the Secretary not only in dealing with the foreign exchange problems involved in carrying out such concentrated

[1] Weekly balance sheets.

silver purchases abroad but also in facilitating the orderly transfer of the silver itself to the United States. On September 10 the Fund bought about £210,000 spot sterling at just over 4.94 and released sterling £156,000 to the Treasury for the purchase of silver. It then disposed of all its spot sterling but maintained and even increased its long position by purchasing £974,000 ~~for its account~~ for delivery on October 10, 11 and 14. On September 18 and 20 it bought a further £485,000 sterling for delivery on October 14 and on September 23 to 25 reentered the silver market in London to buy 4,250,000 ounces, acquiring part of the sterling to pay for this in the spot market and also purchasing an additional £75,000 for delivery to the Treasurer. On September 26 it resumed its purchases of sterling for October 14 delivery and by October 10 had added a further £480,000 to its contracts falling due on that date. During September the Fund was apparently putting itself in a position to assist in carrying out a new definitive pegging of the price of silver by providing itself with sterling not currently required.[1] The silver bought after September 10 was acquired at from 29-3/16 to 29-15/16d per ounce and on October 11 the Stabilization Fund began to buy silver regularly at the latter figure.

5. Peg at 29-15/16d October 10-December 5, 1935.

From October 10 to December 5, 1935 sterling was steady within a range of 4.91-1/2 to 4.94 with a gradually rising tendency towards the end of the period. Between October 10 and 25 the Fund bought £1 million sterling for release to the Treasurer to purchase silver in London and a further small amount on November 20. This was sufficient to enable the Treasurer to purchase about 8,000,000 ounces

[1] This is inferred as there is nothing in the files to indicate the reason for the accumulation of sterling contracts falling due on October 14, 1935.

of silver at the pegged price. Thereafter from October 30 to December 6 the Secretary regularly instructed the Federal Reserve Bank to purchase and release to the Treasurer sufficient sterling to pay for a specific number of ounces of silver. These authorizations provided in all for the purchase by the Treasurer of 12,270,000 ounces.[1] At the same time the Fund was again a daily purchaser of silver through the designated agents of the Federal Reserve Bank of New York at the pegged price. Between October 10 and December 5 it bought approximately 29,275,000 ounces in this way[2].

This new intervention in the silver and sterling market brought the Stabilization Fund's purchases of silver to over 170,000,000 ounces since the sterling price of silver was first pegged in July 1935, and its purchases of sterling for release to the Treasurer to an amount sufficient to buy about 28,000,000 ounces. At no time, however, after September 9 did the Fund allow its sterling balances to accumulate in any substantial amount. The silver previously accumulated and newly bought in London was gradually imported and sold to the Treasurer and on December 9 the Fund's total holdings were reduced to 43,447,000 and its London holdings were reduced to 26,000,000 ounces. These were all imported by December 23 but at the end of the year the Fund's silver was once more increased by substantial purchases in China.[3]

C. The Difficulties of China and the Fund's Far Eastern Purchases.

The bulk of the silver purchases by the Stabilization Fund were in support of the silver market in London but as has been noted a number of transactions

1 Compiled from Specific Authorizations - Sterling. These figures should perhaps be checked from the accounting records as they undoubtedly contain some error, probably being an underestimate.

2 Specific Authorizations - Silver. Same comment as above note.

3 Weekly balance sheets.

were undertaken direct with the Far East. The first of these was the purchase in November 1934 of 10,000,000 ounces from the Central Bank of China at about 54 ~~64~~ cents per ounce. This was followed in May by the purchase of 4,663,174 ounces of old demonetized Indo-Chinese piastres .925 fine in Saigon, Indo-China. This transaction was initiated by the Banque de Paris et des Pays Bas acting presumably as agent for the French Indo-Chinese government in Saigon who submitted the offer to sell to the Bankers Trust Company of New York. This purchase was for delivery of the piastres on board the American steamer Golden Dragon which was scheduled to sail on June 3 for San Francisco, and, as has been noted above, was paid from the Fund's sterling balances in London on June 3. In the meanwhile the Central Bank of China was experiencing difficulties in delivering the 10,000,000 ounces purchased by the Fund and also in making deliveries on 25,000,000 (?)[1] ounces purchased direct by the Treasury. On June 3, 1935 the Central Bank of China wrote to the ChaseBank asking for an extension of deliveries both on the Stabilization Fund purchases and the other Treasury purchases in which the reasons for the delay in shipment were set forth. The rise in the sterling price of silver in London from about 24-1/2d to 32-1/2d and even higher made it difficult for the Central Bank of China to obtain silver in Shanghai for delivery against the earlier contracts. Moreover it had caused a shortage of cash in Shanghai and a serious local credit situation. The Central Bank of China could not, therefore, export silver from Shanghai at this time. It had in fact suggested to the Chase Bank in a cable of May 24 that the silver might be delivered to the Chase Bank in Shanghai but not exported. This letter was transmitted to

1 There are only indirect references to this purchase in the files and this should be checked from other sources.

the Treasury and at the request of Mr. Lochhead the Chase Bank cabled to its Shanghai branch on July 22 that the United States Treasury had under consideration a plan to accept the undelivered silver in Shanghai in monthly lots of 500,000 ounces provided that the Chase National Bank would state that this was safe. If the Chase Bank in Shanghai considered the arrangement safe it was to advise the Central Bank of China of the plan and to inquire whether such an arrangement would lead to expressions of more friendly feeling concerning the American silver program on the part of Chinese officials in their public statements. Cables were received from the Central Bank of China stating that a reply to this proposal must be delayed because the Finance Minister was out of town. This plan does not appear~~ed~~ to have been carried out and on September 30, 1935, part of the arrears on the silver bought directly by the Treasury (2 million ounces) was delivered in London and the 2 million ounces still outstanding under the Stabilization Fund purchase were extended further to November 30, 1935.[1]

In the meanwhile the Stabilization Fund had purchased on August 22, 1935, 286,887 ounces in Bombay through the National City Bank at 24-3/4d.[2] This silver was in a form of bars known as "broken hill smelters" and was shipped directly to the United States on the American steamer President Adams. The cost was paid for in sterling from the Fund's account with the Bank of England.[3]

In November 1935 China abandoned the silver standard and the Treasury inaugurated a new policy of silver purchases which ~~are~~ is described by Mr. G. G. Johnson as follows:

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1 "Transactions - Silver - Central Bank of China". ~~See pages~~ .

2 See pages 6?

3 There is nothing in the files to indicate why only this single purchase of ~~gold~~ silver was made in Bombay during the period when the sterling price of silver was being actively supported in London at a sterling equivalent of about 65 cents.

"Whereas previously it had almost exclusively confined its foreign operations to the London market, shortly after the departure of China from the silver standard it inaugurated a policy of direct purchases of silver elsewhere. Arrangements were made whereby the entire silver production of Mexico, about 76,000,000 ounces in 1935, was to be acquired by the Treasury directly at the current New York price, and similar direct purchases were arranged with China." [1]

These direct purchases from China were arranged between November 14 and 22 through the National City Bank and the Chase National Bank. On November 14 the Treasury submitted a bid for 25 million ounces of silver f.o.b. American steamer in Shanghai not later than February 11, 1936 at 65.17 cents per ounce .999 fine to the Central Bank of China. The Central Bank of China accepted, stating that it was anxious to make the shipments as soon as possible but was unable to deliver all the silver in fine bars. A somewhat lower offer was then made by the Treasury (64.03) for bars of lesser fineness and the Treasury stipulated that the shipment must be by American ship to San Francisco and not via Suez or New York. These terms were accepted and on November 22 another 25 million ounces were purchased on the same terms. Consequently the Central Bank of China undertook to ship 52 million ounces including the last installment on the purchase of the previous year. The silver was made available to the agents of the Treasury in the vaults of the old Bank of China building in Shanghai and the Chinese Minister of Finance expressed the wish to leave the time of shipment entirely in the hands of the Treasury. The Treasury, however, insisted through its agents upon the original terms of shipment and the silver was actually shipped in January 1936.[2]

On the balance sheet of the Fund December 31, 1935 total silver held was 46,652,000 representing the net result of these Chinese purchases and the sale

1 G.G. Johnson. Op. cit. page 184. This notation is inserted in order to provide the necessary minimum background but should be replaced by direct Treasury sources which are not available in the files.

2 The details of this purchase of the 50 million ounces of silver in November should be checked. G.G. Johnson states that the arrangement was a 90-day option to purchase and that $10 millions in gold was earmarked for the Central Bank of China in February as part payment for the silver. I find no references to this in the Stabilization Fund file and the text should be carefully checked.

to the Treasury of silver imported from London. On January 13 the entire 52 million ounces of silver were in transit from China. Since a large portion of the Chinese silver (40,000,000 ounces) had to be sent to the Selby Plant of the American Refining and Smelting Company for refining the gradual disposal of this silver by the Fund to the Treasury took a considerable time. It was not until August 31, 1936 that it was completely disposed of.[1]

V. Transactions of the Fund: 1936.

A. Minor Silver Transactions.

The silver purchases of the Fund at the level of 65 cents per ounce ceased on December 5, 1935[2] and shortly thereafter the Treasury withdrew its support from the London silver market. This market "for the first time since 1914, was forced to suspend operations when no other buyers appeared and the huge sum of 20 million ounces was offered. By December 20 the price had collapsed to 51.75 in New York and 48.29 in London. *** The sharp decline in the price of silver was halted by the Treasury on December 24 at 49.75 per ounce where it was pegged until the middle of January when it was moved on 5 cents more".[3]

When this readjustment in the London price of silver downwards had brought it to about 45 cents per ounce the Stabilization Fund reentered momentarily the silver market in London. Between January 6 and 17, 1936, it bought 1,250,000 ounces in London at prices gradually declining from 45.72 cents to 44.42 cents, at a cost of just over $600,000. This silver was passed on to the Treasurer.[4]

1 Weekly balance sheets (see Chart 3).

2 Specific Authorizations.

3 G. G. Johnson. Op. cit. Pages 184-185

4 Specific Authorizations and weekly balance sheets.

The Fund did not thereafter make purchases in London until after the Tripartite Agreement. On October 19, 1936 it again became a buyer for about a week during which its agents were instructed to purchase up to 2,458,000 ounces at from 43.47 cents to 44.07 cents per ounce. This silver was held by the Fund until the end of July, 1937.[1] Thereafter the participation of the Fund in the execution of the Treasury's silver policy was on a small scale as far as market dealings were concerned. The Fund was an occasional purchaser and seller of ~~forward~~ future silver contracts and it reappeared in the New York market as a purchaser of silver from July to the end of August 1937. During the latter part of 1937 and the first few days of 1938 it was once more a small scale buyer of silver in London. In addition the Fund began to carry out minor trading transactions in the silver market in London beginning November 6, 1936. The sterling credits or debits resulting from these small operations were regularly liquidated and the balance in ~~the~~ a silver trading account ~~xxx xxx~~ opened at that time ~~had~~ never reached substantial proportions.

Aside from the liquidation of its silver holdings the major silver transactions of the Fund in 1936 were the use of silver as collateral for exchange stabilization arrangements made with Mexico and China.

B. The Mexican Agreement.

On January 7, 1936 the Secretary of the Treasury wrote to the Federal Reserve Bank of New York enclosing a form of letter approved by him to be sent to the Banco de Mexico by the Federal Reserve as fiscal agent. The Secretary stated that the transactions to be carried out under the terms of this letter by the Federal Reserve Bank of New York were to be governed by the general fiscal agency letter of September 1934 regarding dealings in foreign exchange for

1 Weekly balance sheets.

account of the Stabilization Fund. The agreement with Mexico was for an advance of $5 million against the purchase by the Stabilization Fund of an equivalent amount of Mexican pesos which the Banco de Mexico agreed to repurchase on the demand of the United States Treasury at any time at the rate at which they had been acquired. The execution of this agreement was guaranteed by the deposit on the part of the Banco de Mexico of silver collateral.

Since the terms of this agreement were along lines which served as a model for subsequent exchange stabilization agreements which were executed by the Stabilization Fund, the text of this letter is given in full ~~was~~ as follows:

> "The Secretary of the Treasury of the United States has, as a result of his recent conversations in Washingtion with the Secretary of the Mexican Treasury, authorized us, as fiscal agent of the United States, to enter into the following arrangement with you, on behalf of the Republic of Mexico, for the purpose of supplying the Republic of Mexico with dollar exchange, from time to time, as may be required:
>
> 1. We, as fiscal agent of the United States, will purchase from you, from time to time as requested by you, Mexican pesos, the pesos so purchased to be credited to us (as fiscal agent of the United States) on your books in a special account to be opened in the name of the "Federal Reserve Bank of New York as Fiscal Agent of the United States." Interest at the rate of 3% per annum is to be credited on such account. Upon receipt by us of advice by telegram that this account has been credited with a stated amount in Mexican pesos, we shall in turn credit you on our books in a special account to be opened in the name of "Banco de Mexico as Fiscal Agent of the Republic of Mexico" in an amount in U. S. dollars equal, at the then prevailing rate of exchange in New York for telegraphic transfers on Mexico, to the amount in pesos so credited to us on your books.
>
> 2. The total amount of pesos purchased by us from you and standing to our credit on your books as aforesaid, exclusive of interest, shall not at any time exceed in the aggregate the equivalent of U. S. $5,000,000, computed at the actual buying rate for such pesos.
>
> 3. You agree that any or all pesos purchased by us from you, together with interest thereon as aforesaid, and standing at any time to our credit on your books as aforesaid, shall be repurchased (in U. S. dollars) by you from us at any time, and from time to time, upon our request, at the same rate or rates of exchange at which such pesos were purchased from you by us.

4. As security for the performance by you of your agreement to repurchase such pesos as aforesaid, you authorise and request Federal Reserve Bank of New York and Federal Reserve Bank of San Francisco to set aside from time to time and to pledge to Federal Reserve Bank of New York as fiscal agent of the United States, so much of the silver now held for your account under earmark by Federal Reserve Bank of New York and Federal Reserve Bank of San Francisco (amounting to approximately 11,000,000 ounces) as the dollar equivalent of pesos purchased and then standing to our credit on your books as aforesaid bears to U. S. $5,000,000; and in the event of your failure to repurchase such pesos as hereinabove provided, you do further authorise us as pledgee aforesaid, to sell so much of such silver so held under pledge, at any time, at the so-called official price for silver as then quoted by Messrs. Handy & Harman, New York, New York, and to apply the proceeds thereof in such manner, as may be necessary to save us, as fiscal agent of the United States, and the United States, harmless from any loss by reason of any failure to repurchase said pesos as herein provided; and you do hereby authorise and request Federal Reserve Bank of San Francisco to honor any request made by us to hold or deliver for our account, as fiscal agent of the United States, and as pledgee aforesaid, any or all of the silver now held for your account under earmark by said Federal Reserve Bank of San Francisco.

5. It is understood and agreed that our obligation, as fiscal agent of the United States, to purchase any amount of pesos pursuant hereto shall be conditional and dependent upon your maintaining with us and/or the Federal Reserve Bank of San Francisco, an amount of silver sufficient to secure, as hereinabove in paragraph 4 provided, your obligation to repurchase such pesos.

6. It is understood that you will take such further action as may be reasonably requested by us to effectuate the purposes and intent of this arrangement.

7. This arrangement shall continue in effect until February 1, 1936, and from month to month thereafter except that we, as fiscal agent of the United States, may on or before the fifteenth day of any month advise you that our offer to purchase pesos under this arrangement, in so far as it has not been accepted, is to be discontinued at the end of that month."

This agreement differed from a loan by the Treasury to the Banco ~~de Mexico~~ in several important respects. A loan of a similar amount would have the same effect in supporting the Mexican peso in the New York market but under the terms of this agreement the Banco de Mexico was under a continuing obligation to repay the dollars it had received upon demand. It had not only to be prepared to supply dollars at a fixed maturity date but had at all times so to manage the exchanges as to be in a position to supply these dollars under penalty of losing the silver which it had pledged as collateral.

The bulk of the $5 million credit was advanced to the Banco de Mexico in January and the pesos were repurchased under the terms of the agreement in May and June 1936. The following table shows the transactions under the agreement:[1]

Purchased by the Federal Reserve Bank of New York as Fiscal Agent of the United States

Date	Mexican Pesos	U. S. Dollars
January 10, 1936	14,500,000	4,031,000
January 22, 1936	2,500,000	695,000
Total	17,000,000	4,726,000

Repurchased by the Banco de Mexico

Date	Mexican Pesos	U. S. Dollars
May 26, 1936	9,805,755.40	2,726,000
June 9, 1936	7,194,244.60	2,000,000
Total	17,000,000.00	4,726,000

The carrying out of this agreement in accordance with its original intent appears to have been somewhat unexpected in the Treasury Department for on January 22 Mr. Coolidge in a memorandum to the Secretary commented on the agreement as follows:

> "I feel that we have made an agreement and that the investment is carefully protected and that we could well afford to stay put until the silver policy meets its final end and in the meantime we get 3%. I anticipate in the final wind up we will get the silver and Mexico will get the dollars. I think any demand in the near future would be resented by them and that we have no very good reason for changing our minds so soon."

1 Letter from the Federal Reserve Bank of New York to the Secretary of the Treasury in "Transactions - Buying and Selling Foreign Exchange - Banco de Mexico" file.

This memorandum indicates that the Treasury was considering whether to terminate the agreement shortly after its inauguration. A further question concerning it arose, namely, whether the Federal Reserve Bank of New York had the right under the agreement to permit the sale of any of the silver held by it under the agreement. The opinion was held by Mr. Opper that in the absence of a default by the Banco de Mexico such sales were not permissible under a strict construction of the agreement. Should the Banco de Mexico and the Treasury agree to such sale no legal objections would arise except that in that event the amount of the advance secured by the silver would have to be reduced.

The pesos purchased by the Fund were carried on its balance sheet as an asset but no contra counter entries were set up to show the silver held as collateral. This was recorded as a notation attached to the weekly balance sheet under the heading "Silver Collateral Account". Of the $5,000,000 in silver held in this account one-half was in San Francisco and the other half in New York.

The agreement lapsed in June 1936 and was replaced by a somewhat similar arrangement in January 1938.

C. The First Chinese Agreement.

On May 25, 1936 the Secretary concluded an agreement identical in all important respects with the Mexican agreement for the purchase of Chinese yuan against dollars secured by silver collateral.[1] The agreement was concluded as a result of communications and conversations with representatives of the National Government of the Republic of China. The arrangements which the Secretary authorized the Federal Reserve Bank of New York to make with the Central Bank of China provided for the purchase of up to $20 million of Chinese yuan and

1 The text of the agreement and the covering letter are found in the "General Fiscal Agents and Depositaries - General" file.

the collateral provided by the Central Bank was to bear such a proportion to 50 million ounces as the amount of dollars used in the purchase of yuan bore to $20,000,000. The terms of the first paragraph of the Mexican agreement were repeated almost verbatim in the letter to the Central Bank of China except that the dollars provided by the Fund were to be credited to the Central Bank of China in a special account and not as fiscal agent, as in the Mexican agreement. A requirement was added that the yuan credited to the Federal Reserve Bank of New York as fiscal agent as interest should be repurchased at the same rate of exchange at which the yuan earning the interest had been bought. The silver pledged as collateral was not to be set aside as in the Mexican agreement from silver already held under earmark by the Federal Reserve Bank of New York but was to be held by the Central Bank of China in depositaries in New York or San Francisco designated by the Treasury for the account of the Federal Reserve Bank of New York as fiscal agent and/or to be placed on board a United States steamer in Shanghai consigned to the Federal Reserve Bank of New York at such depositaries. The details of the shipping documents and the insurance were provided in the agreement.

As in the Mexican agreement in the event of failure on the part of the Central Bank of China to repurchase the yuan including interest, the Federal Reserve Bank was to be safeguarded in taking over the collateral from any loss as a result of such failure. The only difference between the Chinese and Mexican agreements in this respect was that the Central Bank of China should arrange to have the collateral converted into silver bars which were of good delivery in New York. Any A purchase of yuan by the Federal Reserve Bank of New York as fiscal agent was subject to prior fulfillment by the Central Bank of China of its undertakings in regard to the pledge of collateral.

This agreement was to terminate on December 15, 1936 and if a renewal was desired notice was required to reach the Federal Reserve Bank of New York thirty days before that date.

This first Chinese agreement was not actively availed of and the only entries connected with it appearing on the balance sheet of the Fund are a small liability to the Central Bank of China which appears first at $138,000 on the balance sheet of August 3 and which remained from September 14 to October 19 at $312,000.[1]

D. The Right of the Fund to Sell Silver Futures under the London Agreement.

One other question concerning silver arose prior to the Tripartite Agreement. This was the question of whether under the London silver agreement of 1933 the United States Treasury was entitled to sell silver futures. On June 5, 1936 Mr. Oliphant prepared a memorandum to the Secretary in which he referred to his memorandum of May 7, 1934 concerning the power of the Stabilization Fund to deal in silver under Section 10 of the Gold Reserve Act.[2] Mr. Oliphant did not pass on the question of whether the Fund could sell spot silver under the London Agreement, "at least as long as the new balance remaining after such sale equals the total of the amount held upon the effective date of the agreement added to the amount agreed to be purchased". He did, however, give his opinion that the London agreement did not contemplate any restriction upon the sale of silver contracts for future delivery, basing his view upon the legal concept that no sale actually takes place until title to the ~~obligation~~ object sold passes. A future

1 There is nothing in the files to indicate the ~~margin~~ origin of this small liability.
2 See pages 28-?

contract was not a sale of silver under the precedents established by the courts.[1] On November 16, 1936, $2,050,000 of silver sold forward appears on the balance sheet of the Fund. Beginning in January the Fund bought forward silver and by February 8 had completely covered this short position which was completely liquidated by March 15, 1937.

VI. Gold and Sterling Transactions and Commitments November 1935 - September 1936.

A. Renewed Offer to Purchase Gold from the Bank of France: November 1935.

During the period from July to December 1935 when the Fund was actively supporting sterling through its silver purchases in London and was accumulating a large holding of silver, gold did not reappear among its assets. It nevertheless still was prepared to renew its assistance to the Bank of France along the same lines as in the May-June 1935 crisis. In October the Secretary asked his Executive Assistant, Mr. Thompson, to send information to Mr. Lochhead of the Stabilisation Fund from Paris concerning the gold carrying capacity of the United States Lines in connection with a transaction which the Secretary was contemplating at that time[2] and on November 15 the Treasury offered to purchase up to $25 million from the Bank of France against an equivalent dollar amount of gold to be earmarked in their vaults ~~at $34. — per ounce~~, such gold to be guaranteed free for export under any circumstances. This offer was renewed daily by cable from November 16 to 23[3] but was not taken advantage of by the Bank of France. At the same time ~~it~~ the fund inaugurated a new form of intervention in support of sterling which became a regular and important feature of its later stabilization operations.

1This memorandum is in "Transactions--Buying and Selling--General"

2Letter of Mr. Thompson to Mr. Lochhead written from the Hotel Meurice in Paris On October 15, 1935.

3"Transactions--Buying and Selling Gold and Silver--Gold--Bank of France" file.

B. Standing Offer to Purchase Gold in London at the London-New York Shipping Parity.

On November 19, 1935 the Federal Reserve Bank of New York was instructed to inquire as fiscal agent for the Treasury as to whether the Bank of England would be willing to act for it in the purchase of up to 700,000 fine ounces of gold in London at not over $34.77 per ounce, excluding brokerage, and to earmark such gold for the Federal ReserveBank. Upon the completion of such purchases the Secretary would instruct the Federal Reserve Bank of New York to credit the Bank of England in dollars. The Bank of England replied by cable that it was unlikely that it could obtain gold at this price, for the outturn at $34.77 was only effective when, as had been the case in the preceding week, gold was offered in the London market and no bids were made for it at over the New York shipping parity. The Bank of England pointed out that on May 20 the gold "premium" was 2-1/2d to 3d over New York shipping parity equivalent to a price of $34.82 per ounce, but stated that it would be glad to act whenever the market made it possible.[1]

The Treasury's offer to purchase up to 700,000 ounces at exactly New York shipping parity on London[2] was not withdrawn, however, but was kept open steadily until January 11, 1936.[3] This standing offer to buy gold was not a stabilization operation in the sense that it brought the Fund into the sterling market at any particular level of the sterling-dollar exchange rate. At any given moment the shipping point could be reached by a fall in the London price of gold, sterling-dollar rate remaining unchanged, or by a decline in the sterling-

1 "Transactions--Buying and Selling Gold and Silver--Gold--Great Britain--Bank of England" file,

2 Cf note on page 61 indicating that the price of $34.77 per ounce did not allow for interest. Confirm whether this did not actually make the Treasury's standing offer higher than that which could be offered by private arbitrageurs. Check whether there are implications to be drawn from this.

3 Cables of November 23, 27, 30; December 7,14, 21, 28, 1935; and January 4, 1936

dollar rate (appreciation of the dollar in sterling) the London price of gold remaining unchanged, or by some combination of the two. The standing offer, however prevented the appearance at any time of an unusually large gold arbitrage profit opportunities for shipment of gold from London to New York and it therefore contributed to a more orderly movement of gold to the United States when the shipping point was reached. In this sense it was in harmony with the Treasury's general policy of intervening when the "normal" functioning of the exchanges was for any reason impaired.[1] But it was not an operation which would stabilize the dollar-sterling rate because the London price of gold was fundamentally based on the general movement of sterling in terms of all the gold currencies including the dollar which was kept within gold points in relation to other gold standard currencies by the operation of the monetary system adopted in January 1931. The common movement of sterling in terms of the gold currencies might be very wide without bringing the Fund into the sterling market under its standing offer expressed in terms of a dollar price of gold. It was not until after the Tripartite Agreement that the general level of the sterling-dollar rate as distinct from the London-New York gold shipping parity

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which might be associated with any given rate, became a criterion of intervention by the Fund in the London bullion market.[2] Between November 27 and

Contradicts stmt. on p. 105

December 6, 1935, 37,871 ounces of gold were purchased under this standing offer at a cost of $1,316,000 and this gold was held by the Fund under earmark at the Bank of England until January 26, 1936, when it was sold in London at the price of 140s 7-1/2d.[3] This sale coincided with the re-entry of the Fund directly into the sterling market.

1 See pages

2 These statements are not based on material in the files but are made in order to distinguish sharply the purposes of the transactions which were later passed through the A. and B. accounts of the Fund at the Bank of England.

3 "Transactions - E. Bank of England - London" file. There is nothing in the file to indicate why this gold was sold in London.

C. Creation and Liquidation of a Short Forward Position in Sterling: January-May, 1936.

On January 9, 1936 the Fund had closed out its small outstanding sterling balance of £776-1-7. Its sterling purchases, of which this sum was the remnant, carried out in connection with the silver operations in the last half of 1935 had been made at a level of about 4.93 but by the end of January the rate was approaching $5.000and the Stabilization Fund began to sell sterling one month forward, thus tending to check the appreciation of sterling. This also put the Fund in a position to intervene later to support sterling without taking a long position as it had had to do during the first gold scare.[1] Between January 24 and February 27 it had sold in New York the sterling equivalent of $14,443,000 forward, all but £200,000 of which was for end of February delivery. The bulk of this sterling was sold at just over $5.00.[2] Beginning on February 14 the Fund began to purchase spot and end of the month sterling both in New York and London at from 4.97-3/4 to 4.99-3/4 to cover this position and at the end of the month sold a further £1,430,000 forward for the end of March, leaving its net short forward position on March 2 at $8,157,000.[3] This position was taken at slightly lower rates, 4.98-21/32 to 4.99, and the Fund began to cover in small lots for the end of the month delivery and in spot on March 7. It closed the March position at rates which gradually declined from 4.98-1/2 to 4.95-3/4. This operation was repeated at the end of April and a still smaller forward position was carried forward to the end of May ($1,305,000) at 4.93-1/2. Between May 5 and 7 the whole of the May position was closed out by the purchase of sterling for delivery May 29 at somewhat higher rates, 4.95-11/16 to 4.97-1/16, but the whole operation was

1 There is nothing in the files to indicate the reason why the Fund went short of sterling at this time.

2 Specific Authorizations - Buying and Selling Sterling.

3 Ibid.

profitable to the Fund. The average rate realised for its forward sterling sold rose from 5.0068 for the February position to 5.227 for the May position.[1] The net effect of these operations was to check the rise in sterling when it reached the high point of over $5.00 and then to bring it support as the rate subsequently declined. In this respect the operation resembled the first dealings of the Fund in French francs[2] but because of its moderate size it was probably not a major factor in the market.[3]

On May 8 the Fund retired completely from the sterling market until September 26, the day following the announcement of the Tripartite Agreement[4] but some gold transactions continued to be carried out and preparations were made for a major shift in the center of the Fund's interest from Paris to London.

D. Gold Transactions from the French Elections of April-May 1936 to the Tripartite Agreement.

The French elections of April 26 to May 3, 1936 were won by the Popular Front parties, and the new government of Leon Blum took power on June 2. At the time of the elections forward francs (check date) fell to a discount of 26% and a new period of intense anxiety concerning the future of the franc began.

1. Purchases of Gold in London at the New York Shipping Parity.

On March 30 the Treasury had renewed its offer to buy up to 700,000 ounces of gold in London at $34.77 per ounce and this was regularly kept open until May 16 when the amount was reduced to 500,000 ounces. This offer was kept open until August 8 when the amount was again reduced to 350,000 ounces and was

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1 Weekly balance sheets.

2 See page pp 46-50

3 This is inferrec but has not been looked into

4 "Buying and Selling Sterling--Specific Authorisations". The weekly balance sheets for this period show only normal sterling balances.

maintained at that figure until September 26.[1]

During the period of the French elections this offer became effective for the first time since December 19, 1935, with the sterling-dollar rate at about and the Fund became again a buyer of gold in London. As indicated by Table 6 substantial but intermittent purchases of gold were made under this authority up to the date of the Tripartite Agreement, which supplemented but did not supplant this aspect of the Stabilization Fund's operations in London.

Table 6
Gold Bought by the Stabilization Fund in London
$34.77 per ounce from April 28 to October 22, 1936[2]

Date	Ounces	Dollars	
April 28-May 1	42,221	$1,467,000	34.75
May 25	20,142	700,000	34.75
June 19	191,827	6,669,000	34.77
August 4 - 6	112,613	3,914,000	34.76
October 2	28,992	1,008,000	34.77

The gold thus bought amounting to $13,758,000 was not imported but was held under earmark at the Bank of England.[3]

2. Renewal of Arrangements with the Netherlands Bank at Treasury Initiative.

As a consequence of the French elections both guilders and Swiss francs were very easy early in May 1936. Dutch funds began to move to London and New York and gold to be shipped from ~~New York~~ Holland to ~~Holland~~ New York.[4] On this occasion the Treasury did not wait for Dutch initiative in making arrangements for supporting the guilder in New York but on May 26 instructed the Federal Reserve Bank of New York to cable to the Netherlands Bank that, with the view to aiding in

1 The successive cables giving these authorizations are in "Transactions--Buying and Selling Gold and Silver--Gold--Great Britain--Bank of England" file.
2 "Transactions--Gold--R. Bank of England - London" file.
3 Weekly balance sheets.
4 Commercial and Financial Chronicle.

the prevention of erratic exchange fluctuations, the Secretary of the Treasury was willing to arrange for the Netherlands Bank to draw on the Federal Reserve Bank of New York as fiscal agent on or before June 2 up to $10,000,000 against an equivalent amount of gold earmarket in Amsterdam at $34.77 per ounce, such gold to be guaranteed free for export under any circumstances. The Netherlands Bank was asked to signify its agreement by cable on receipt of which the Treasury would make the dollars immediately available. The Treasury advised the Federal Reserve Bank of New York that this transaction would be carried out for the Stabilization Fund.

On May 28 the guilder dropped slightly below theoretical gold export point from Amsterdam to New York but the Netherlands Bank, though it accepted the terms of the Secretary's offer, cabled that it would not need the facilities in the next few days and asked for an extension beyond June 2. An extension was granted, but only to June 6 and this was followed by weekly renewals of the Treasury's offer until July 11, 1936. At this time the Netherlands Bank thanked the Federal Reserve Bank for these renewals but stated that if it was impossible to renew their agreement for longer periods they would drop the arrangement with the understanding that they might ask for a renewal by cable at any time. To this the Treasury agreed and the arrangement lapsed until Saturday, September 26, 1936, the day Holland abandoned the gold standard in consequence of the French deflation. A renewal was then arranged from September 28 to October 3 and two further weekly renewals followed. On November 24 the whole arrangement was superseded by new understandings incident to the Dutch adherence to the Tripartite Agreement. No use was actually made of the facilities by the Netherlands Bank.

3. Preparations for the Sale of Gold to England: June 1936.[1]

Under the monetary policy in effect since January 1934 the United States Treasury had stood ready to sell gold at $35 plus 1/4 to the central banks of countries on the gold standard. Upon the assumption of power by the Popular Front parties in France in June one of the principal foundations of this policy, the adherence of France to a fixed gold standard at a dollar-franc rate satisfactory to the United States appeared to be threatened. On June 8 the Secretary asked and obtained from the President authority to sell gold through the Stabilization Fund to all or any foreign governments or central banks in such quantities, at such time and with respect to such governments as he might deem most advantageous to the public interest.[2]

[1] The statement that the changes in the monetary policy indicated in this section were made in preparation for sales of gold to England was based on statements made by Mr. Dietrich orally in May 1942 and not on any written evidence in the actual record. The new authority obtained by the Secretary from the President was to sell gold to all central banks and not to the Bank of England in particular.

[2] Copies of the letter in which the President approved the sale of gold to all or any foreign governments or central banks appearing in the files all are dated September 27, 1936, and bear the notation "Approved, Franklin D. Roosevelt, September 27, 1936", yet this letter is clearly referred to by the Secretary as having been approved on June 8. This is apparent from the wording of the first paragraph of the Secretary's letter to the President of September 27 requesting authority to use the Stabilization Fund for the purchase of gold from all foreign governments or central banks, the text of which is given below, p. 125. I have not been able to resolve this conflict of dates, and therefore quote the letter approved by the President concerning the sale of gold as it appears in the files:

"September 27, 1936

My dear Mr. President:

On January 31, 1934, with your approval, I issued statements announcing that I would, until further notice, buy imported gold at $35 an ounce (less one-quarter of one percent) and sell gold for export to foreign central banks under certain circumstances at $35 an ounce (plus one-quarter of one per cent). Section 10(a) of the Gold Reserve Act of 1934 provides, in effect, that I may, with your approval, directly or through such agencies as I may designate, deal in gold and foreign exchange by the use of the Stabilization Fund established by that section.

It is possible that there may be disturbances in the foreign exchange markets such that the public interest will require the sale of gold through the Stabilization Fund to all or any foreign governments, foreign central banks

On June 8 the Secretary also wrote to the Federal Reserve Bank of New York authorizing it to acquire up to $51,000,000 of gold from gold to be received from the New York Assay Office from abroad between June 8 and June 16. The specific shipments to be acquired in this way would be indicated through the Federal Reserve Bank by telephone by Mr. Lochhead of the Stabilization Fund office and payment was to be made at the usual price of $35 per ounce less 1/4 less mint charges, the Federal Reserve to pay to the consignor $34.9125 per ounce and to the Assay Office to be credited as a miscellaneous receipt of the Treasury .0875 per ounce. The Assay Office was instructed to make available to the Federal Reserve Bank, Assay Office bars of as nearly as possible equivalent amount of gold imported and was to hold this gold in a special account subject to the order of the Federal Reserve Bank of New York as fiscal agent (Secretary's Special Account). In order to facilitate this transaction the Assay office was instructed to waive its bar charges, the mint charges therefore covering only melting and refining costs.[1]

These arrangements were made in contemplation of a sale of gold to the Bank of England which had been accumulating dollars in New York. By having the Stabilization Fund take gold coming in from abroad upon arrival, this gold was prevented from appearing among the assets of the Treasury as an addition to the

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or the Bank for International Settlements at the price of $35 per fine troy ounce (plus one-quarter of one per cent). If you approve, until further notice from you, of such sales at such times and in such quantities and with respect to such governments or banks as the Secretary of the Treasury deems most advantageous to the public interest, I shall appreciate it if you will signify such approval by signature of the notation at the foot of this letter.

Faithfully yours,
/s/ Henry Morgenthau, Jr.,
Secretary.

Approved:
Franklin D. Roosevelt
The White House
September 27, 1936."

There is no letter of June 8, 1936 in the file dealing with sales of gold to foreign central banks.

1 The letters to the Federal Reserve Bank and to the Assay Office giving these instructions are in Mr. Dietrich's "Gold" file.

CHART III

monetary gold stock. Consequently, should it subsequently be disposed of to the Bank of England by the Stabilization Fund the transaction would not be reflected in a reduction in the gold stock and the operations of the Fund would be screened from the public.[1]

Under this arrangement the Stabilization Fund acquired by June 22 $48,604,000 in gold and this was increased to $50,299,000 by July 13.[2] Together with the gold acquired in the London market at $34.77 this brought the total gold held by the Fund to $59,138,000 on July 13.[3] On September 15 letters similar to those of June 8 were sent to the Federal Reserve Bank of New York and to the Assay Office authorizing the acquisition by the Fund of a further $51,000,000 in gold from gold to be received from abroad at the Assay Office between September 15 and October 31.[4] When the Tripartite Agreement went into effect on October 12, 1936, $29,619,000 had been acquired under this authorization. This together with further purchases in the London market at $34.77 (Table 6), bought the total gold held by the Fund to $93,681,000 on that day.[5] (Chart III).

The operating records of the Fund do not indicate the source of the gold acquired from the Treasurer at this time but both the June and September arrangements were made at a moment when a heavy drain of gold from France to the United States was in progress as indicated by the following table:

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1 The statements in this paragraph are not based upon material in the files but upon information given orally by Mr. Dietrich in May 1942.

2 These are the amounts held for the Fund by the Assay Office shown in the weekly balance sheets of the above dates. The Fund held no gold June 8. The balance sheet of July 6 is not in the files.

3 Weekly balance sheet.

4 Mr. Dietrich's "Gold" file.

5 Weekly balance sheets.

Table

Gold Imports into the U.S.: April-Sept.1936
($000 omitted)

Month	Total Imports into the United States	Imports from France
April	28,055	1,514
May	169,152	133,157
June	277,775	202,983
July	15,379	27
August	67,493	17,880
September	171,824	136,671

The contemplated transfer of a substantial part of this gold to Great Britain was not carried out, but the breach in the original policy of 1934 under which the Bank of England was excluded from the purchase of gold in the United States because England was not on the gold standard was ratified by the new practical arrangements negotiated under the Tripartite Agreement. From October 13 onwards the British and American Stabilisation Funds were no longer obliged to exert their influence on the sterling-dollar rate largely by way of Paris.

PART IV

The Stabilization Fund Within the Framework of the American Monetary System as Modified by the Tripartite Agreements of 1936

I. The Alternatives Presented to Great Britain and the United States by the Culmination of the Chronic French Financial Crisis: Autumn 1936.

II. The Readjustment of the Gold Bloc Currencies: September 1936

III. The Tripartite Agreement - Declarations of Principle and Intent.

IV. The Tripartite Agreement - Conditions for Participation and Working Agreements.

A. Formulation of the Principle of Reciprocity in Gold Dealings.

B. Steps Taken to Make this Principle Effective on the American Side.

1. Approval by the President of the Use of the Stabilization Fund to Implement the New Agreements.

2. Grant of Authority to the Federal Reserve Bank of New York to Deal in Gold in Execution of the New Agreements.

C. Compliance with the Conditions for Participation by Great Britain and France.

D. Compliance with the Conditions for Participation by Belgium, Switzerland and Holland.

E. Failure to Include Sweden Among the Participating Countries.

V. The Problem of Reciprocity of Gold Dealings Under the Tripartite Agreement.

A. Questions Raised by the Federal Reserve Bank of New York and by Foreign Central Banks Concerning Treasury's Gold Regulations Before the Tripartite Agreement.

B. Modifications in the System of Gold Regulation Introduced by the Tripartite Agreement.

C. Questions Concerning Earmarked Gold Raised by Foreign Central Banks After the Tripartite Agreement.

D. Agreement by the Treasury to the Free Transfer of Earmarked Gold between Members of the Tripartite Agreement and Revision of License NY-18-1.

E. Further Questions Raised by the Netherlands Bank Relating to the Operation of the Tripartite Agreement.

1. Proposal to Include Dollar Assets Held for Stabilization Purposes in the Scope of the Tripartite Agreement.

2. The Period for Which Gold Held under Earmark would Remain Free for Export.

3. Conversion of Gold Held under Earmark by Foreign Stabilization Funds in the Event of Revocation of the Tripartite Agreement.

I. The Alternatives Presented to Great Britain and the United States by the Culmination of the Chronic French Financial Crisis: Autumn 1936.

The entire basis on which the exchange stabilization operations of Great Britain and the United States had been conducted since February 1934 was threatened by the renewal of the French financial crisis in June 1936. Should the new French government decide that it could no longer "defend the franc" at the old gold value, or conclude that it was not in the interests of France to continue to do so, it might choose one of several alternative policies, all of them involving serious problems for Great Britain and the United States. It might adopt a regime of exchange control; it might simply allow the franc to depreciate or carry out a devaluation by unilateral action and run the risk of retaliatory action by England and America and other countries; or it might reach an agreement with England and America under which the franc could be stabilized at a new level with their consent and cooperation. Had France passed over to a regime of exchange control or simply ceased to defend the franc, the British authorities would have been faced with four alternatives:

1. to adhere to their policy of not purchasing any currencies that could not freely be converted into gold - thus transferring their stabilization operations wholly to the Belga, the Guilder and the Swiss franc. This course was for many reasons impracticable.
2. to give up continuous intervention in the exchange markets.
3. to accept the risks involved in trading in other currencies, dollars in particular, without the right to convert these other currencies into gold.

4. to arrive at an agreement with the United States Treasury whereby the British authorities could convert dollars acquired in the course of stabilization operations into gold.

The United States was likewise confronted with a series of alternatives. It might adapt its policy to a substantial extension of the regime of exchange control abroad[1], or to a regime of competitive exchange depreciation;[2] it might attempt to confine its exchange stabilization operations to the minor gold currencies, but this was sure to be ineffective and impracticable;[3] it might accept the risks of stabilization operations in currencies not convertible into gold at all, or convertible, as in the case of sterling, into gold at prices that would merely reflect fluctuations in the dollar exchange which the American authorities might not be able to control; or it might reach some agreement with Great Britain which would give the United States a real participation in controlling not only the relation between the London price of gold and the sterling-dollar rate, but more fundamentally the sterling-dollar rate itself.

A French devaluation with the consent and cooperation of the United States and Great Britain was from the American point of view clearly preferable to the other possible courses of action open to France, but it became evident in the summer of 1936 that some sort of Anglo-American agreement concerning the dollar-sterling rate was a prerequisite to this. An end of arms length dealing between the British and American monetary authorities and a frank recognition of the

1 The significance of this is suggested by the fact that Germany is not once referred to in all the operating records of the Stabilization Fund.

2 Once deprived of the fulcrum of effective fixed gold prices in the gold bloc countries the United States was singularly ill-equipped to take part in such a competition.

3 Stabilization of major currencies through minor markets does not come within the range of logical or effective monetary policy.

fact that the central exchange stabilization problem - that of the sterling-dollar rate - should be attacked directly rather than indirectly through Paris, was clearly indicated.

The accumulation of gold by the Stabilization Fund beginning in June 1936 was carried out in connection with plans already under consideration for some sort of Anglo-American understanding.[1] These were matured during the arduous negotiations of September, at the conclusion of which France received assurance that a French devaluation would not be met by retaliatory action on the part of Great Britain and the United States, and that French efforts to support the franc at a new level in a free exchange market would meet with cooperation in London and New York.[2]

II. The Readjustment of Gold Bloc Currencies, September 1936.

With this assurance the French Government on September 24, 1936 (check) declared its intention of devaluing the franc, and by the Law of October 1, 1936 fixed the limits of this devaluation at between 25.19 and 34.35% of the old gold parity and authorized the creation of an Exchange Stabilization Fund to control the exchange relations of the franc to other currencies within these limits. It also authorized the Bank of France to revalue its gold stock at the upper of these limits, 49 milligrams of gold per franc. By a convention between the Bank of France and the Ministry of Finance the Exchange Fund was established and 10 milliards of the nearly 17 milliards of devaluation profit was transferred

1 At a conference at the Treasury in December 1936 the Secretary stated that the Tripartite Agreement was under consideration for months before it was consummated. "Inactive Gold" file.

2 These negotiations are not referred to in the operating files, and do not come within the scope of a factual account of the Fund's operations. The preceding paragraphs are not based on Treasury records, but have been inserted to provide a minimum of background for the factual account. They should be confirmed, corrected or perhaps omitted.

to it. The Fund was owned by the Government and managed for it by the Bank of France.

At the same time the Swiss franc was also devalued. The limits within which the gold value of the franc should be confined were fixed by law at from 26 to 34-1/4% of the former gold value, approximately the limits set for the French franc, and the government instructed the Swiss National Bank to hold the franc for the time being at about 30% of the former gold value.

On September 26 (check) the Netherlands Bank was relieved of the duty of redeeming its notes in gold, and the guilder was allowed to depreciate about 20% in dollars. It was not devalued, but merely maintained at this new level. An Exchange Stabilization Fund was established which was entrusted with the major responsibility of executing the foreign exchange policy of the government and the Bank.

III. The Tripartite Agreement - Declaration of Principle and Intent.

On the day following the French Government's announcement of its decision to devalue the franc, the American and British Treasuries issued statements declaring that they welcomed this decision in the hope that it would "establish more solid foundations for the stability of international economic relations" and stating that the three governments intended "to continue to use appropriate available resources so as to avoid as far as possible any disturbance of the basis of international exchanges resulting from the proposed readjustment." Traces of the hard bargaining preceding these declarations are found in the inclusion in the American and British statements of the proviso that "each Government must of course, in its policy towards international relations, take into full account the requirements of internal prosperity", and in the inclusion in the British statement of a reaffirmation of the Government's purpose "to avoid to the utmost extent the creation of any disturbance [in the system of international exchanges] by British monetary action."

The text of the Secfetary's statement of September 25 announcing the new understanding which became known as the Tripartite Agreement, was as follows:

"By authority of the President, the Secretary of the Treasury makes the following statement:

1. The Government of the United States, after consultation with the British Government and the French Government, joins with them in affirming a common desire to foster those conditions which safeguard peace and will best contribute to the restoration of order in international economic relations and to pursue a policy which will tend to promote prosperity in the world and to improve the standard of living of peoples.

2. The Government of the United States must, of course, in its policy towards international monetary relations take into full account the requirements of internal prosperity, as corresponding considerations will be taken into account by the Governments of France and Great Britain; it welcomes this opportunity to reaffirm its purpose to continue the policy which it has pursued in the course of recent years, one constant object of which is to maintain the greatest possible equilibrium in the system of international exchange and to avoid to the utmost extent the creation of any disturbance of that system by American monetary action. The Government of the United States shares with the Governments of France and Great Britain the conviction that the continuation of this two-fold policy will serve the general purpose which all the Governments should pursue.

3. The French Government informs the United States Government that, judging that the desired stability of the principal currencies cannot be insured on a solid basis except after the re-establishment of a lasting equilibrium between the various economic systems, it has decided with this object to propose to its Parliament the readjustment of its currency. The Government of the United States, as also the British Government, has welcomed this decision in the hope that it will establish more solid foundations for the stability of international economic relations. The United States Government, as also the British and French Governments, declares its intention to continue to use appropriate available resources so as to avoid as far as possible any disturbance of the basis of international exchange resulting from the proposed readjustment. It will arrange for such consultation for this purpose as may prove necessary with the other two Governments and their authorised agencies.

4. The Government of the United States is moreover convinced, as are also the Governments of France and Great Britain, that the success of the policy set forth above is linked with the development of international trade. In particular it attaches the greatest importance to action being taken without delay to relax progressively the present system of quotas and exchange controls with a view to their abolition.

5. The Government of the United States, in common with the Governments of France and Great Britain, desires and invites the cooperation of the other nations to realise the policy laid down in the present declaration. It trusts that no country will attempt to obtain an unreasonable competitive exchange advantage and thereby hamper the effort to restore more stable economic relations which it is the aim of the three Governments to promote." [1]

On the following day [illegible] adhered to the principles of the Tripartite Agreement in a note from the Belgian Embassy transmitted by the Secretary of State to the Treasury Department, in which the Belgian Government expressed its willingness to "take part as often as it may be necessary or useful in the consultations which may be called, either between the interested governments or between the competent institutions", and stated that it had decided "to modify in no way the monetary policy which it had carried out during the last year and a half and which has had the effect of assuring the complete stability of the Belgian franc in the international exchange market, avoiding any disturbance in that market." [2]

On November 21, 1936, the Swiss and Dutch Governments announced their acceptance of the principles of the Tripartite Agreement in identical notes which were transmitted by the State Department to the Treasury. The text of these notes stated that the two governments had "cognisance of the declarations by which the Governments of France, Great Britain and the United States have seen fit to express their intentions with regard to their monetary policy and adheres to the general pri[illegible] stated in their Tripartite declaration of September 25." [3]

1 Treasury Press Release, September 25, 1936.
2 Treasury Press Release, September 26, 1936.
3 Treasury Press Releases of November 24, 1936.

These statements were declarations of intent and were made effective by a series of bilateral agreements in October and November which established a new international gold settlement system which included not only the pound, the French franc and the dollar, but also the belga, the Swiss franc and the guilder. Until these agreements were concluded the scope of official American and British exchange stabilization operations as conducted prior to September 25 was actually restricted. Though the Secretary had obtained the approval of the President on June 8 for the sale of gold to all central banks through the Stabilization Fund, the officially announced gold policy of the Treasury was still that of January 31, 1934. Under this policy the Treasury was ready to sell gold for export only to central banks of countries on the gold standard when the exchange rates of their respective currencies reached gold export point. Under this policy the United States Treasury could not, after the French, Swiss and Dutch devaluations, sell gold to any of these countries or to the United Kingdom, for neither Great Britain nor Holland were on the gold standard and there were no fixed gold parities with France or Switzerland from which gold export points could be calculated. The British Exchange Equalization Account would not buy foreign exchange that could not be converted into gold at a fixed price and was thus temporarily excluded from the continental as well as the American markets. It was for a few weeks actually dormant.

IV. The Tripartite Agreement - Conditions for Participation and Working Agreements.

A. Formulation of the Principle of Reciprocity in Gold Dealings.

The central principles agreed upon in the negotiations preceding the conclu-

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[1] The correctness of this statement should be confirmed when the exact authority granted by the President on June 8 is checked. See pp.   and p.

sion of the Tripartite Agreement were mutual consultation concerning the level of exchange rates and reciprocity in gold dealings.[1] The conditions under which the United States would sell gold to other countries in accordance with ~~their~~ these principles were formulated in a statement of policy approved by the President on September 27,[2] which was issued on October 12 after the necessary technical arrangements had been worked out with the Bank of England and the Bank of France. The text of this statement was as follows:

> "Supplementing the announcements made by him on January 31 and February 1, 1934, to the effect that the Treasury would buy gold, and on January 31, 1934, referring to the sale of gold for export, the Secretary of the Treasury states that (hereafter, and until, on twenty-four hours notice, this statement of intention may be revoked or altered) the United States will also sell gold for immediate export to, or earmark for the account of, the exchange equalization or stabilization funds of those countries whose funds likewise are offering to sell gold to the United States, provided such offerings of gold are at such rates and upon such terms and conditions as the Secretary may deem most advantageous to the public interest. The Secretary announces herewith, and will hereafter announce daily, the names of the foreign countries complying with the foregoing conditions. All such sales of gold will be made through the Federal Reserve Bank of New York, as fiscal agent of the United States, upon the following terms and conditions which the Secretary of the Treasury deems most advantageous to the public interest:
>
> > Sales of gold will be made at $35 per fine ounce, plus one-quarter per cent handling charge, and sales and earmarking will be governed by the Regulations issued under the Gold Reserve Act of 1934."[3]

B. Steps Taken to Make this Principle Effective on the American Side.

In order to adapt the existing arrangements and procedures of the Stabilization Fund and the Federal Reserve Bank of New York to the new policy, certain modifications in existing practice were introduced by the Treasury.

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1 The operating records do not contain the texts of the agreements reached by the various treasuries, and the text is therefore subject to correction.

2 Secretary's letter to the Federal Reserve Bank of New York, October 12, 1936, in "Transactions - Buying and Selling Gold and Silver - Gold - General" file.

3 Treasury Press Release of October 13, 1936.

1. Approval by the President of the Use of the Stabilization Fund to Implement the New Agreements.

On the same day that the formal statement of the new policy was approved the Secretary obtained confirmation from the President of the authority first granted on June 8 for the sale of gold by the Stabilization Fund to all or any foreign governments, foreign central banks or the Bank for International Settlements,[1] and also obtained his approval of the purchase of gold from all or any foreign governments, foreign central banks or the Bank for International Settlements by the use of dollars, foreign exchange, or other obligations, currency or securities.

The text of the Secretary's letter to the President asking for this authority was as follows:

> "My dear Mr. President:
>
> I refer to my letter to you concerning the Stabilization Fund, by your approval of which, dated June 8, 1936, you authorized the sale of gold through the Fund to all or any foreign governments or central banks in such quantities, at such times and with respect to such governments as I might deem most advantageous to the public interest. In my letter I pointed out that on January 31, 1934, with your approval, I announced that I would buy imported gold at $35 (less one-quarter of one percent) per ounce until further notice and sell gold for export to foreign central banks under certain circumstances at $35 (plus one-quarter of one per cent) per ounce; and that Section 10(a) of the Gold Reserve Act of 1934, establishing the Stabilization Fund, authorizes me, subject to your approval, to deal in gold and foreign exchange by the use of that Fund directly or through such agencies as I may designate.
>
> It now appears that in connection with such sales or otherwise the public interest may require the purchase of gold through the Stabilization Fund, by the use of dollars, foreign exchange, or other obligations, currency or securities, from all or any foreign governments, foreign central banks or the Bank for International Settlements. The sales and purchases referred to are most likely to be make by the stabilization or equalization funds of foreign governments. If you approve, until further

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1 See p. 124 for the text of this letter. In all the correspondence in the files except the Secretary's letter here quoted, this letter is referred to as having been dated September 27 and approved by the President on September 27. There is no letter in the files concerning the sale of gold which was approved by the President on June 8. If there were two letters the text should be corrected.

notice from you, such purchases of gold at such times and in such quantities and with respect to such governments or banks as the Secretary of the Treasury deems most advantageous to the public interest, I shall appreciate it if you will signify such approval by signature of the notation at the foot of this letter.

Faithfully yours,
(signed) Henry Morgenthau Jr.
Secretary.

Approved:
Signed - Franklin D. Roosevelt
The White House,
September 27, 1936." [1]

After the technical arrangements with Great Britain and France were completed and the new policy announced, but while negotiations were still in progress with Belgium, Switzerland and Holland, one further step was taken to insure the smooth and flexible operation of the new system through the Stabilization Fund. On November 6 the Secretary obtained the approval of the President for the purchase from and sale of gold to the General Fund by the Stabilization Fund at a flat price of $35 per ounce. The text of the Secretary's letter on this matter was as follows:

"My dear Mr. President:

In connection with the reciprocal arrangements for the purchase and sale of gold between the United States and the exchange equalization or stabilisation funds of foreign countries set up pursuant to the press statement of October 13, 1936 and letters approved by you on September 27, 1936, it may become necessary from time to time for our Stabilization Fund to buy gold from or sell gold to the General Fund.

If you approve I propose to make such purchases and sales at the flat price of $35 an ounce without adding or subtracting the one-fourth of one per cent charge. I shall appreciate it if you will signify such approval by signature of the notation at the foot of this letter.

Faithfully yours,
(Signed) Henry Morgenthau Jr.
Secretary of the Treasury.

Approved:
Franklin D. Roosevelt
The WhiteHouse,
November 6, 1936." [2]

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1 "Transactions - Buying and Selling Gold and Silver - Gold - General" file.

2 Same as note 1.

2. Grant of Authority to the Federal Reserve Bank of New York to Deal in Gold in Execution of the New Agreements.

On September 27 the Secretary also obtained the approval of the President of a letter to the Federal Reserve Bank of New York authorizing them to acquire gold bars held by the Treasury from the United States Assay Office for the purpose of sale in accordance with the statement of policy concerning reciprocal gold dealings with foreign governments and central banks, against a credit on their books in favor of the Treasurer of the United States of $35 per ounce plus 1/4%, with the understanding that if the gold was not so used it would be returned to the Treasurer in accordance with Section 29 of the Provisional Regulations issued under the Gold Reserve Act.[1] This letter was sent to the Federal Reserve Bank of New York on October 12, together with a letter confirming that the Secretary's public statement of October 12 approved by the President on September 27 constituted a license within the meaning of the Federal Reserve Bank's license NY-18-1 dated February 5, 1934, as amended, and that the gold sold pursuant thereto might be held by the Federal Reserve Bank of New York for export to, or earmark for the account of, the Exchange Equalization or Stabilization Fund purchasing such gold.[2] Similar letters were sent on November 23 with reference to the supplementary statement of the Secretary of that date.[3]

In this way the powers of the Federal Reserve Bank of New York to hold and deal in gold under the monetary policy of January 31, 1934 were brought into harmony with the new arrangements under the Tripartite Agreement.

6. Compliance with the Conditions of Participation by Great Britain and France.

The technical arrangements necessary to put into effect the monetary agree-

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1 See page pp 21-23

2 "Transactions--Buying and Selling Gold and Silver--Gold--General" file. Only one of the Secretary's two letters is in this file, but both are recapitulated in letters of acknowledgment from the Federal Reserve Bank of New York.

3 Mr. Dietrich's "Stabilization--General--November-December 1936" file.

ments negotiated between the British, French and American Treasuries were worked out between the Federal Reserve Bank of New York as fiscal agent and the Bank of England and the Bank of France. Each central bank undertook to convert into gold the balances in its own currency accumulated each day by the other central bank as a result of exchange control operations undertaken by it and to release from earmark sufficient gold to meet obligations incurred by the foreign central bank as a result of such operations. They further agreed to advise each other daily of any transactions as a result of which gold was to be earmarked or released under the monetary agreements between the respective Treasuries.[1] Since the French did not fix a definite new gold value of the franc but allowed fluctuation within certain stated limits and since there was no fixed official gold price in London of any sort, both the Bank of France and the Bank of England undertook to quote buying and selling gold prices to the Federal Reserve Bank of New York which would hold good for each day for the settlement of control transactions.[2] In a cable received on October 14, the

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1 On February 10, 1937 the Federal Reserve Bank of New York cabled to the Bank of England and the Bank of France suggesting an amplification of this understanding to read: "The Bank of England and the Federal Reserve Bank of New York will advise each other daily of any transactions as a result of which gold is to be earmarked or released under the monetary agreement between Great Britain and the United States, and neither party shall be obliged under such agreement to earmark or release gold of which such notice shall not have been given with twenty-four hours' notice." This amplification was the outgrowth of discussions with the Swiss National Bank concerning the exact interpretation of the "twenty-four hours" clause in the Secretary's public statements of October 12 and November 23. The Bank of England did not formally accede to this amplification which was, however, in accord with the informal understandings reached with them and with their actual practice. See ~~pp.~~ p. 142

2 The operating files do not give the text of the monetary agreements reached between the Treasuries, nor do they give the full details of the arrangements worked out between the Bank of England, the Bank of France and the Federal Reserve Bank of New York. In particular the absence from the files of any details concerning the arrangements with the Bank of France leaves a gap. The statement in the text is based on a memorandum of September 29, 1939 in Mr. Dietrich's "Gold - 1938-9" file which states that it was stipulated in the Tripartite Agreements that both England and France would quote daily buying and selling prices of gold. In practice the Fund's gold transactions with the Bank of France, as shown by the specific authorizations, were nearly all on a dollar basis. The French arrangements, therefore, resembled more closely those with the Netherlands Bank than those with the Bank of England.

Bank of England confirmed this understanding as follows:

> "We shall advise you daily of the London gold price, at which price we shall be prepared to buy from or sell to you gold to settle any control transactions in sterling you may undertake up to your close of business on that day. Similarly we shall advise you of any transactions as a result of which we either earmark or release gold with you at your published prices."[1]

All these arrangements were made subject to modification or cancellation by either party on twenty-four hours' notice.

In order to avoid any confusion that might later arise, special gold and currency accounts were opened by the three central banks ~~under~~ through which the transactions of their respective stabilization funds were to be passed. The sterling and franc accounts opened for the Federal Reserve Bank of New York at the Bank of England and the Bank of France were designated No. 3 accounts and the gold accounts opened were designated Account B.[2]

With these arrangements completed the Treasury made public its official statement of policy and named Great Britain and France as countries complying with the conditions laid down.[3] At the same time the British Government confirmed the agreement and announced that similar arrangements had been made between the United Kingdom and France.

D. Compliance with the Conditions of Participation by Belgium, Switzerland and Holland.

The statement of principle of September 25 covering the Tripartite Agreement had invited the cooperation of other nations to realize the policy laid down and

1 "Transactions - Buying and Selling Gold and Silver - Gold - Great Britain - Bank of England" file.

2 Ibid.

3 Treasury press releases of October 13, 1936.

the press release of October 13 provided for reciprocal gold dealings with the exchange equalization or stabilization funds of countries meeting the conditions specified for participation. Such Funds were agencies or departments of governments and undertakings between stabilization funds were inter-governmental in character. Belgium, however, which was the first country to adhere to the principles of the Tripartite Agreement, did not at that time have a Stabilization Fund, and the Swiss Fund was nothing more than a segregation of assets on the books of the Swiss National Bank. In order to maintain the inter-governmental character of the agreements the Treasury insisted upon obtaining a government guarantee for the undertakings of the central banks when these, rather than stabilization funds, were designated as agents by participating countries. Such a guarantee was reluctantly given by the Belgian Government for the National Bank of Belgium on November 9, 1936.[1]

By the middle of November understandings were reached between the Belgian, Swiss and Dutch Treasuries and the United States Treasury for the adherence of these countries to the Tripartite Agreement and on November 17 the President approved the following modification of the Secretary's public statement of October 12.[2]

"Supplementing the announcement made by him on October 13, 1936, relating to the sale of gold for export, the Secretary of the Treasury states that (hereafter, and until, on twenty-four hours' notice, this statement of intention may be revoked or altered) the United States, in addition to sales of gold to the exchange equalization or stabilization funds of foreign countries, will also sell gold for immediate export to, or earmark for the account of, the treasuries, or any fiscal agencies acting for or whose acts in this connection are guaranteed by the treasuries, of those countries whose treasuries or

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1 The text of the guarantee is given in Mr. Dietrich's "Stabilization, Nov.-Dec. 1936" file. This guarantee was negotiated for the Treasury by Mr. Merle Cochran then First Secretary of the American Embassy in Paris and forwarded by him to the Secretary on November 17. The Belgian Government asked that it should not be made public without its consent and pointed out that the National Bank of Belgium was fiscal agent for the State. Such guarantees implied a change in the relationship to central banks of governments of those countries which still adhered in general to the principle of the independent central bank.

2 T[illegible]ury press release November 24, 1936.

fiscal agencies so acting or guaranteed are likewise offering to sell gold to the United States, provided such offerings of gold are at such rates and upon such terms and conditions as the Secretary may deem most advantageous to the public interest. The Secretary announces herewith, and will hereafter announce daily, the names of the foreign countries complying with the foregoing conditions. All such sales of gold by the United States will be made through the Federal Reserve Bank of New York, as fiscal agent of the United States, upon the following terms and conditions which the Secretary of the Treasury deems most advantageous to the public interest:

> Sales of gold will be made at $35 per fine ounce, plus one-quarter per cent handling charge, and sales and earmarking will be governed by the Regulations issued under the Gold Reserve Act of 1934.

The Secretary further announces that his statement of January 31, 1934, relating to the sale of gold for export, is accordingly withdrawn."

This statement was issued on November 23 for release November 24 ~~to go~~ together with a supplementary statement naming Belgium, The Netherlands and Switzerland as countries complying with the conditions. It was made part of ~~a~~ cables dispatched by the Federal Reserve Bank of New York on November 24 to the National Bank of Belgium, the Swiss National Bank and the Netherlands Bank. After quoting the Secretary's statement each of these cables added the following paragraph:

> "In connection with these statements we enumerate below the terms and conditions which we understand were suggested during the recent discussions between you and our Treasury, but the technical details of which you and we shall of course continue to discuss in the light of experience gained from actual operation."

The conditions named were identical as far as the Belgian and Swiss National Banks were concerned except for the prices at which they agreed to sell gold to and buy gold from the Federal Reserve Bank of New York for delivery in Brussels and Berne, respectively.[1] The text of the conditions suggested in the cable to the Swiss National Bank was as follows:

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1 These prices were:

	Per kilo fine Belgas	Per kilo fine Swiss francs
Selling gold to the Federal Reserve Bank	6,638.70	4,973.92
Purchasing gold from the Federal Reserve Bank	6,615.46	4,969.80

The Swiss National Bank fixed its buying and selling prices of gold de facto on 1936. (check).

"1. On the basis of reciprocity in accordance with the statements of Mr. Morgenthau of October 12 and November 23 Swiss National Bank is prepared to sell to Federal Reserve Bank of New York as fiscal agent of the United States gold for immediate export or earmark at Swiss francs 4,973.92 per fine kilo and buy gold from Federal Reserve Bank of New York as fiscal agent of the United States at Swiss francs 4,869.80 per fine kilo both delivery Berne.

2. Swiss National Bank and Federal Reserve Bank of New York will advise each other daily of any transactions as a result of which gold is to be earmarked or released under this arrangement.

3. It is understood and agreed that this arrangement may be revoked or altered by either party on 24 hours notice without prejudice of course to past transactions." [1]

Since both the Belgian and Swiss Banks agreed to buy and sell gold at fixed prices and since the United States Treasury had also established fixed buying and selling prices these agreements provided for stabilization of the belga-dollar and Swiss franc-dollar rates on what amounted to a gold standard basis with wide gold points ~~and~~ but on a twenty-four hour basis and depending on official gold transactions as a stabilizing mechanism rather than on private gold arbitrage.

The conditions proposed to the Netherlands Bank ~~were closely resembled~~ those agreed on with the Bank of France. Since the Dutch stabilization fund was not bound to buy or sell gold within any limits fixed by law the Dutch agreement for the purchase and earmarking of gold and its sale and release from earmark was not based on a fixed guilder price but on the dollar price of the United States Treasury. A provision was also inserted requiring previous consultation concerning the operations of the two funds in each other's markets. The text of the conditions proposed to the Netherlands Bank in the cables noted above was as follows:

[1] These cables are all in Mr. Dietrich's "Stabilization Nov.-Dec. 1936" file.

"1. Netherlands Bank is prepared to consult with us as fiscal agent of the United States, from time to time, as to the amounts of dollars to be purchased or sold in Amsterdam and the amounts of guilders to be purchased or sold in New York, as well as to the rates at which purchases or sales of the currencies in question will be made.

2. On the basis of reciprocity in accordance with the statements of Mr. Morgenthau of October 12 and November 23 any dollars thus acquired for the account of the Dutch Exchange Equalization Fund will upon your request be converted by us into gold at the rate of $35 per ounce fine plus 1/4 of 1% handling charge and any guilders thus acquired for the account of Federal Reserve Bank of New York as fiscal agent of the United States will upon our request be converted by you into gold on the basis of $35 per ounce fine less 1/4 of 1% handling charge.

3. The gold thus acquired will be earmarked for account of the owner in the country of the other party and will at the request of the owner be shipped to the country of the owner by first available steamer of his country, the cost of shipment including insurance, melting charges and any loss in weight through melting always to be borne by the Dutch Exchange Equalization Fund.

4. Netherlands Bank and Federal Reserve Bank of New York will advise each other daily of any transactions as a result of which gold is to be earmarked or released under this arrangement.

5. It is understood and agreed that this arrangement may be revoked or altered by either party at 24 hours notice without prejudice of course to past transactions."

The Federal Reserve Bank of New York suggested to all three of the banks the opening of special accounts for the control operations of the same sort and the same designations as those set up at the Bank of England and the Bank of France.

E. Failure to Include Sweden Among the Participating Countries.

The three countries adhering to the Tripartite Agreement in November 1936 were all members of the former "gold bloc", but efforts were made also to bring members of the sterling area within its scope which were unsuccessful. This is shown by the negotiations conducted with Sweden.

On October 13, the day when the Secretary's statement naming Great Britain and France as having complied with the conditions laid down under the Tripartite Agreement was issued, the Sveriges Riksbank was approached with a view to the negotiation of a similar arrangement for reciprocal gold dealings[1], but it replied that Sweden had no stabilization fund and that the Riksbank's gold transactions were for its own account. It inquired whether, if the Federal Reserve Bank of New York should buy gold from the Riksbank it would accept a price calculated on the basis of the London gold price, and whether it would sell gold to the Riksbank irrespective of the exchange rates of gold standard countries. The Federal Reserve Bank replied that it had referred this message to the Treasury which had suggested that that general question of reciprocal gold dealings be taken up with them by the Swedish Treasury[2] through the Swedish Legation in Washington, and that it could not discuss such questions until the general question was decided through that channel.[3] Sweden did not, however, become a member of the Tripartite, basing its refusal on two main grounds which were stated by the Sveriges Riksbank to the Federal Reserve Bank as follows:

1. The London gold market was freely open to the Sveriges Riksbank.
2. The monetary policy of Sweden assured it of stability in the sterling and therefore, after the Tripartite, ~~to~~ as much stability in New York, Paris, Brussels and Zurich as was enjoyed by sterling itself.

Consequently the Sveriges Riksbank could see no advantage in making an agreement for reciprocal gold dealings with the United States.[4]

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1 This is inferred from references to cable correspondence not in the files. If the initiative was not American the text should be corrected.

2 The conflict of point of view between the American Treasury which wished to make arrangements only with foreign governments, and the point of view of other countries which entrusted their monetary policy to their central banks was here clearly exemplified.

3 Mr. Dietrich's "Gold" file.

4 "Buying and Selling Gold and Silver--Gold--Sveriges Riksbank" file.

* * * * *

The technical arrangements suggested to the central banks of the smaller gold bloc countries by the Federal Reserve Bank of New York, which in effect secured for Sweden so wide an area of exchange stability, were agreed to promptly. They were accepted without qualification by the Netherlands Bank and the National Bank of Belgium, but the Swiss National Bank qualified its acceptance by raising the question of the exact interpretation of the 24-hour clause.[1] Except for the amplifications of this clause required to make its exact meaning clear, the Tripartite Agreement as a practical working system was now complete. It soon became clear, however, that the question of exactly what was implied by its underlying principle, "reciprocity in gold dealings" was by no means completely settled.

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1 See page 117

V. The Problems of Reciprocity in Gold Dealings Under the Tripartite Agreement.

The Tripartite Agreement rested upon the basic principle of reciprocity in gold dealings. In some respects it liberalized, but in others it restricted the system of gold regulation previously in effect in the United States, and it raised a number of issues concerning the way in which reciprocity was to be defined.

In carrying out their gold transactions in the United States foreign governments and central banks were faced with a set of regulations which divided such transactions into six different categories:

1. Purchases and sales of gold for the General Fund by the Federal Reserve Banks as fiscal agents, in accordance with general statements of policy issued by the Secretary of the Treasury with the approval of the President (statements of January 31, 1934 and subsequently statements of October 12 and November 23, 1936). These statements gave a general license for the acquisition of gold from the United States Treasury provided certain specified conditions were met.
2. Purchases by the Federal Reserve Bank of New York as fiscal agent for the United States of earmarked gold other than United States gold coin and gold received by the earmarking central bank from nonresident aliens of ~~their~~ its own nationality (General Authorization of the Secretary good until further notice.)
3. Purchases and sales of gold by the Federal Reserve Banks for the purpose of settling international balances, which were governed by Article IV of the Provisional Regulations issued under the Act.
4. Gold earmarking transactions carried out by the Federal Reserve Bank of New York under its license NY-18-1.
5. Purchases and sales of gold by the Stabilization Fund carried out through the Federal Reserve Bank of New York as fiscal agent.

6. Purchases of gold in the United States that could only be carried out under special license from the Treasury granted under Article V, Section 34 of the Provisional Regulations, for purposes deemed by the Secretary not to be inconsistent with the general purposes of the Gold Reserve Act.

These rather complicated distinctions were the logical outcome of the administration of Section 3 of the Gold Reserve Act which read:

> "The Secretary of the Treasury shall, by regulations issued hereunder, with the approval of the President, prescribe the conditions under which gold may be acquired and held, transported, melted or treated, imported, exported or earmarked: (a) for industrial, professional, or artistic use; (b) by the Federal Reserve banks for the purpose of settling international balances; and, (c) for such other purposes as in his judgment are not inconsistent with the purposes of this Act. Gold in any form may be acquired, transported, melted or treated, imported, exported, or earmarked or held in custody for foreign or domestic account (except on behalf of the United States) only to the extent permitted by, and subject to the conditions prescribed in, or pursuant to, such regulations."

There being no parallel system of gold regulation in other countries, many questions concerning its operation were raised even before the Tripartite Agreement and in determining these questions the Treasury gradually made clear the purposes for which it was willing to grant special licenses for the acquisition of gold in the United States.

A. Questions Raised by the Federal Reserve Bank of New York and by Foreign Central Banks Concerning the Treasury's Gold Regulations Before the Tripartite Agreements.

Prior to September 1936 the occasions in which the Federal Reserve Bank of New York found it necessary to ask the Treasury for rulings concerning the system of gold regulation were infrequent. It had received from the Treasury on ~~March 23~~ August 15, 1934 a broad interpretation of its powers, under Article IV of the Provisional Regulations, to acquire gold for export to the central banks of gold standard countries,[1] and had been able under this authority to facilitate an export movement of gold to France in August and September 1934 and to France and the Netherlands in February 1936.[2] It had also obtained an informal ruling from the Treasury in November 1935 confirming its authority under the same article of the Provisional Regulations to make advances to other central banks against gold earmarked with the Bank for stabilisation purposes. This ruling was ~~added~~ asked before complying with the request of the National Bank of Nicaragua for an advance of $300,000 against gold held under earmark in New York.[3] It was also able, after consultation with the Treasury, to agree, on July 22, 1936 to accept from the Bank of Venezuela about £600,000 in British sovereigns to be delivered by the Guaranty Trust Co. of New York, and to hold this gold under earmark and make advances in dollars against it. This transaction was part of a plan of exchange control at that time projected by the government of Venezuela, and in acceding to the proposal the Federal Reserve Bank of New York made it clear that the gold must be the property of the National Bank and subject to its instructions only, and that it was earmarked subject to the terms of the Federal Reserve Bank's license which authorised

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1 Cf. page 23

2 "Gold--General--Buying and Selling--General" file. Between February 3 and 8 it obtained gold from the General Fund for sale to various New York banks for shipment to the Bank of France amounting in all to about $16,000,000 and to the Netherlands Bank amounting in all to about $3,500,000. In connection with these shipments it advised the Treasury that francs were ruling at from 6.69-1/2 to 6.69-7/16 and guilders at 68.76 to 68.78~~--i.e. below gold export point from New York~~.

3 "Transactions--Buying and Selling Gold and Silver--Gold--National Bank of Nicaragua" file.

4 "Transactions--Buying and Selling Gold and Silver--Gold--Bank of Venezuela" file (check).

the Federal Reserve Bank to hold such gold if delivered to it from abroad after January 31, 1934 or in pursuance of a license issued by the Secretary of the Treasury. It also pointed out that it was authorized by the Secretary of the Treasury to purchase gold other than United States gold coin, held under earmark for foreign central banks at the price and under the conditions stipulated in the Provisional Regulations.[1]

In the summer of 1936, however, many central banks began to consider the transfer of a part of their reserves to the United States for conversion into gold and inquiries concerning the American regulations became numerous.

On August 24, 1936 the Norges Bank cabled to the Federal Reserve Bank of New York asking it to purchase $5,000,000 in gold for it and to hold such gold under earmark, to which the Bank replied that gold for earmarking could only be obtained from the United States Treasury under license issued by the Secretary with the approval of the President. The Norges Bank replied by letter explaining its request as follows:

> "You will understand that the purchase of gold by us as a regular note issuing institution is quite a regular transaction. We are at present holding considerable reserves of foreign exchange, and as a matter of banking policy we wish to invest part of these reserves in gold. If in future the demand for foreign exchange should make it desirable to turn this gold into cash, we should ask you to sell the gold again, or the event may arise that we may wish to take the gold away.
>
> We presume that the present regulations of the gold market in the United States are not intended to place any difficulties in the way of regular market transactions of this kind ****[2]

This letter was referred to Mr. Lochhead by the Federal Reserve Bank of New York and on September 17 Mr. Sproul of the Federal Reserve Bank replied, explaining the American system of gold regulation in detail, and pointing out

1 Ibid.

2 "Transactions, Buying and Selling Gold and Silver - Gold - Norway - Norges Bank" file.

in particular the distinction drawn between foreign central banks which bought and sold gold at a fixed price and those that did not. No special license was required for the acquisition of gold by central banks of gold standard countries as long as their exchanges were below gold export points, and under Article V, Section 34 of the Gold Regulations, the Secretary was empowered to grant licenses to other central banks for purposes which were not, in his judgment, inconsistent with the purposes of the Gold Reserve Act.[1] The Federal Reserve Bank was, under its own license, authorized to receive gold sent to it from abroad, or acquired in the United States in either of the above ways by Foreign Central Banks or governments and to export such gold.[1]

On August 27, 1936 Mr. Warren L. Pierson of the Export-Import Bank submitted a detailed inquiry he had received while in Sweden from the Sveriges Riksbank concerning ~~Swedish~~ U.S.-American gold regulations to the Treasury[2] and on September 15 the Swiss National Bank addressed an urgent cable inquiry to the Federal Reserve Bank. In confirming this cable it advised the Federal Reserve Bank that up to that time, except for recent minor transactions in pounds and dollars, its intervention in the exchange market for stabilization purposes had been exclusively in French francs, but that it was now contemplating acquiring dollars for this purpose. It therefore intended to keep dollars in gold deposit at the Federal Reserve Bank of New York and consequently wished to know whether it could sell its dollar balances with the Federal Reserve Bank against gold, and if so whether the Federal Reserve Bank could convert such gold at any time into dollars. It further wished to know whether it could send gold to the Federal Reserve

1 This letter is a very clear exposition of the system of gold regulation.

2 "Transactions - Buying and Selling Gold and Silver - Gold - Sweden - Sveriges Riksbank" file.

Bank at any time for deposit, either from Switzerland, Paris or London, and whether it would be entitled to hand over this gold from its deposit in New York to other Banks of Issue, eventually to the Bank for International Settlements.[1]

These inquiries were received during the negotiation of the Tripartite Agreement and replies were not sent until January 1937 when the new system of gold regulation was established.

B. Modifications in the System of Gold Regulation Introduced by the Tripartite Agreement.

The standing offer of the United States Treasury to sell gold for export to central banks which bought and sold gold at a fixed price whenever their exchanges reached gold export point was withdrawn by the Secretary's statements of October 12 and November 23, 1936. Henceforward foreign central banks could acquire gold in the United States without a special license only when acting as fiscal agents for their governments or exchange stabilization funds, or when guaranteed by governments which had concluded arrangements for reciprocal gold dealings with the United States, and had been named by the Secretary as having fulfilled the conditions of the Tripartite Agreement. This meant that the central bank of a country which was a member of the Tripartite Agreement could not on its own account acquire gold from the United States Treasury and have it earmarked free for export ~~on its own account~~ at the Federal Reserve Bank of New York without a special license from the Treasury for each transaction, and that even when acting as fiscal agents for its exchange stabilization fund or its government it could not acquire gold from the United States Treasury and have it ear-

[1] "Transactions - Buying and Selling Gold and Silver - Gold - Swiss National Bank" file.

2 of pp 147-8

marked unless it had given twenty-four hours notice of the transaction as a result of which gold was to be earmarked and had passed the transaction through the special accounts set up under the operating agreements through which the Tripartite Agreement was made effective. This latter restriction was in accord with an "amplification" in the "twenty-four" hours clause of the Secretary's announcements of October 12 and November 23 which was made as a result of questions raised by the Swiss National Bank. This amplification was as follows:

> "***neither party shall be obligated to earmark or release gold as a result of a transaction of which notice has not been given within twenty-four hours.
>
> Each party will have twenty-four hours in which to notify of exchange acquired before receipt of revocation notice.
>
> Neither party shall have a right to get gold for exchange acquired after receipt or giving of revocation notice." [1]

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[1] Letter of December 29, 1936 from the Federal Reserve Bank of New York to the Swiss National Bank (Mr. Dietrich's Stabilisation--General--November-December 1936 file). This amplification was made after consultation with the Treasury in response to a suggestion from the Swiss National Bank to the effect that each party should have the right to initiate transactions under the terms of the agreement during the lapse of twenty-four hours after the receipt of a revocation notice. (Transactions--Buying and Selling Gold and Silver--Gold--National Bank of Switzerland file). It was submitted to the other four "member" central banks for their confirmation on February 10, 1937 (Mr.Dietrich's "Gold" file). To this the Bank of England replied in March that it had been in touch with the British Treasury, and preferred no formal change in the agreement. It was satisfied with the working of the informal agreement, and would not enter into a discussion of the exact interpretation of the "twenty-four hours" clause, being sure that if occasion should arise, a fair agreement would be reached with the Federal Reserve Bank of New York. (Mr. Dietrich's "Gold" file). The Netherlands Bank agreed, but in its reply raised the question of the inclusion within the Tripartite Agreement of dollar exchange held for stabilization purposes. Cf. pp. 155-6

Thus, when the Swiss National Bank [illegible] sent two cables to the Federal Reserve Bank of New York on November 5, 1937 asking it to earmark $11,000,000 in gold to the debit of its account, it was informed that the Federal Reserve Bank could not comply because the dollars acquired were not notified to them within twenty-four hours and placed in the special account. The transaction therefore fell outside the Tripartite Agreement and the Swiss National Bank must apply for a license for earmark from the Secretary of the Treasury, who must also be advised as to the purpose for which the earmarking was desired and be given confirmation that the earmarked gold would be the property of the Swiss National Bank and not of a third party.[1] Under the same restriction it was necessary for the Netherlands Bank to apply for a special license on December 1, 1937 in order to convert into gold $50,000,000 which it held for the Dutch Stabilisation Fund,[2] and for the Swiss National Bank ~~and also~~ to do the same in connection with a similar conversion of $80,000,000 requested on December 18, 1937.[3]

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1 Mr. Dietrich's "Stabilization" file. The Swiss National Bank replied that it had had to intervene in the exchange market by selling francs and buying dollars to the extent of $21 millions in order not to have the dollar exchange fall further, that its Zurich branch would instruct the Federal Reserve Bank to transfer the $21 millions to the Special Account, that they wished $11 million of this to be converted into gold, that the gold was their property, and that they were again intervening in the exchange market. To this the Federal Reserve Bank replied that they now assumed the transaction to be under the Tripartite and would carry out the Swiss National Bank's instructions. A special license does not appear to have been insisted upon after these explanations.

2 The Dutch Fund wished to convert because at that time it did not expect to have to sell dollars to combat higher dollar rates in Amsterdam. "Transactions - Buying and Selling Gold and Silver - Gold - Netherlands Bank" file.

3 In its cable requesting the license, the Swiss Bank did not specify for what reason the conversion was requested nor state that the gold would be the property of the institution for whose benefit the earmark was created. The license was granted only after the Swiss Bank had advised the Federal Reserve Bank of New York that their dollar balances with the Federal Reserve belonged entirely to them and formed the main part of their Equalization Fund.--"Transactions - Buying and Selling Gold and Silver - Gold - Switzerland, Swiss National Bank" file.

Under the system of gold regulation in effect after the Tripartite Agreement the central banks of all countries not named as having complied with the conditions could acquire gold from the United States Treasury only under a special license from the Secretary, irrespective of whether or not they bought and sold gold at fixed prices. Thus when the Banque Nationale du Royaume de Yougoslavie cabled to the Federal ReserveBank of New York on November 13, 1936 instructing it to buy $120,000 in gold bars, charging their account, and hold the bars under earmark, the Federal Reserve Bank replied that the matter must be taken up by the Treasuries of the respective governments through diplomatic channels.[1] Similarly, when the Banco de la Republica Oriental del Uruguay wrote to the Federal Reserve Bank of New York on December 4, 1936 advising them that it had a seasonal abundance of dollars which it wished to convert into gold and earmark at the Federal Reserve Bank of New York pending a seasonal decline in exports, and inquiring whether if it did convert these dollars into gold it would subsequently encounter legal difficulties in freely moving the gold, it was advised that gold could only be made available to it for earmarking under a special license. The Federal Reserve Bank, however, called attention to the invitation to other countries to join the Tripartite Agreement and suggested conversations between the two Treasuries on the question of reciprocal dealings in gold through the Uruguayan Legation in Washington. If the general question were decided, through this channel, the Federal Reserve Bank could discuss details with them.[2]

Finally the central banks of all countries, whether "members" of the Tripartite Agreement or not, could acquire gold in the United States from sources

1 Mr. Dietrich's "Gold" file.

2 Ibid.

other than the United States Treasury only under ~~such a~~ special license. In this ~~mat-ter~~ respect the license issued to the Federal Reserve Bank of New York in February 1934 as amended to January 1, 1936 (NY-18-1) to import, export and hold gold under earmark for foreign central banks remained unchanged by the Tripartite Agreement.

C. Questions Concerning Earmarked Gold Raised by Foreign Central Banks After the Tripartite Agreement.

On December 10, 1936 the Swiss National Bank advised the Federal Reserve Bank of New York of its intention to ship 300 million Swiss francs in gold to them for earmark, and inquired whether the Federal Reserve Bank would eventually be willing to take over the whole or part of this gold[1] from them against the deposit of an equal amount of gold for the account of the Federal Reserve Bank with another central bank complying with the conditions of the Tripartite Agreement. For this privilege the Swiss National Bank was willing to pay a premium to be negotiated, and asked the Federal Reserve Bank to indicate at which central bank it would be willing to accept such gold.[2] To this the Federal Reserve Bank replied that the proposal was "not suitable" but that if the Swiss National Bank should urgently require dollars, the Federal Reserve Bank, as fiscal agent of the United States, would buy gold actually placed on board a steamer sailing for New York on receipt of a cable to that effect, and would discuss the details and price if the Swiss National Bank were interested. The Swiss National Bank replied that it would occasionally revert to this offer, and indicated that the gold would be placed on shipboard in Belgium.[3]

1 The cable reads "to place at our disposal with you the whole or part of this gold."

2 If this were, e.g. the National Bank of Belgium, the Swiss National Bank could obtain dollars in New York by means of a ~~purchase~~ sale of gold in Belgium.

3 Mr. Dietrich's "Stabilization - General - Nov.-Dec. 1936" file. This correspondence is not in the Swiss National Bank file.

At the end of December the Federal Reserve Bank of New York received its first formal requests for the transfer of earmarked gold under the new regulations. These were for a triangular transfer of 48 bars valued at about $600,000 from the earmarked gold of the Bank for International Settlements to the National Bank of Belgium and from them to the earmark of the Swiss National Bank. The Federal Reserve Bank advised all parties that it could not act without a ruling from the Treasury and the whole matter was referred to the Secretary, with the information that part of the gold had been held under earmark for the Bank for International Settlements since 1932 and that part of it had been shipped to New York for earmark in October 1936. On December 29 the Secretary authorized the transaction, but stated that this must not be considered as a general ruling of the Department.[1]

On January 5, 1937 the Sveriges Riksbank once more cabled to the Federal Reserve Bank of New York asking it to confirm that the Riksbank could still, without license, have gold earmarked in New York irrespective of whether imported by it to the United States or bought by it from other central banks having gold earmarked with the Federal Reserve. After discussing the matter with the Treasury the Federal Reserve Bank of New York replied that it was licensed to export gold received by it from abroad but that "with respect to gold theretofore earmarked by us and bought by you it will be necessary for you to approach us whenever you have a concrete case and give us the facts thereof and we shall then submit the case to the Treasury Department for determination.".[2]

[1] Mr. Dietrich's "Stabilization - General - Nov.-Dec. 1936" file.

[2] The Sveriges Riksbank continued, however, to be regarded as a "good prospect" for membership in the Tripartite Agreement, a consideration which was in the mind of the Treasury when it granted it, in February 1938, a license good for two months for the movement of part of its gold to New York by means of transfers from the earmarked accounts of other central banks or the Bank for International Settlements (Treasury memorandum of February 16, 1938). "Transactions--Buying and Selling Gold and Silver--Gold--Sveriges Riksbank" folder.

On January 11 the Netherlands Bank inquired by cable whether, if it sold part of the gold held at that time under earmark with the Federal Reserve Bank of New York to the Swiss National Bank, the gold would be at the free disposal of the Swiss National Bank. This inquiry also was submitted to the Treasury and the following reply sent by the Federal Reserve Bank of New York: "Having been authorized to do so by the Secretary of the Treasury, we reply in the affirmative."[1]

Finally a detailed reply to the inquiries of the Swiss National Bank of September 15, 1936 concerning the American gold regulations was sent by Mr. Harrison of the Federal Reserve Bank of New York on January 13, 1937. In one of the preliminary drafts of this letter the distinction was pointed out between foreign central banks acting for their own account in acquiring gold in the United States (requiring a license) and central banks acting as fiscal agents for the exchange stabilization funds or governments of countries members of the Tripartite Agreement. In the final letter, however, the inquiry of the Swiss National Bank "Would it be possible to sell you our dollar balances with New York banks against gold" was simply answered as follows: "I take it that I am right to assume that this question no longer has the significance it presented on September 15, and that the operations which prompted it will henceforward be conducted by your Stabilization Fund". The Swiss Bank's inquiry: "Could we send you gold at any time for deposit either from Switzerland, from Paris, or from London and would the Swiss National Bank be entitled to hand over gold from their deposit in New York to other banks of issue, eventually to the Bank for International Settlements?" was answered as to the first part in the affirmative and as to the second part as follows: "As you no doubt

1 Transactions, Buying and Selling Gold and Silver - Gold - Netherlands Bank, file.

know, the Treasury has permitted the transfer of gold held by this bank for the account of the Bank for International Settlements to the account of the Banque Nationale de Belgique, and thereafter to the account of the Swiss National Bank with the Federal Reserve Bank of New York. The Treasury has advised this bank that such decision should not be interpreted as a general ruling of the Department, nor as an answer to any general inquiry on the subject. The foregoing, meanwhile, would not debar the Swiss National Bank from consigning gold to the Federal Reserve Bank of New York to be placed directly under earmark for another central bank or the Bank for International Settlements." The letter as a whole constituted a carefully prepared condensed summary of the American system of gold regulation.[1]

D. Agreement by the Treasury to the Free Transfer of Earmarked Gold between "Members" of the Tripartite Agreement, and Revision of License NY-18-1.

It had become increasingly clear as a result of these interchanges that the restrictions in force on the transfer of gold earmarked at the Federal Reserve Bank of New York were felt by foreign central banks to be a hindrance in the execution of their exchange stabilization functions. Since such transfers were freely allowed by the central banks of countries members of the Tripartite Agreement, the question was also raised as to whether they were consistent, as applied to such central banks, with the principle of reciprocity of gold dealings on which the Agreement rested. The Treasury therefore prepared to make a general agreement with the participating treasuries on this point.

On January 27, 1937 Mr. Taylor in behalf of the Treasury delivered the following note to the Financial Attachés and other representatives of the five

1 "Transactions--Buying and Selling Gold and Silver--Gold--Switzerland--Swiss National Bank" file.

cooperating countries:

> "The United States Treasury is prepared, on the basis of reciprocity, to authorize transfers of earmarks of gold between the treasuries, exchange equalization or stabilization funds, or fiscal agencies, referred to in the announcements of the Secretary of the Treasury of October 13 and November 24, 1936, as well as the central banks of such countries.
>
> This authority would be revocable at any time with respect to any transfer not fully consummated at that time. Both with respect to earmark and to transfers of earmarks, the authority would extend, in accordance with present regulations of the Federal Reserve Bank of New York, only to such gold as is the property of the institution for whose benefit the earmark is created.
>
> The United States Treasury would appreciate being advised as to the attitude of the governments and institutions concerned on the foregoing proposal." [1]

The views of the interested governments were sounded out through diplomatic channels,[2] and favorable replies were received, that of Great Britain being contained in the following "Aide Memoire" dated February 26, 1937:

> "His Majesty's Government in the United Kingdom thank the United States Treasury for their statement and have the honour to inform them that in corresponding circumstances it is the practice of the United Kingdom authorities to transfer earmarked gold without conditions or restrictions.
>
> His Majesty's Government welcome the statement and understand the United States Treasury would be glad of any comments they wish to offer. As a general principle His Majesty's Government regard it as desirable that gold should be able to change hands freely and accordingly in their view it would be helpful if the new procedure were extended to countries other than those mentioned in the October and November announcements. In particular His Majesty's Government suggest that it would be desirable that favourable treatment should be extended to the Bank for International Settlements as regards dealings in gold.[3]
>
> BRITISH EMBASSY
> WASHINGTON, D.C.
> February 26th, 1937." [4]

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1 "Transactions--Buying and Selling Gold and Silver--Gold--General" file.

2 Cable of Secretary Hull to Mr. Butterworth at the United States Embassy in London. Mr. Dietrich's "Stabilization" file.

3 See page ~~14~~. 150

4 "Transactions--Buying and Selling Gold and Silver--Gold--Great Britain--Bank of England" file.

3 This view was not wholly accepted by the Treasury. Not only was the inclusion of "non-member" countries not contemplated, but transfers to and from the earmark of the Bank for International Settlements continued to be subject to license. The rather sharp difference in point of view is indicated by the following interchange of cables in December 1938:

1. B.I.S. to F.R.B. - December 2. We should desire to transfer from gold earmarked our own account with you approximately kilos 500 to account of Bank of England. Should appreciate if you could immediately approach U. S. Treasury to obtain license on behalf.

2. F.R.B. to Bank of England - December 2. B.I.S. has requested us to transfer to your account approximately 500 kilos gold. Before complying we shall have to obtain a ruling from U. S. Treasury Department to facilitate. Please cable your instructions regarding deposit so that we may present complete details to the Treasury.

3. Bank of England to F.R.B.- December 2. Arrange to take over 500 kilos gold in New York from B.I.S. This transaction is the first of a series intended to assist in our operations. If there are any objections we would prefer cancelling.

4. Treasury to F.R.B. - December 5. In this case you are hereby authorized to make transfer requested.- - - - Decision should not be interpreted as a general ruling of the Department.

On March 22, 1937 the Secretary obtained the approval of the President, in view of these favorable responses, for the issuance of a new license to the Federal Reserve Bank of New York giving them the necessary authority to make transfers of gold earmarks in accordance with these arrangements.[1] A new license NY-18-1, dated March 24, 1937, superseding license NY-18-1 dated February 5, 1934 was then issued. Its text was as follows:

"Federal Reserve Bank of New York — March 24, 1937
(Name of licensee) — (Date of issue)

New York, New York
(Address of licensee)

Sirs:

1. You are hereby licensed to transport, import, melt and treat, and export gold now held by you under earmark for any foreign government or foreign central bank or sent to you after January 30, 1934 from abroad by any foreign government or foreign central bank, or delivered to you for account of any foreign government or foreign central bank by the United States or pursuant to a license granted by the Secretary of the Treasury, and to earmark such gold and to hold it in custody for any foreign government or foreign central bank. Gold received by you for earmark hereafter must be the property of the institution for whose benefit the earmark is created.

2. You are also hereby licensed to transfer earmarks of gold between the treasuries, exchange equalization or stabilization funds, or fiscal agencies of such countries, or such central banks, as may be designated from time to time by the Secretary of the Treasury. Gold transferred by you hereunder must be theproperty of the institution for whose benefit the earmark has theretofore been created and must become the property of the institution for whose benefit the earmark is to be created.

The phrase "foreign central bank" is used herein to denote any foreign bank performing the functions of a central bank, including the Bank for International Settlements.

Reports of the disposition of the gold herein licensed to be held shall be made on Form TGR-18.

This license is not transferable and is subject to the provisions of the Gold Reserve Act of 1934 and the regulations issued thereunder.

[1] "Transactions--Buying and Selling Gold and Silver--Gold--General" file.

This license supersedes license No. NY-18-1 on Form TGL-18, issued to you on February 5, 1934, and amended on March 23, 1934.

Issued with the approval of the President:

(Signed) Henry Morgenthau, Jr.
Secretary of the Treasury

This license may be terminated, revoked or modified at any time in the discretion of the Secretary of the Treasury."

In his letter of transmittal to the Federal Reserve Bank of New York the Secretary designated Great Britain, France, Switzerland, Belgium and the Netherlands pursuant to paragraph 2.[1]

The terms of this license drew a sharp distinction between "Members" and "non-members" of the Tripartite Agreement with respect to the transfer of earmarked gold, and by requiring that the gold transferred by the property at all times of the institution for which it was earmarked provided a safeguard against any such transfers being carried out indirectly for third parties or private persons. Prior to the Tripartite Agreement it had not been the general practice of the Federal Reserve Bank of New York to inquire of its central banking correspondents as to the ownership of gold earmarked for them, and the Federal Reserve Bank was reluctant to earmark gold for governments.[2] In order to safeguard the Bank in this particular the Treasury sent, with the license itself, the following letter of guarantee:

"Until further notice you are advised that this Department will not consider that you have incurred any liability under said license if you rely on the correctness of representations of a foreign government or a foreign central bank (including the Bank for International Settlements) that particular gold is the property of the institution for whose benefit the earmark of such gold is, or is to be, created, unless you have reason to believe the gold is the property of another institution."[3]

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1 "Transactions - Buying and Selling Gold and Silver - Gold - General" file.

2 This is brought out in a series of questions concerning the earmarking procedure by C.V.O. in the Treasury Department in April 1937.--"Transactions--Buying and Selling Gold and Silver--Gold--General" file.

3 Ibid.

Immediately thereafter the Federal Reserve Bank of New York began to prepare a general letter to its correspondents abroad stating the terms and conditions governing their accounts and submitted to the Treasury the proposed paragraph relating to earmarked gold. It proved extremely difficult to reach an agreement as to the exact wording of this paragraph, the principal points of discussion revolving around the question of whether the information covering ownership was to be represented as being made at the request of the Treasury or as a requirement of the Federal Reserve Bank itself.[1] In the course of this discussion the entire "terms and conditions" letter was shown to the Treasury for its comment. It was not until November 3 that the earmarking paragraph was finally agreed to. The "terms and conditions" letters were sent out on December 1, but copies were not sent to the Treasury until they had been ~~sent~~ mailed "in order that the Treasury would not be in a position to have to pass on such letters."[2]

The paragraph on gold earmarking as finally sent out read as follows:

"Earmarking of Gold

We hold a license issued by the Secretary of the Treasury of the United States, pursuant to the Provisional Regulations issued under the Gold Reserve Act of 1934, to hold under earmark, and to export, gold now so held by us for any foreign government or foreign central bank, or hereafter sent to us from abroad by any foreign government or foreign central bank, or delivered to us for account of any foreign government or foreign central bank by the United States or pursuant to a license granted by the Secretary of the Treasury. Within the authority of, and subject to the terms of our license, we will upon your instructions earmark and hold for your account, individually or as fiscal agent, and subject to your instructions, gold which is your property or the property of your government or of its exchange equalization or stabilization fund, providing the same facilities

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1 For the details of this prolonged discussion, see "Transactions--Buying and Selling Gold and Silver--Gold--General" file. It is not perfectly clear from the file, however, whether the requirement was in the first instance of Treasury or Federal Reserve Bank origin.

2 At the request of Mr. Opper. Memo for the Files, November 10, 1937. "Transactions--Buying and Selling Gold and Silver--Gold--General" file.

for the custody of such gold as we provide for the custody of our own similar property, but beyond that assuming no responsibility. It will be understood that gold which you request us to earmark is your property unless you advise us that it is the property of your government or of its exchange equalization or stabilization fund and in such event you should request us to earmark it in a special gold account in your name with a distinguishing symbol, as, for example, " ", and advise us, if you have not previously done so, that it will be understood that any gold which you may request us to earmark in such special gold account belongs to your government or its exchange equalization or stabilization fund, as the case may be."

B. Further Questions Raised by the Netherlands Bank Relating to the Operation of the Tripartite Agreement.

A further series of important questions growing out of the practical workings of the Tripartite Agreement as an exchange stabilization mechanism was
~~were~~ raised during 1937 by the Netherlands Bank.

1. Proposal to Include Dollar Assets Held for Stabilization Purposes in the Scope of the Tripartite Agreement.

On February 26, 1937 the Netherlands Bank accepted the "amplifications" of the original working agreement worked out between the Swiss National Bank and the Federal Reserve Bank of New York[1], under which paragraph four of its understanding with the Federal Reserve Bank of New York was amended to read:

> "De Nederlandsche Bank and Federal Reserve Bank of New York will advise each other daily of any transactions as a result of which gold is to be earmarked or released under this arrangement; and neither party shall be obligated under this arrangement to earmark or release gold as a result of any transaction of which such notice shall not have been given within 24 hours" [2]

It made, however, the following suggestion for a still further amendment:

> "Considerations of a technical nature may make it advisable for our Bank, in times when the dollar is firm in terms of guilders as well as in times when the guilder is firm in terms of dollars, to maintain a working balance on our dollar account with yourselves or with the Guaranty Trust Company of New York or another New York correspondent. If the aforementioned paragraph four as it reads at present is interpreted strictly, the case may arise where such a balance cannot be converted into gold after receipt of a notice of revocation of the arrangement by your Bank or by the United Treasury. We would ask, therefore, whether you could agree to the inclusion of such balance or balances under the privileges of paragraph two of the arrangement, up to a certain maximum which we suggest should be fixed tentatively at five hundred thousand dollars in the aggregate. Conversely, we would be willing to allow a corresponding exception to paragraph four for any balances which your Bank may hold in Amsterdam, up to one million guilders in the aggregate."

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1 See pages 141-2

2 "Transactions, Buying and Selling Gold and Silver--Gold--Netherlands--Nederlandsche Bank" file.

3 Ibid. Paragraph 2 provided for the conversion into gold of dollars acquired by the Dutch Equalization Fund in accordance with Mr. Morgenthau's statements of October 12 and November 23, 1936.

After consulting the Treasury the Federal Reserve Bank of New York replied on April 15, 1937 that this proposal could not "be reconciled with the fundamental intent and purpose of the arrangements entered into pursuant to the so-called Tripartite Agreement", pointing out that the new paragraph four was not an amendment in substance, but a mere amplification of the original text of the agreement which provided that the two banks would advise each other daily of transactions as a result of which gold was to be earmarked or released for earmark. It further pointed out that the right of conversion applied only to dollars acquired by the Dutch Equalization Fund.[1] The Netherlands Bank on April 30 replied that its proposals applied only to balances which it held for the Equalization Fund, but the Treasury nevertheless adhered to its position.[2]

By a strict interpretation, therefore, of the twenty-four hour clause any stabilization operations undertaken by countries members of the Tripartite Agreement which involved the taking of open positions in the currencies of the other members were excluded from the scope of the Agreement.

2. The Period for Which Gold Held under Earmark Would Remain Free for Export.

The question of the period for which gold, once earmarked for a foreign central bank, would remain free for export was first dealt with by the Federal Reserve Bank of New York in a letter to the Bank of Venezuela dated May 12, 1937, as follows:

> "As to gold which is earmarked in your name in our vaults remaining unconditionally at your disposal, free for export at any time, and for an indefinite time, it is, of course, not possible for us either to

1 "Transactions, Buying and Selling Gold and Silver--Gold--Netherlands--Nederlandsche Bank" file.

2 Ibid.

guarantee the permanence of existing laws and regulations or to forecast their changes. It seems appropriate for us to point out, however, that since early in the year 1933 when gold transactions in this country were first placed under restriction, this bank has continuously been granted licenses by the Secretary of the Treasury to export, at the request of its owner, all gold earmarked in our vaults for account of any foreign government or foreign central bank." [1]

The problem, however, was raised in a more insistent form in a letter from the President of the Netherlands Bank, Mr. Trip, to Mr. Harrison of the Federal Reserve Bank of New York dated January 11, 1936, acknowledging and commenting on the Federal Reserve Bank's general "terms and conditions" letter of December 1, 1937. In this letter the Nederlandsche Bank, as a member of the Tripartite Agreement, asked "whether we may take it that gold acquired under existing arrangements and earmarked for our account in your vaults will, under any circumstances, be free for export to any destination in times of war as well as in times of peace".[2] The suggestion was at first made in the Treasury that the point be dealt with in the language of the letter to the Bank of Venezuela quoted above, but this was rejected in favor of a more thoroughgoing consideration of the problem.[3] On February 23 Mr. Taylor prepared a memorandum for the Secretary referring to the Netherland Bank's statement and suggesting that the matter be made the subject of diplomatic negotiations. Mr. Taylor's memorandum was as follows:

"There is no satisfactory precedent or sufficiently definite authority in the field of international law relative to the obligations of a country with respect to gold earmarked for another country or its central bank. This inquiry gives us the opportunity of suggesting to the adherents of the Tripartite Declaration the possibility of entering into a treaty or some other form of binding agreement guaranteeing on a reciprocal basis that earmarks of gold belonging to any member of the Tripartite Declaration will be free for export to any destination in times of war as well

1 "Transactions, Buying and Selling Gold and Silver--Gold--Bank of Venezuela".

2 "Transactions, Buying and Selling Gold and Silver--Gold--Netherlands--Nederlandsche Bank" file.

3 "Transactions, Buying and Selling Gold and Silver--Gold--General" file. Check.

as in times of peace, at least so long as such countries are not at war with each other. Such an agreement would be valuable not only as clarifying rights which are at present uncertain, but as increasing the prestige of the Tripartite Declaration and increasing the advantages of adherence to the Declaration, as well as advancing international law relative to earmarking.

If you believe that this suggestion has any merit, we would suggest to the Federal ReserveBank that it reply to Trip along the following lines:

'Gold is now acquired by and earmarked for you as an adherent of the Tripartite Declaration, in accordance with the statement of the Secretary of the Treasury (see our cable No. 62 of November 24, 1936), that is under an arrangement concluded directly between our two treasuries. Accordingly, your inquiry would appear to be a matter for clarification among all the adherents of the Tripartite Declaration. We have therefore referred your inquiry to our Treasury for its consideration.'

Thereafter we might discuss the matter with the State Department and, if State Department thinks the idea worth canvassing further, it could be broached to the Tripartite members in some appropriate manner." [1]

The suggested paragraph was accordingly included in Mr. Harrison's reply to Mr. Trip of April 15, 1938.

3. Conversion of Gold Earmarked by Foreign Stabilization Funds in the Event of a Revocation of the Tripartite Agreement.

Finally Mr. Trip in his letter of January 11, 1938 requested that Federal Reserve Bank of New York to include in its "terms and conditions" a statement to the effect that it was prepared to assist in the sale of gold held under earmark for the Netherlands Bank in the event of the revocation of the Tripartite Agreement.[2] The Federal Reserve Bank of New York in reply simply referred once more to the regulations in force, and pointed out that in the purchase and sale of gold it could act only as fiscal agent for the United States.[3]

1 "Transactions, Buying and Selling Gold and Silver--Gold--Netherlands--Nederlandsche Bank" file.

2 Check Netherlands Bank letter.

3 Ibid.

PART V

Special Exchange Stabilization Agreements

Outside the Tripartite: 1937-1938

I. The Brazilian Agreement: July 1937

II. The Second Chinese Agreement: July 1937

III. The Second Mexican Agreement: January 1938.

I. The Brazilian Agreement: July 1937.

In July 1937 the Treasury concluded an agreement with the Ministry of Finance of Brazil for the sale of gold to Brazil and the provision of dollar exchange to assist that country in stabilizing the milreis. It also concluded a second stabilization agreement with the Central Bank of China at that time and in January 1938 made a second stabilization agreement with the Mexican Government.

On July 15, 1937, Secretary Morgenthau concluded negotiations with Arthur de Souza Costa, Minister of Finance of Brazil, for an agreement covering the sale of gold to Brazil by the United StatesTreasury and the provision of dollar exchange for the purpose of stabilizing the milreis. The letter embodying the agreement was sent to the Federal Reserve Bank of New York on July 15 with instructions to carry out the contemplated transactions in behalf of the Stabilization Fund under the terms of the Secretary's letter of September 4, 1934. The agreement with Brazil was in two parts.

Paragraph One of the Secretary's letter to the Minister of Finance stated that the United States agreed to sell at the price provided in Section 44 of the Provisional Regulations ($35 less 1/4) up to $60,000,000 of gold which would be earmarked by the Federal Reserve Bank of New York for account of the Banco do Brasil.

The remainder of the agreement followed closely the lines of the repurchase agreements concluded with Mexico and China the previous year. The Federal Reserve Bank of New York as fiscal agent agreed to purchase milreis from time to time as requested by the Banco do Brasil acting for its government which would be credited to the Federal Reserve Bank of New York as fiscal agent in a special account. Upon receipt of advice that the milreis were credited the Federal Reserve Bank of New York would credit the dollar equivalent in a special account for the Banco do Brasil at the prevailing telegraphic transfer rate. The total milreis so bought plus interest accrued, which was set in this agreement at 1/2 of 1% above the average rediscount rate of the Federal Reserve Bank of New York for the preceding month, was not to exceed the equivalent of $60 million computed at the rate at which the Banco do Brasil agreed to repurchase the milreis. The Banco do Brasil agreed to repurchase the milreis at such times as might be mutually agreed upon when the milreis were first bought by the Federal Reserve Bank of New York and at the rate at which the Federal Reserve Bank bought them. The Banco do Brasil agreed to repurchase also the milreis credited as interest at the request of the Federal Reserve Bank of New York or in the absence of such request every ninety days or at the termination of the agreement.

As security for the fulfillment of this agreement the Banco do Brasil agreed to pledge gold to be left in the custody of the Federal Reserve Bank of New York in an amount equivalent to the milreis purchased plus interest at the repurchase rate. In the event of a failure on their part to repurchase the milreis they agreed to authorise the Federal Reserve Bank of New York to sell the gold to the United States Treasury in such a manner as to save the Federal Reserve Bank of New York from any loss or harm resulting from their failure to fulfill the terms of the agreement.

The agreement was to terminate on July 15, 1942 subject to earlier termination upon thirty days' notice.

The two parts of this agreement, though related closely, were technically separate. The Banco do Brasil under the repurchase agreement might ship gold from Brazil and pledge it as collateral for milreis bought by the Federal Reserve Bank of New York. In this way it could increase the dollar exchange available for stabilization operations and the transaction would have the effect of a loan against collateral. In this part of the understanding there was a significant difference as compared to the earlier Mexican and Chinese agreements. The milreis purchased by the Federal Reserve Bank of New York did not have to be repurchased at any time upon demand but only after a definite lapse of time to be agreed upon and in addition the interest rate was reduced from 3% to 1% per annum. Should the Banco do Brasil purchase gold from the United States under the first paragraph of the agreement it would have to find the dollars from some other source. If it then pledged the gold under the repurchase part of the agreement its dollar resources would not have been increased. The effect then would be that the Banco do Brasil as fiscal agent for the Brazilian Government would become the owner of gold which would appear among its reserves but against which the United States Treasury would hold a lien. Should the milreis purchased by the Federal Reserve Bank of New York and secured by this lien not be bought back by the Banco do Brasil the gold would be lost to them. In effect, therefore, the Banco do Brasil simply secured an option to buy gold from the United States Treasury at times to be agreed upon and in an amount not exceeding $60 million. This privilege was the more substantial in view of the long term of the agreement, though the United States Treasury was safeguarded by the option of termination on thirty days' notice.

On April 7, 1938 the Brazilian Government inquired through the United States Embassy in Rio de Janeiro whether it could obtain a dollar advance of $15 million against gold shipped from Brazil under the agreement for the purpose of covering arrears on commercial credits on imports from all countries. This inquiry was answered by reference to the terms of the agreement of July 1937 and on August 24 the President and Exchange Director of the Banco do Brasil advised the American Ambassador at Rio de Janeiro that the Government intended to export 25 tons of gold abroad to set up a liquid foreign reserve and that it intended to avail itself of the facilities of the July 1937 agreement and open an account with the Federal Reserve Bank of New York guaranteed by gold on deposit. It requested this loan for one year renewable subject to advance notice of thirty days. On August 26, 1938 the Treasury replied through the State Department that the Federal Reserve Bank of New York was prepared to receive and earmark gold for the Banco do Brasil and was prepared to carry out the terms of the July 15, 1937 agreement, fixing the time of the repurchase obligation as one year from the date on which it would buy milreis and allowing the repurchase of milreis credited as interest to be made every 180 days instead of every 90 days. On September 2 the Treasury authorised the Federal Reserve Bank of New York to carry out the terms of this understanding. It was not, however, until after the outbreak of the European war on September 26 that the Banco do Brasil began to ship gold to the Federal Reserve Bank of New York from its London office in execution of these arrangements.[1]

1 The relevant correspondence is in "Transactions--Buying and Selling Gold and Silver--Gold--Brasil--Minister of Finance" file.

II. The Second Chinese Agreement: July 1937.

The special agreement with China negotiated in May 1936 remained in effect through periodical renewals of from one to six months until it was replaced by a new agreement negotiated early in July 1937. The Central Bank of China had asked for and obtained consent to one modification of the May 1936 terms. On June 23, 1936 it wrote to the Federal Reserve Bank of New York pointing out that under this agreement the Federal Reserve Bank of New York had the contractual right to sell exchange on Shanghai the day after it had given notice of a demand for repurchase of Chinese yuan which it held secured by a pledge of silver collateral. The Central Bank of China requested a few days' time before this right could be exercised in order that it might take steps to dispose of the collateral or otherwise find the necessary dollars. The Treasury agreed that they might have 120 hours from the time of the despatch of the cable demanding repurchase within which they might repurchase the yuan.

On July 9, 1937 Secretary Morgenthau issued a press release announcing a second Sino-American monetary agreement under which the United States Treasury would acquire gold from China and would sell silver to China and would arrange to provide the Chinese with dollar exchange. He noted in particular that the Chinese Minister of Finance had come personally to the United States to conduct the negotiations.

The arrangement made with China at this time embodied three parts and the substance of it is briefly set forth in the following memorandum sent by Mr. Opper from the Treasury to the Federal Reserve Bank of New York for their comment on July 9, 1937:

"1. The United States to purchase from the Government of China 62,000,000 ounces of silver now held in the United States at 45¢ an ounce, on terms similar to those applying to the earlier purchases from China.

2. China to use the dollar proceeds from the sale of silver for the purchase of gold from the United States at $35 an ounce, plus 1/4 of one per cent, and agree to hold such gold under earmark at the Federal Reserve Bank of New York, and to use that gold only for the purpose of maintaining stability of yuan exchange.

3. For the purpose of stabilization of yuan exchange the United States Treasury, acting through its fiscal agent, the Federal Reserve Bank of New York, will be prepared to provide U. S. dollars up to $50 million in exchange for an equivalent amount of yuan contingent upon a repurchase agreement, and upon the maintenance in the U. S. of collateral to an equivalent amount in gold. This arrangement to be terminated on a definite date mutually agreeable unless renewed from time to time thereafter by agreement on at least 30 days' notice. Interest on the amount of dollars given up in exchange for yuan to be charged at the rate of ___________ percent per annum.

The repurchase agreement referred to in the last paragraph of this memorandum was an amplification of the May 1936 agreement and provided for the pledge of either gold or silver or some combination of both as collateral for the yuan to be purchased by the Federal Reserve Bank of New York. Its terms were briefly as follows: The Federal Reserve Bank of New York agreed to purchase yuan to be earmarked in a special account for them as fiscal agents for ~~China~~ and to credit the dollars to the Central Bank of China in a special account on terms identical with those in the earlier agreement, except that the interest was to be charged at 1/2 of 1% above the discount rate of the Federal Reserve Bank of New York. In this respect the Brazilian arrangement was followed. The total amount of yuan to be purchased was the equivalent of not exceeding $50 million instead of $20 million as in the earlier agreement. The 120-hour modification of the May agreement was included in the new terms.

The terms covering the pledge of gold and silver collateral were in respect to gold the same as those in the Brazilian agreement and in respect to silver the same as those in the first Chinese agreement and the date of termination was fixed at December 31, 1937.

Though this agreement was negotiated at the same time as that with Brazil it still contained the provision that the Central Bank of China was obliged to repurchase the yuan at any time upon demand of the Federal Reserve Bank of New York as fiscal agent.

On July 12, 1937 the Federal Reserve Bank of New York as fiscal agent of the United States purchased 62,514,710 ounces of silver at .999 fine from the Central Bank of China at a price of 45¢, thus providing that Bank with about $30 million. This transaction was not carried out through the Stabilization Fund but on July 19th the Fund purchased from the Treasurer of the United States 1,285,714 ounces of gold at $35 flat[1] at a cost of $44,999 and on July 29 sold $30,099 of it to the Central Bank of China at $35 plus 1/4. This gold was placed under earmark for the Central Bank of China. On November 10, 1937 the Central Bank of China carried out the first transaction under the yuan repurchase agreement crediting the Federal Reserve Bank of New York with 50 million yuan and pledging just ~~over~~ $15 million in gold as collateral. The Chinese Bank in initiating this transaction advised the Federal Reserve Bank of New York that the dollars were needed to counteract pressure on the Chinese purrency, and the bulk of the dollars were paid over at their request to Chase National Bank of New York. By February 10, 1938 the entire $50 million provided for by the agreement was availed of and in February 1939 more than one half of the yuan were repurchased under the terms of the agreement.~~[illegible]~~ The following statement forwarded by the Federal Reserve Bank of New York to the Treasury on March 1, 1939 summarizes the transactions under the yuan agreement which were carried out before the outbreak of the world war:[2]

1 Under authority of the Secretary's letter of November 6, 1936.
2 The relevant correspondence is in "Transactions--Buying and Selling Foreign Exchange--Bank of China" file.

Resume of the Federal Reserve Bank of New York of the Yuan Purchased and Resold and the Gold Pledged and Released for Sale under the Agreement of July 14, 1937, as amended

YUAN

Date Purchased	Yuan	Rate	Dollars
November 10, 1937	50,000,000	$.29375	$14,687,500.00
November 26, 1937	50,000,000	.29375	14,687,500.00
December 30, 1937	50,000,000	.29375	14,687,500.00
February 10, 1938	15,000,000	.29500	4,425,000.00
	165,000,000		$48,487,500.00
Date Sold			
February 15, 1939	50,000,000	$.29375	$14,687,500.00
February 28, 1939	50,000,000	.29375	14,687,500.00
	100,000,000		$29,375,000.00
Balance	65,000,000		$19,112,500.00

GOLD

	Fine Ounces	Value @ $35 per Fine Ounce
Pledged to us as fiscal agent of the United States out of gold held under earmark for the Central Bank of China as security for the performance of its agreement	1,395,381.168	$48,838,340.89
Less gold released and purchased by us on February 15, 1939	420,880.600	14,730,821.00
Less gold released and purchased by us on February 28, 1939	420,814.406	14,728,504.24
	841,695.006	$29,459,325.24
Balance	553,686.162	$19,379,015.65

III ~~C~~. The Second Mexican Agreement, January 1938.

In January 1938 the new repurchase agreement was negotiated with Mexico which followed the first agreement closely except that it was for an amount not to exceed $10 million instead of $5 million, and against gold and silver collateral instead of against silver collateral only. The provisions regarding the handling of the collateral and the obligations assumed by the Bank of Mexico and the Federal Reserve Bank of New York as fiscal agents for their respective governments were the same as those in the Chinese and Brazilian Arrangements except that in this case also the requirement that the Bank of Mexico must repurchase the pesos acquired by the Federal Reserve Bank of New York at any time upon demand was continued. The interest rate was, however, reduced from 3% per annum to 1/2% above the Federal Reserve Bank of New York rediscount rate for the precedingmonth and the date of termination was fixed at December 31, 1938.

On March 5, 1938 the Bank of Mexico credited the Federal Reserve Bank with 38,100,000 Mexican pesos and pledged 28,000 ounces of gold held by it under earmark with the Federal Reserve Bank of New York as collateral. The pesos were purchased by the Federal Reserve Bank at .2775 per peso and the Bank of Mexico was credited with $2,997,000. This small transaction was liquidated by the repurchase of the pesos by the Bank of Mexico on March 16.[1]

In recording on its balance sheet these new stabilization agreements of the repurchase type the Stabilization Fund included the foreign currency bought among its assets and set up a contra entry for the gold pledged and its liability for this gold to the foreign Central Bank. On the March 14, 1938 balance sheet both the Mexican and Chinese transactions appeared as follows:

1"Transactions--Buying and Selling Foreign Exchange--Bank of Mexico" file.

ASSETS		LIABILITIES	
Foreign Exchange due from Foreign Banks--Secured Deposits			
Central Bank of China 165,584,166.67 Yuan	$48,659,120.83		
Bank of Mexico 10,800,000.00 Pesos	2,997,000.00		
Gold of Foreign Banks held as collateral on Exchange Deposits		**Liability for Gold of Foreign Banks held as collateral**	
Gold of Central Bank of China 1,395,381.168 oz.	48,838,340.89	Gold of Central Bank of China	$48,838,340.89
Gold of Bank of Mexico 87,999.110 oz.	3,079,968.85	Gold of Bank of Mexico	3,079,968.85

PART VI

The Gold and Foreign Exchange Operations of the Fund from the Tripartite Agreement to the Outbreak of the War

I. The Sterling Balances of the Fund after September 1936 and the Money Employed Account.

II. Stable Exchanges: October 1936 to March 1937.

   A. Transactions in Sterling.

   B. Transactions with the Bank of France and the Netherlands Bank.

   C. Gold Transactions with the General Treasurer.

      1. Proposed but Rejected Plan for the Use of the Stabilization Fund in Connection with the Gold Sterilization Policy.

   D. Summary of Gold Transactions.

III. The Second Gold Scare: April-June 1937.

IV. Routine Operation of the Fund: July-September 1937.

V. The Dollar Scare: October-December 1937.

   A. The Purchase of Incoming Gold from the General Treasurer.

VI. Desterilization, First Czech Crisis and Unstable Exchanges: January-August 1938.

VII. Decline in Sterling and the Munich Crisis: August-November 1938.

VIII. Transition to a New Sterling-Dollar Rate: November 1938-January 1939.

I. **The Sterling Balances of the Fund after September 1936 and the Money Employed Account.**

The general readjustment in exchange rates following the French devaluation of September 1936 included a readjustment in sterling. During the short period when the British Exchange Equalization Account was dormant in late September and early October, sterling declined from a level of about $5.00 to a level of about $4.10, and the sterling rates of all the other countries participating in the Tripartite Agreement were appropriately adjusted to the new relationships established with the dollar and the new level of the dollar-sterling rate.

During this readjustment the Stabilization Fund gave moderate support to sterling. From September 26 to October 7 it bought about £2,250,000 at rates declining from 4.96 to 4.89-1/2.[1] It also bought on October 2 just over $1,000,000 in gold at $34.77 under its standing order,[2] and on October 12 it held the equivalent of $10,830,000 in sterling and had $13,763,000 in gold under earmark at the Bank of England.[3]

There after transactions as a result of which gold was to be earmarked or released from earmark, became, under the Treasury's strict interpretation of the twenty-four hour clause of the Tripartite Agreement, the principal means by which the Stabilization Fund promoted stability in the foreign exchanges. Such transactions were passed through the new "control accounts" established with each other by the participating central banks in behalf of their respective governments or exchange funds. Nevertheless many minor, and some major stabilization operations were still effectuated in other ways. The Fund, however, did not allow any of its operations to result in open positions

[1] Sterling, Specific Authorizations.

[2] See page [illegible]

[3] Weekly balance sheets.

in foreign currencies of any importance as it had done occasionally in francs and sterling before the Tripartite Agreement.[1] The general operating rule was now for sterling purchased by the Fund to be credited to its new "control", No. 3, Account[2] at the Bank of England which was then immediately debited as the sterling was converted into gold by the Bank and placed under earmark in Account B,[3] and for the sterling sold by the Fund to be charged to its No. 2 Account which was then replenished by release of gold from earmark at the Bank.

For some time after operations under the new arrangements had begun, the Fund retained its long position in sterling. This was held uncharged in its No. 2 Account at the Bank of England until December 2, when £200,000 was invested by the B. Bank for the Fund at 7/16% and appeared in a "Money Employed" account. The rate of interest earned in this "Money Employed" account varied thereafter with the changes in short term interest rates in London. The balance in the No. 2 sterling account remained stationary at about $1,000,000 until December 21, 1936 and from January 1937 on it became nominal. It fluctuated for some time at not over $200,000 and then began to show a small credit which became stabilized at between $150,000 and $250,000 in the first quarter of 1938.[5]

The changes in the Fund's open sterling position of which the greater part was in the "Money Employed" account from the Tripartite Agreement until July 12, 1937 are shown in Table 7 .

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1 See p. and p.

2 Opened October 13, 1936.

3 Gold bought under the Fund's standing authority at New York shipping parity was held under earmark in Account A.

4

5 Weekly balance sheets.

TABLE 7[1]

The Fund's Long Position in Sterling

October 1936 - July 1937

Date	Money Employed Account Pounds	Money Employed Account Dollars	Balance in No. 2 Account at the Bank of England
1936			
October 12			$10,830,000
November 3			10,830,000
December 7	2,000,000	9,830,000	1,000,000
1937			
January 18	2,000,000	9,830,000	1,000,000
25		5,905,000	6,000
February 1	2,000,000	9,829,000	207,000
March 1	2,000,000	9,829,000	208,000
15	1,600,000	7,865,000	235,000
22	450,000	2,251,000	39,000
29	1,225,000	6,036,000	113,000
April 5	700,000	3,469,000	64,000
12	550,000	2,723,000	75,000
19	450,000	2,240,000	89,000
26	350,000	1,746,000	91,000
May 3	275,000	1,375,000	41,000
June 21	275,000	1,375,000	41,000
30	250,000	1,250,000	42,000
July 12	-	-	64,000

The fluctuations shown in this table were closely related to a series of special exchange transactions with the Central Bank of Argentina which are noted in the next section.

Sterling acquired by the Fund for its new No. 3, or "Control", account appeared for the first time on the weekly balance sheet of April 19. The amount was only $7,000 and the balance in this account never rose above $89,000.[2] After the liquidation of the Money Employed account balances in the No. 2 Account were also nominal, though both accounts were active as a result of regular intervention by the Fund in the sterling market which continued under rapidly changing circum stances until the outbreak of the world war.

1 Weekly balance sheets.
2 Ibid.

II. Stable Exchanges: October 1936 to March 1937.

From October 1936 to March 1937 the new system of exchange rates remained as stable as if an international gold standard with wide gold points had been in full operation between the countries in the Tripartite Agreement and from March to June 1937 this stability was disturbed only to the extent of a depreciation of the franc to the lower limit of devaluation fixed by the law of October 1, 1936. During this period, however, the various "controls" had to meet a number of pressures on the new exchange relationship.

A. Transactions in Sterling: October 13, 1936 to March 31, 1937.

From October 13 to November 19, 1936, the Stabilization Fund was the purchaser of sterling for conversion into gold in its new account B at the Bank of England at the price quoted to it daily by the Bank. The sterling was bought at rates which fell gradually from 4.90 to 4.87-3/4 until November 12 when the market began to harden,[1] and at the same time the Fund bought gold heavily at $34.77. Its standing order to buy at this price was increased on October 30 from 700,000 ounces to 2,850,000 ounces, which was then reduced to 2,150,000 ounces on November 6 and to 1,450,000 on November 23. At this limit it was regularly renewed until October 29, 1937 when it lapsed until, at the request of the Bank of England, the original order for purchases up to 700,000 ounces was renewed[2] in March 1938.[2] From October 28 to November 2 the Fund bought nearly $19 million in gold in this way and by November 30 had added a further $40,000,000 bringing its gold under earmark in Account A to a peak of $72,556,000. These purchases being determined by the relationship between the London gold price and the

1 From November 7 to 16 the weekly balance sheets show $841,000 on deposit for the Fund in sterling at the Guaranty Trust Company in London. I have not been able to identify the transaction giving rise to this deposit.

2 "Bank of England Weekly Gold Letter" file. What inferences should be drawn from ~~the initiative of the~~ Bank of England asking that the order should be renewed?

sterling-dollar rate and not by the level of the sterling-dollar rate were thus continued after decisions were taken at the Treasury to dispose of some of the Fund's gold acquired in Account B as a stabilization operation.[1]

Before the French devaluation the British Exchange Equalization Account had been steadily accumulating gold but this inflow had been checked by a temporary strength in francs in October and the first part of November at ~~its~~ the new level. It was resumed, however, in the latter part of November and gold also began to move heavily to Holland, Switzerland and the United States. As a result of the hardening tendency in sterling it was decided at the Treasury that any substantial appreciation in sterling so soon after the announcement of the Tripartite Agreement would make that agreement appear ineffective as an exchange stabilization mechanism and consequently that the Fund should sell some of its gold held in London.[2] The first sales were made on November 23 and 17,724 ounces ~~were~~ being released at 142s 2d and the sterling proceeds credited to the Account No. 2 at the Bank of England. This sterling was taken into the Fund's accounts at a rate based on the average cost price of the gold in Account B, at that time \$34.7667377, i.e., the dollar value of the sterling received was made equal to the dollar cost of the gold sold.[3]

Gold was released in London in this way from November 23, 1936 to March 1, 1937 as follows:

Date	Gold released from Account B at Bank of England (\$ Value)
1936	
November 23-25	616,000
December 8	2,167,000
1937	
January 25	1,683,000
March 8-12	5,489,000

~~1 Check~~

2 Mr. Dietrich's "Stabilization--General: Nov-Dec 1936" file.

3 "Buying and Selling Gold--G.R.A." file.

These sales of gold were one element in a highly successful series of stabilization operations which helped to confine the fluctuations in sterling within a narrow range for some months after the conclusion of the Tripartite, but which were complicated by a special transfer problem raised by Argentina. This problem was effectively dealt with by the active cooperation of the British and American Funds.

On November 19 the Central Bank of Argentina cabled to the Federal Reserve Bank of New York that its dollar requirements for the balance of the month would be $45 million and that it would sell sterling in New York and buy dollars in London daily to cover the greater part of this requirement.[1] On the same day the Fund bought £200,000 at 4.88-7/8 from the Central Bank of Argentina, most of which was converted into gold, but on November 23 it sold £175,000 in the market at just over 4.90 from its No. 2 Account. Most of this sterling was obtained as noted above by the release of gold from earmark.[2] On November 25 a further £1-1/2 million was bought from the Argentine bank at 4.89515 and was credited to the No. 3 Account. Of this about £430,000 was immediately sold in small lots at approximately the same rates and only the balance converted into gold. Sterling continued to be strong and the Fund released a further $2,000,000 in gold on December 8, selling about $404,000 during the day at 4.91.

On the next day it bought $450,000 at 4.90025 which it converted

1 Mr. Dietrich's "Stabilization--General: Nov.-Dec. 1936" file. On November 27, 1936 the Secretary cabled to President Roosevelt then at sea, referring to this transfer and stating that the money was needed to pay off a loan in New York and that the necessary exchange orders were placed with the Bank of England and the Federal Reserve Bank of New York and that by use of both the United States and the British Stabilization Funds they were being executed without any disturbance in the foreign exchange market. The transfer appears to have been spread out over a longer period than the last two weeks of November.

2 This sale was the first of its type under the Tripartite. Sterling had turned nervous in the middle of the day (November 23) with many buyers--importers of tin, rubber and silk, and stock exchange houses remitting the proceeds of securities sold by foreigners in New York. There were no apparent offers and it looked as though the sterling rate would run up, giving rise to criticism of the working of the British Exchange Equalization Account and other stabilization funds under the Tripartite unless sterling was supplied. Since the British Exchange Equalization Account quoted to the Fund through the Bank of England each morning a daily gold price which was both a buying and a selling price, the Fund was able to get sterling by release of gold at this price. Memorandum by Mr. Lochhead in "Stabilization--General--November-December 1936" file. On March 17, 1937 the procedure was slightly modified. Instead of quoting a single gold price that was both a buying and a selling price the Bank of England began to quote a daily buying and selling price determined by a margin of 0.2 shillings on each side of the London fixed price. Thus on March 17 it would buy at 142 s. 2d. and sell at 142s. 6d.

into gold. On December 28 sterling reached 4.91-3/4 and the Fund was again in the market, now being a net seller of £65,000 for its Account No. 2.[1]

These transactions are noted here in detail as examples of the "routine" day-to-day intervention of the Fund thesteady the markets.

In January 1937 the Argentine requirements became substantial once more and from January 19 to 21 the Fund bought £2 million from the Central Bank of Argentina for delivery on January 26. Of this it immediately sold £950,000 in the market in small lots and £400,000 to the Bank of England, thus temporarily reducing its "Money Employed" account, which it replenished when it received delivery of the sterling on July 22.[2] This part of the transaction passed through the No. 2 account but the balance of £670,000 was credited to the No. 3 account and converted into gold in the usual way. Of this, however, £333,000 together with an additional £75,000 bought for the Control account on January 25 were released from earmark and sold to the Bank for International Settlements on January 26. These transactions were all carried out with sterling at just over 4.90.

As a result the Fund wasa net purchaser of sterling in the market to the extent of about $1,600,000 and increased its gold under earmark in Account B by that amount. It was also a buyer of sterling from January 7 to February 1 to the extent of about $15 million in order to pay for gold bought at 4.77 an ounce.[3] In spite of this support the tendency in sterling was now weak and the Fund became a regular purchaser in small lots amounting in all to $14,074,000 from January 27 to March 5, at rates gradually declining from 4.89-15/16 to 4.87-5/8. With the small exception of £50,000 bought on February 25 all these

1 It sold £165,000 for account No. 2 and bought £100,000 on December 29 for conversion into gold.

2 See Table 7

3 Estimated as indicated on page 172, note 3.

purchases were handled under the general procedure of the Tripartite Agreement and converted into gold. At the same time the Fund continued to support sterling through its gold purchases at $34.77 which amounted to about $5 million in the last two weeks of February and about $5-1/2 millions in the first week of March.

On March 8 and 9 the Fund reversed its position and sold £1,345,000 of sterling at 4.88 to 4.88-5/8 ($6,600,000)[1]. This sterling was obtained through a release of gold from earmark amounting to $4,600,000 and by a reduction of $2 million in the Money Employed account. It repurchased £1,055,000 sterling on the following day which it converted into gold in the usual manner but on March 12 released a further $867,000 in gold from its earmarked Account B and sold the resulting £175,000 in the market.

On March 18 the Fund still further reduced its Money Employed Account by the sale of £250,000 in the market and on March 19 it began to buy another 2 £? million from the Central Bank of Argentina, for delivery on March 25. Of this it sold £1,740,000 (£800,000 to the Bank of England) on March 19 and 20, and continued to be a seller of sterling until April 5. Its sales up to March 29 exceeded the sterling bought from the Argentine Bank and were notprovided for by a further release of gold. The Money Employed account at the end of the month was thereby reduced to just over $6 million (Table 7). Sterling at this time was rising and at the end of the month reached 4.89. The Fund's standing offer of $34.77 was for the time being no longer effective in the London bullion market.

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[1] The sterling figures given are all calculated from specific authorizations.

From the inauguration of the Tripartite Agreement the Stabilization Fund's activities in the sterling market had been of the following types:

1. Purchases and sales of sterling to stabilize the rate at levels deemed appropriate.

2. Purchases of gold at $34.77 to prevent the London price from going to a discount from New York shipping parity, which, when sterling was persistently weak, became genuine stabilization operations.

3. Minor trading operations to cover day-to-day fluctuations in the market.

4. Purchases and sales made to facilitate the transfer of $45 million from London to New York by the Central Bank of Argentina, of which the Stabilization Fund purchased about £5,750,000 or $28,500,000.

On October 13 sterling had been just over 4.89 and on March 30 it was also just over 4.89, the range between the two dates being only from 4.87-3/4 to 4.91-3/4

This stability was maintained with the assistance of support from the Fund which amounted to about $160,000,000, as indicated by the following figures:

Date	Gold Bought for A/C "B" at Bank of England	Gold Bought for A/C "A" at Bank of England	Reduction in "Money Employed" Account
October 13-Dec.31,1936	$45,500,000	$ 58,800,000	-
Jan. 1 - March 29,1937	14,000,000	45,500,000	-
	$59,500,000	$104,300,000	$4,000,000

In order to keep its goldin London at less than $100 million, the Fund imported $20 million from its Account A in December which were sold to the Treasury early in January, and imported to the United States all the rest of the gold in Account A to be held in safekeeping by the Fund.[1]

[1] "Purchase and Sale of Gold, G.R.A." file and "Purchase and Sale of Gold Held in Safekeeping" file.

B. Transactions with the Bank of France and the Netherlands Bank: October 13-1936 - March 29, 1937.

The first transactions carried out by the Fund in French francs under the Tripartite Agreement was a sale of 3,195,000 francs in the New York market for the account of the Bank of France on October 13 at 4.66-1/2 cents per franc. This was converted into gold which was placed under earmark for the Bank of France at the Federal Reserve Bank of New York under standing instructions covering all such transactions received on October 15.[1] On October 21 the Fund purchased 1,000,000 francs at 4.647¢ cents bringing its deposit with the Bank of France to the nominal sum of $6,000, and on October 21 the Fund purchased

sold? (Fcs 842,000)

35 kilos (~~$852,000~~) in Paris at 24,056 francs per kilo and placed this under earmark in its Account B with the Bank of France. On December 9 it purchased a further 1,000,000 francs and bought a further 45 kilos of gold at approximately the same prices. Aside from these minor operations ~~it~~ which served only to open its "Control" accounts with the Bank of France, the Fund did not carry out any operations in francs until after the second French devaluation when it disposed both of its nominal balance in francs and its small gold holding at the Bank of France.[2] However, it dealt actively ~~with~~ via gold in New York with the Bank of France, selling gold from its own holdings at $35 plus1/4 "for immediate export or to be held under earmark" and buying gold at $35 less 1/4 which was delivered to it by the Bank of France from gold earmarked at the Federal Reserve Bank of New York. The Bank of France placed all or most of the gold bought from the Fund in that account.[3] These gold operations in New York

1 "Buying and Selling Gold and Silver--Bank of France" file.

2 On November 8, 1937 the Fund sold 82 kilos of gold in Paris at 33,074 franks per kilo and 2,740,000 francs at 3.41-1/4 cents. "Purchase and Sale of Gold--G.R.A." file and "Buying and Selling Foreign Exchange--Bank of France" file.

3 This is inferred. Should be checked.

were on a small scale during the period of stability in the franc following the first devaluations and there were frequent shifts from one side of the market to the other, which are indicated in Table 8 . This Table does not suggest that the Bank of France felt the need of using the facilities afforded by the Tripartite Agreement to resist any strong pressure on the franc in any direction.

Table 8 [1]

Gold Sold to the Bank of France and Bought from its Earmarked Account—October 13, 1936 to March 29, 1937.

	Dollars	
1936	Bought	Sold
October 13-November 19		5,145,000
October 22		1,086,000
October 24-26	2,314,000	6231,000
		-2314,000
1937		3817,000
January 29	228,000	
March 6	3,802,000	
March 10-11		458,000
	6,344,000	6,689,000

On December 16, the "Control" accounts of the Fund with the Netherlands Bank were set up and from December 21, 1936 to February 10, 1937 the Fund sold $31,996,000 in gold to the Netherlands Bank. This amount was made up by a series of small daily sales of moderate size which was interrupted only once by a small purchase of $100,000 in gold in New York on February 15 by the Netherlands Bank.

These sales were begun at the initiative of the Netherlands Bank which arranged on December 17 with the Federal Reserve Bank of New York to have dollars up to the equivalent of 10,000,000 guilders taken over in exchange for gold to be placed under earmark. This arrangement was extended for the equivalent of up

1 "Buying and Selling Gold—G.R.A. Specific Authorizations" file.

to 25,000,000 guilders on December 31, 1936. The strength of the Dutch exchange at this time which led to these conversions of dollars was shared by the Swiss franc and also by the guilder and the dollar. Gold was moved to all of these countries and created difficulties in the administration of their domestic credit policy. From August to December 1936 the United States had received $500 million in gold and as a consequence on December 22 the Treasury announced a plan for preventing further gold imports from having any effect on the credit base.

C. Gold Transactions of the Fund with the General Treasurer: October 13, 1936 to March 29, 1937.

1. Proposed but Rejected Plan for the Use of the Stabilization Fund in Connection with the Gold Sterilization Policy.

Early in December 1936 a number of suggestions were put forward in the Treasury for the use of the Stabilization Fund in connection with the sterilization policy. It was proposed that the Fund should acquire gold abroad by converting its foreign exchange acquisitions into bullion and that this gold should be sold to the General Treasurer who would not deposit gold certificates with the Gold Certificate Fund in the usual manner but would obtain funds by sale of securities in the market.[1] A detailed plan was also elaborated in the Department under which all imported gold upon its arrival would be purchased by the Stabilization Fund without passing into the monetary gold stock and would then be sold to the General Treasurer in the same way.[2] In this way the incoming gold would be completely segregated from the credit system and the procedure of the Stabilization Fund would have been rather closely assimilated to that of

1 Memorandum of C. B. Upham dated December 1, 1936. "Inactive Gold" file.

2 Detailed technical memorandum prepared in the Treasury dated December 7, 1936. "Inactive Gold" file.

the British Exchange Equalization Fund as long as the sterilization program was in effect.[1] The alternative of simply having the incoming gold purchased by the General Treasurer and segregated in an inactive account involved far simpler procedure but by use of the Stabilization Fund "gold operations of the sterilized type" would "appear in the accounts in a manner easily to be distinguished from gold operations of the traditional sort."[2] Two alternative methods of procedure were elaborated, one involving the purchase of imported gold by the Stabilization Fund and its sale to the General Treasurer, and one involving the purchase of all gold, imported and domestic, by the Stabilization Fund. Detailed letters of instruction covering these two procedures were prepared for despatch to the Federal Reserve Bank of New York and theSuperintendent of the New York Assay Office and the Philadelphia Mint and a letter and a radio message were drafted requesting the approval of the President.

A further general question concerning the type of gold transactions which shoul pass through the Stabilization Fund irrespective of whether ~~the~~ a gold sterilization policy were in effect or not was raised in the Treasury in the course of these discussions. On this point Mr. Viner recommended to the Secretary that:

> "***the Stabilization Fund operations shall be confined to transactions which clearly affect either foreign exchange values or the domestic monetary situation. For this reason I would have the following classes of gold transactions, and those only, pass through the Stabilization accounts:
>
> 1. Purchases of foreign gold and sales of gold to abroad, whether or not these operations are sterilized.
> 2. Purchases of domestic gold, if these purchases are sterilized, i.e., if no gold certificates are issued to pay for them.
>
> If the Treasury should in the near future at any time depart from its new policy of sterilizing gold movements, whether domestic or foreign, under the recommendation I here make, domestic gold transactions would not affect the Stabilization accounts."

1 The British Fund purchased all incoming gold with sterling obtained from the market by the sale of Treasury bills.

2 Memorandum from Mr. Viner to the Secretary December 19, 1936. "Inactive Gold" fil

None of these proposals was actually put into effect, however, at the time when the Secretary announced the inauguration of the sterilization policy in his press release of December 22. The Treasurer of the United States was simply instructed to segregate as inactive gold in the General Fund of the Treasury the net amount of all gold received daily on and after December 23, 1936, including gold received at the old value of \$20.67¢ per fine ounce, and to show such inactive gold separately on his record of classified assets and liabilities in the Treasury and to change the form of the daily Treasury statement so as to show this inactive fund separately from the free gold in the working balance of the General Fund.[1] It was not until October 21, 1937 when the circumstances were quite different, that the Stabilization Fund began to purchase from the General Treasury all imported gold.

When the gold sterilization policy was inaugurated the Stabilization Fund already held \$167,828,000, or four-fifths of its active assets in gold, of which \$117,407,000 was held under earmark at the Bank of England. In addition to its heavy purchases immediately after the inauguration of the Tripartite Agreement it had added to its stock a further \$20,798,000 by a purchase from the General Treasurer under the instructions issued on September 15.[2] As its foreign purchases continued, the Fund began to resell this gold to the General Treasurer, disposing of \$46,500,000 in this way by the end of November without having reduced its gold holdings on balance (Chart 3). Late in December it arranged to import \$20,000,000 from its Account A at the Bank of England.[3]

1 "Inactive Gold" file.

2 See page 115

3 The considerations leading to the import of this from Account A instead of from Account B are given in a Treasury memorandum in Mr. Dietrich's "Stabilization General--November--December 1936" file.

CHART IV

This gold was sold to the Treasurer early in January and this, together with the large sales to the Netherlands Bank, brought the Fund's gold stock below $120 millions by the middle of the month. By the end of March all the gold in Account A at the Bank of England had been brought home to be held in safekeeping by the Fund and a further $20 millions of it was sold to the Treasurer. Foreign purchases, however, had so increased on balance that the Fund's gold stock once more approached $170 millions (Chart IV).

D. Summary of Gold Transactions.

The gold transactions of the Fund for the period between October 13, 1936 and March 29, 1937 may be summarized as follows:

Bought:

Bank of England		$163,920,000
Account A ($34.77)	$104,291,000	
Account B (Control account) net	59,629,000	
		$163,920,000

Sold:

Bank of France (net)	$ 254,000
Netherlands Bank	31,896,000
General Treasurer (net)	65,702,000
	97,852,000

Increase calculated from Specific Authorizations	$ 66,078,000
Increase as shown by weekly balance sheets	$ 66,346,000

III. The Second Gold Scare: April-June 1937.

From April to June 1937 the franc was weak and gold left France in increasing amounts. On April 10 an abnormal situation developed in Brussels that threatened to disrupt the dollar-belga exchange market. Gold came to Brussels although the sterling-belga rate did not justify it, and the dollar-belga rate was above gold export point from Brussels to New York.[1] The National Bank of Belgium

[1] Cable from Louis Frank, Governor of the National Bank of Belgium to the Federal Reserve Bank of New York of April 21, 1937. "Buying and Selling Gold-National Bank of Belgium" file.

therefore inquired whether the Federal Reserve Bank of New York would buy gold from it for the account of the Treasury. To this the Federal Reserve Bank replied that in view of the disturbed conditions of the exchanges it would purchase up to $10 million in Belgium at $35 less 1/4 less mint charges subject to the understanding that the gold would be shipped by an American vessel ~~and would be shipped by an American vessel~~ and would be guaranteed free for export. This offer was not availed of at this time but the matter was again raised by the Belgian Bank in June. Late in March and early in April two large and exceptional gold movements to the United States began from Russia and Japan. Early in April Mr. Lochhead of the Stabilisation Fund advised Mr. Taylor that he had noted that gold engagements for shipment from London to New York were exceptionally large in relation to the volume of exchange transactions. He had ascertained that this was on account of the offer of Russian gold on a dollar basis which was being bought and imported by various New York banks. The Bank of England confirmed that they were aware that the gold was Russian and when it arrived it was found to bear Russian mint marks, being apparently new production. It was difficult to trace the actual seller but the proceeds were paid over to banks of Russian origin or having Russian accounts. By April 11, $25 millions had arrived and a check of Russian balances in New York disclosed that they had increased by this amount.[1] At the same time large shipments of gold from Japan were arranged and these were, like the Russian shipments, close scrutinised by the Treasury. Beginning in May each shipment was advised to the Treasury by the Japanese through diplomatic channels,[2] but careful inquiries were made as to the purposes of the shipments. On June 23, for example, Mr. Araki, Agent of

1 Memorandum from Mr. Lochhead to Mr. Taylor. "Buying and Selling Gold" file.

2 By Mr. Ukawa, New York, acting upon instructions of the Vice Minister of Finance. "Gold from Japan" file.

the Bank of Japan in New York, called on Mr. Sproul of the Federal Reserve Bank of New York to state that the Japanese were planning to ship a further 50 million yen in gold to New York, making a total of 250 million yen of the current movement. Mr. Sproul told Mr. Araki that it was now even more important than in the past to know the reasons for this shipment and that it would be unfortunate if the impression got around that Japan was sending gold for reasons not connected with the Japanese balance of payments. There was a growing body of opinion that other central banks should take their share in absorbing gold supplies. To this Mr. Araki replied that the reason was a seriously adverse balance of trade which was unwelcome to the Japanese and that only such shipments were made as were necessary to settle international accounts. Mr. Araki indicated that he wished this information to reach the appropriate authorities and Mr. Sproul forwarded an account of the conversation to the Treasury.[1] This explanation did not entirely set at rest American doubts on the question and the course of Japanese balances in New York when gold was coming in was later very carefully watched.[2]

By May 27, 1937 the total amount of gold which had been added to the monetary gold stock of the United States since the beginning of the sterilization policy had reached $732 millions and the amount placed in the Inactive Gold account was $730 millions.[3] The convergence of gold on the United States from all quarters gave rise to rumors that to discourage this great inflow the Treasury would lower its buying price. Consequently arbitrage opportunities opened up for shipment of gold to the United States which were not taken advantage of and a substantial "discount" from New York shipping parity appeared in

1 Letter from the Federal Reserve Bank of New York to the Treasury, June 23, 1937 "Buying and Selling Gold" file.

2 On December 14, 1937 Mr. Knoke of the Federal Reserve Bank of New York reported to the Treasury that the Japanese were then using gold to build up balances and not to cover current operations. Memorandum from Mr. Lochhead to Mr. Morgenthau, "Mr. Dietrich's Stabilization" file.

3 Memo from Mr. Taylor to Mr. Morgenthau giving a summary of the sterilization policy of December 23, 1936 to May 27, 1937. Ibid.

the London price of gold in April which persisted for three months. This situation became very pronounced in June when the discount reached 7-1/2% and the situation of February 1934, which has been described as the first "gold scare", was essentially repeated.

During April the exchange and gold transactions of the Fund had been only moderate in amount and in May it was practically dormant. The sales of sterling in London begun on March 8[1] were continued until April 5, an additional $1,061,000 in gold being released from earmark in London from March? May 29 to April 23. ? For the next two weeks the Fund's sterling transactions, on both sides of the market, resulted in a net purchase of gold in London of about $6,500,000. All of these transactions were passed through the "control" accounts according to the usual routine, with a few minor exceptions.[2] Though sterling was strong and rose to 4.94-3/16 on April 30, the relationship of the London market price to the sterling-dollar rate was such as to make the Fund's standing offer of $34.77 again effective and $23 millions in gold was bought at this price and placed under earmark in Account A at the Bank of England. This was all imported and sold to the General Treasurer. At this time the Fund was making numerous small sales of gold to the Bank of France and to the Netherlands Bank, but these amounted in all to only about $3 millions. The Netherlands Bank was also ready to check any undue rise of the guilder in New York. On April 27 it cabled to the Federal Reserve Bank authorizing it to sell up to 25 million guilders when they could make a rate of 54.84 or better, and renewed these instructions on April 30 and May 11, raising the limit, however, to 54.88 and 55 cents respectively.

It was not until June that the difficulties usually described as the "gold scare" became acute. Gold was moving heavily to London and the British Fund was called upon to absorb very large amounts. If it took sufficient gold off the London bullion market which otherwise would have gone to the United States the British Fund might have forced the London gold price back to New York shipping

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1 See page .

2 There was only one small purchase of sterling for conversion into gold in Account B in May.

parity but it would have deprived sterling of support in dollars which, in the opinion of the Federal Reserve Bank of New York was necessary to maintain the sterling-dollar rate at the levels then prevailing. The situation which at this moment faced the two Stabilization Funds was described as follows in a memorandum prepared by Mr. Knoke of the Federal Reserve Bank of New York on June 4:[1]

> "If the British take all the gold offered in London they <u>may</u> succeed in keeping the London gold price and also the dollar-sterling rate steady at present levels. That is the best they can accomplish.
>
> If, in order to raise the gold price in London and bring it closer to New York parity, they bid aggressively, they will, by their gold operation, force the dollar-sterling rate down. If, in order to offset this effect on the dollar-sterling rate, they make use of our arrangement (to give them dollars against gold in London), <u>we</u> would ultimately get the gold anyhow (at $34.77).
>
> If we buy gold aggressively in London at current prices we may accomplish what the British cannot accomplish by gold operations alone, that is push the London gold price up and at the same time maintain or possibly even lift the dollar-sterling rate.
>
> We will, of course, acquire large amounts of gold in London but not necessarily more than the British would give us if they found it necessary to support (by making use of the arrangement they have with us) the dollar-sterling rate if it weakened as a result of their aggressive buying of gold in London."

The British authorities did in fact take advantage of the Fund's standing offer to buy gold from them at $34.77 to the extent of $63,000,000 in June,[2] and on June 24 the Fund entered the market to buy sterling for conversion into

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[1] Mr. Dietrich's "Gold 1931-1937" file.

[2] Estimated. See page 172, note 3.

gold in the London bullion market.[1] £965,000 was bought in this way at from 4.93225 to 4.94225 and converted into gold at from 140s 6-1/2d to 140s 10d per ounce.[2]

In the meanwhile the difficulties of the National Bank of Belgium had reappeared and on June 5 they again advised the Federal Reserve Bank of New York that the belga was at gold export point from Belgium and asked that the arrangement proposed in April be renewed. This was agreed to and the first of a series of shipments of gold purchased by the Fund in Belgium for sale to the General Treasurer was shipped by the S.S. President Harding. This shipment amounted to $5,227,000.

In addition the Bank of France was a net seller to the Fund in its gold transactions under the Tripartite Agreement but the Netherlands Bank which had sold small amounts in April became a substantial buyer in June.

As the Fund accumulated gold under earmark abroad it gave instructions for the import of the greater part of this gold and made substantial sales to the General Treasurer. These amounted in all to $96,998,000 in June.

The gold transactions of the Fund during the period April-June 1937, which included also a small purchase from the Bank of Mexico,[3] may be summarised as follows:

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1 The transaction was passed through the Fund's No. 3 accountat the Bank of England but the price at which the conversion was to be carried out is stated in the Specific Authorisations and the inference is that gold under these orders was purchased in the market and not from the Bank of England at its daily quoted price under the Tripartite Agreement. ~~In March the Bank of England had begun to quote not one price for buying and selling but a price varying by two points on either side of the London market price for their purchases and sales~~.

2 "Purchases of Sterling for Conversion into Gold" file.

3 In a memorandum to Mr. Cochran from Mr. Dietrich datedAugust 24, 1939 the following statement is made concerning the reasons for the purchase of gold by the Fund from central banks not "members" of the Tripartite Agreement: "The only exceptions where the Fund has purchased gold from other than Tripartite countries is when on a Saturday a non-Tripartite country wishes to sell gold and the Assay Office is closed the Fund will make the purchase, or when the Federal receives the instructions too late in the day to make the delivery to the Assay Office the Fund would purchase the gold."

Bought:

Bank of England		$105,800,000
Account A (est.)	86,000,000	
Account B (Control account)	19,800,000	
From the London Market		4,040,000
From the Netherlands Bank (net)		13,742,000
From the National Bank of Belgium		5,227,000
From the Bank of Mexico		1,125,000
		$129,934,000

Sold:

Bank of France (net)	$ 2,080,000
General Treasurer	119,998,000
	122,078,000

Increase as calculated from Specific Authorizations	$ 7,865,000
Increase as shown by weekly balance sheets	$ 8,500,000

On June 28 the British Exchange Equalization Account which, since January 1936 had absorbed with the assistance of the Bank of England about £281,000,000 in gold, was put in a position to continue its purchases of gold by receiving an additional £200,000,000 in Treasury bills. At the end of the month also the rumors of an impending gold revaluation in the United States were set at rest and foreign gold earmarkings at the Federal Reserve Bank of New York which had declined sharply during the "gold scare" increased again.

During the "gold scare" the French franc was under heavy pressure and the Fund began to buy francs in the New York market for the account of the Bank of France. Between June 9 and 26, 35,650,000 francs were bought at rates ranging from 4.45-1/2¢ per franc to 4.46-1/4¢, but in the last three days of the month 9 million of these were sold at from 4.46-1/4 to 4.46-1/2.[1] On June 30, however, the attempt to hold the franc at the lower limit fixed by the Devaluation Law of October 1 was given up and the so-called "floating" or "Bonnet" franc was introduced.[2] Thereafter the Fund received almost daily orders to buy and sell francs for the Bank of France in the New York market.

1 "Francs Bought and Sold for a/c of Bank of France" file.
2 Check.

IV. Routine Operation of the Fund: July 1-October 4, 1937.

to the [illegible] to the franc

The support given by the Bank of France through its trading operations in New York under the Tripartite Agreement was not very substantial and was insufficient to prevent a gradual decline in the rate. Its intervention illustrates the effect on exchange rates of official support in a market in which the underlying trend is weak. This is shown in Table 9.[1]

Table 9
Purchases and Sales of Francs by the Stabilization Fund
for the Account of the Bank of France
July 1-October 1, 1937
(000 omitted)

Date	Bought	Range (cents per franc)		Sold	Range (cents per franc)	
July 1-3				10,450	3.83-3/16	-3.84-5/8
July 10-13				3,150	3.87-1/2	-3.88-1/4
July 16	4,165	3.82-1/2				
July 17	3,650	3.76-3/4				
July 20-21	3,725	3.72	-3.74-15/16			
July 22-Aug.2				12,306	3.73-3/16	-3.75-1/8
Aug.28-Sept.7	3,250	3.72-1/2	-3.73-5/8			
Sept. 13-14	13,100	3.56-5/8	-3.72-1/2			
Sept. 15-16	12,600	3.37-3/11	-3.37-5/8			
Sept. 21				14,400	3.41-1/8	-3.42-1/8
Sept. 24-29	10,200	3.42	-3.42-1/4			
Oct. 1				22,870	3.43-1/4	

On July 13 the Netherlands Bank instructed the Federal Reserve Bank of New York to sell 1,225,000 guilders in New York for its account under the Tripartite Agreement at 55.07 and two smaller orders at 55.22 and 55.30 followed. It did not, however, become a steady operator in the New York market through the Stabilization Fund. On September 24, 1937, 1,935,000 guilders were sold at 55.30, ~~at which rate the guilder was at the gold export point from New York~~[2] and the Stabilization Fund carried out small sales at this rate between October 1

[1] "Francs Bought and Sold for the a/c of the Bank of France" file.

[2] Check.

and November 3, 1937. It did not renew its dealings in guilders in New York until March 1939.[1]

The National Bank of Belgium, however, continued to be a substantial seller of gold to support the belga. On June 30, July 7 and July 13 the arrangement of the preceding April for the purchase of up to $10 millions in gold in Belgium by the Fund was renewed. In making the last renewal, however, the Federal Reserve Bank of New York included in its cable the following observation:

> "Bearing in mind that conditions in the gold market now seem again to have become practically normal it would be of help to us to have you explain why in your opinion it would not again be sufficient for you for the Secretary of the Treasury to buy through Federal Reserve Bank of New York as fiscal agent of the United States import fine gold bars at $35 per fine troy ounce less the usual Mint charges and less 1/4% for handling charges as announced by him on January 31, 1934."[2]

In the following detailed letter to the Federal Reserve Bank of New York the National Bank of Belgium on July 31 explained the situation and indicated that the active fears prevailing during the "gold scare" of June had not completely died down in Europe:

> "As you are aware, as a result of the abstention of the banks which customarily provide our market with dollars by means of gold sales to the American Treasury when the rate reaches the gold-export point, we have recently been led ourselves to supply to the market the dollars necessary in such an event.
>
> It is for this reason that we have requested you to agree that we deliver to you gold earmarked in our vaults, in return for immediate and final placing to our credit of the equivalent at the price of $35 per ounce of fine metal, less the customary expense of minting and 1/4 per cent for handling charges.
>
> By your cable of the 13th instant, you have informed us that it seemed to you that the conditions of the market had become normal and that these special arrangements were no longer, therefore, necessary.
>
> Unfortunately, that is not yet the case. The arbitrageurs of our market still decline to ship gold to New York when the rate would permit it. It is for that reason that today the rate for the dollar has

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1 "Purchase and Sale of Guilders for a/c Bank of Netherlands" file.

2 ~~The Secretary's statement of January 31, 1934 had been withdrawn by the subsequent statements of October 12 and November 23, 1936 but as a member of the Tripartite Agreement the National Bank of Belgium was entitled to sell gold to the United States Treasury.~~

> advanced to 5.9435 belgas, although it is possible to secure dollars against gold beginning from 5.94.
>
> Under these conditions, we believe that you will agree, if the same thing should occur again, to renew the arrangements which you have made with us recently. This practice seems to us entirely in conformance with the spirit of the tripartite agreement, the essential aim of which is to facilitate all that can be done in order to assure the stability of the exchanges. It is clear that this result can only be attained if the interested central institutions are exempt from the formalities imposed upon private enterprises.
>
> We shall be happy to learn your opinion on this subject. We do not doubt that it corresponds entirely with ours.
>
> It goes without saying that when the market will resume its normal activity, we will leave to it the responsibility for carrying out arbitrage in accordance with its needs." [1]

As a result of these negotiations a further $29,479,000 in gold was bought by the Fund in Brussels between July 16 and August 3 and imported for sale to the General Treasurer.

In the meanwhile sterling was very strong, rising to over 4.98 in August and never falling below 4.95. The Fund was an intermittent seller of sterling at these rates and released gold from its earmarked account at the Bank of England as follows:

July 9-16	$10,585,000
August 30	1,836,000
September 17	2,047,000
October 1	2,840,000 [2]

In addition, one special sterling transaction was carried out. On August 12 the Fund purchased £300,000 from the Bank of England and sold it to the Central Bank of China.[3] This transaction was passed through the No. 2 Account but the others were handled in accordance with the routine of the Tripartite Agreement. Only one small purchase of sterling for conversion into gold in the bullion market was made during this period (£45,000 on September 9). The Fund, however,

1 "Transactions--Buying and Selling Gold and Silver--Gold--Belgium--National Bank of Belgium" file.

2 "Purchases and Sales of Gold--G.B.A." file.

3 "Transactions--Buying and Selling Foreign Exchange--Sterling--Authorisations" file. I have not been able to find the reason for this transaction in the files.

continued to accumulate gold in its Account A at the Bank of England at 34.77 per ounce purchasing in all $64 millions at this price, of which about two-thirds was bought in September.

The Fund continued as before to sell gold to the General Treasurer as it was accumulated abroad and gradually imported, but also bought gold from him for sale to the Bank of China.[1]

The gold transactions of the Fund during this period of relatively routine operations (July 1-October 4, 1937) may be summarized as follows:

<u>Bought</u>:

Bank of England (net)		$36,750,000
Account A (Bought)	$54,000,000	
Less Account B (Sold)	17,250,000	
In London market		230,000
From National Bank of Belgium		29,479,000
		$66,429,000

<u>Sold</u>:

Bank of France		$ 2,462,000
Netherlands Bank		2,273,000
Central Bank of China		30,099,000
General Treasurer (net)		24,347,000
Sold	$69,346,000	
Less Bought	44,999,000	
		59,181,000

Increase in gold calculated from Specific Authorizations	$ 7,248,000
Increase in gold as shown in weekly balance sheets	$ 7,022,000

In spite of the sales made to the General Treasurer the Fund at the end of October was almost entirely a gold fund and its dollar balances had been reduced to just over $7,000,000. The principal items of the balance sheet of October 4 were in round figures as follows:

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1 See pages [illegible]. The $30 million in gold sold to the Bank of China was taken from the Inactive Gold Account. Letter of Mr. Bell to the Treasurer of the United States July 19, 1937. "Inactive Gold" file.

Gold

Abroad:		
Bank of England		$119,465,000
Account A	$52,555,000	
Account B	66,910,000	
Bank of France		91,000
In Safekeeping		55,934,000
At Assay Office	42,778,000	
At Federal Reserve Bank	13,156,000	
		$175,490,000
Government securities		$ 25,110,000
Dollar Balances		$ 7,166,000

V. The Fund during the Dollar Scare: October-December 1937.

From December 1936 to September 1937 the Inactive Gold Account of the Treasury had absorbed $1,401,000,000 in gold. The development of a sharp business depression in the United States, however, led to a release of $300,000,000 from this account in September, in accordance with the following instructions sent to the Treasurer of the United States by Mr. Bell:[1]

> "In order to carry out the informal arrangements between the Federal Reserve Board and the Secretary of the Treasury you are authorized to transfer $300,000,000 from the inactive gold in the general fund of the Treasury to the working balance and then take immediate steps to deposit gold certificates in this amount to the credit of the Gold Certificate Fund, Board of Governors, The Federal Reserve System, for credit to your general account with the Federal Reserve Bank of New York, all effective as of today."[1]

At this time rumors began to circulate that there would be a further devaluation of the dollar. Partly on this account and partly on account of the internal developments in the United States the dollar was weak during the last quarter of the year and there was a capital transfer of about $500,000,000 from the United States. In November America began to export gold on balance.

1 "Inactive Gold" file.

The downward trend in the franc was temporarily checked, sterling was strong in New York and a high "premium" over New York shipping parity appeared in the London gold price, sometimes being high enough to move gold from New York if private gold arbitrage for export had been permitted. This situation later came to be known as the "dollar scare".

Under these circumstances the Stabilization Fund's assets underwent a complete transformation.(Chart).[1] $44,366,000 of the Fund's gold was now held as collateral for the Chinese yuan purchased by the Fund under the repurchase agreement with the Central Bank of China,[2] and was consequently not available unless this agreement were terminated. The remaining gold freely at the disposal of the Fund was reduced to $30,004,000 and its dollar assets were increased to $129,451,000 by the end of the year.

At the beginning of October when the new market situation had developed the Stabilization Fund began to sell in London the gold which it had under earmark at the Bank of England. On October 2 the Federal Reserve Bank of New York was instructed to sell for the Fund from its Account A at the Bank of England up to 300,000 ounces of gold at 34.79[3] per ounce on or before October 9 and on October 4 this limit was raised to 600,000 ounces. On October 8 further instructions were issued for sale of 600,000 ounces at the same price between October 11 and 16 and on October 12 this limit was also raised by a further 600,000 ounces. Under these instructions all the gold held under earmark in Account A at the Bank of England was disposed of,[4] and the gold began to be taken from Account B. The instructions to sell gold in London at 34.79 were

1 The weekly balance sheets for October 11-November 13, 1937 which would show the detail of the changes are missing from the files.
2 See pages 163-?
3 There is nothing in the file to indicate how this price was arrived at.
4 There is no definite statement in the files confirming this but it can be inferred from the balance sheets.

repeated with varying limits until November 8 when the Federal Reserve Bank was instructed to sell 103,621 ounces at 35.09.[1] On November 22 the only gold remaining under earmark at the Bank of England was $3,433,000 in Account B. Two small sales were made to the Bank in the usual way on October 6 and November 3 amounting in all to $1,524,000 in order to provide sterling sold by the Fund at 4.95-7/16 and 4.96-15/16,[2] and on November 8 the Fund sold $4,957,000 in gold to the Bank of England on a dollar basis ($35 less 1/4) which it took from its own holdings in New York.[3]

In addition, from October 11 to December 6 the Fund sold gold almost daily to the Bank of France on a dollar basis making delivery in New York in an amount aggregating $60,550,000. It also disposed at this time of the 82 kilos which it held in its Account B at the Bank of France. In spite of this large draft on the dollar resources of the Bank of France the franc remained virtually stationary at about ~~.033-1/2~~ 3.35 cents and the Bank of France confined its operations in the New York market to small operations on both sides of the market.[4] In addition, both the Netherlands Bank and the Swiss National Bank bought heavily from the Fund. After confining itself to small purchases early in October and early in November the Netherlands Bank bought 1,425,008 ounces ($49,875,000) on December 2 while the Swiss Bank bought $27,978,000 in gold on November 6 and 9 and $79,800,000 on December 20. All these purchases were carried out at the Treasury's selling price of $35 less 1/4. In order to provide the Fund with

1 There is nothing in the files to indicate the reason for this change in price. An inference might be drawn that this gold was sold in the market and not to the Bank of England but this should be confirmed.

2 "Transactions--Buying and Selling Foreign Exchange--Sterling--Authorisations."

3 On November 10 a further $15,000,000 was purchased by the Fund from the Inactive Gold Account of the Treasury. There is nothing, however, in the files to indicate that these two transactions were directly connected though this inference was drawn by the press.

4 "French Francs Bought for the a/c of the Bank of France" file.

sufficient gold to provide this substantial support for the dollar and to meet the special demands of the foreign central banks, new arrangements were made by the Treasury under which the Fund took over incoming gold from the General Treasurer.

A. The Purchase of Incoming Gold from the General Treas.

The Federal Reserve Bank of New York was instructed to purchase for the account of the Stabilization Fund gold in an amount not to exceed the value of imported gold received at the Assay Office in New York beginning October 21, 1937 at the flat rate of $35 per ounce. At this time gold was still flowing freely into this country from Japan and on October 22 arrangements were made for the Federal Reserve Bank of New York to receive telegraphic advice of gold received from Japan at the San Francisco Mint and to purchase it by payment of $35 per ounce at the Assay Office in New York. On November 4 these instructions were combined in the following letter from Mr. Bell to the Treasurer of the United States:[1]

> "The Federal Reserve Bank of New York, as fiscal agent of the United States, has been authorized to purchase from the Assay Office at New York, for account of the Exchange Stabilization Fund gold at $35 an ounce in amounts approximating but not exceeding the value of all gold received at all of the United States Mints and Assay Offices beginning with the receipts reported in the statements from the Mints and Assay Offices cleared November 4, 1937. These purchases by the Federal Reserve Bank of New York will be made daily in the approximate equivalent amounts of the total receipts in the Treasurer's account reported in the United States Mint and Assay Office transcripts and telegrams cleared each day in your office.
>
> Upon receipt of mail or telegraphic reports you are requested to advise Mr. Lochhead daily of the amounts of gold purchased by all of the Mints and Assay Offices, and he will give instructions to the Federal Reserve Bank of New York relative to purchases from the Assay Office, New York, for account of the Exchange Stabilization Fund.

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1 "Transactions--Buying and Selling Gold and Silver--Gold--General" file.

The Secretary desires that the purchases by Mints and Assay Offices and the sales by the Assay Office, New York, not be reflected in the daily Treasury statements except simultaneously as wash transactions.

The Federal Reserve Bank of New York will make payment for the gold purchased from the Assay Office, New York, by charging the Secretary's Special Account with the amount and crediting your general account with that bank. The usual payment to the Treasury by the Federal Reserve Bank of New York through the Gold Certificate Fund of the Board of Governors of the Federal Reserve System for the equivalent of the gold purchased is not required in these transactions."

Daily purchases made by the Fund from the General Treasurer in this way amounted in the last quarter of 1937 to about $170,000,000, but this was far from enough to offset its heavy foreign sales. At the end of the "dollar scare", therefore, the Stabilization Fund was predominantly a dollar fund.

The gold transactions carried out during this period may be summarized as follows:

<u>Bought</u>:

General Treasurer		$185,669,000

<u>Sold</u>:

Bank of England		$115,477,000
from Account A at 34.79 per oz.	$52,000,000	
from New York stock	4,987,000	
from Account B at 140s/ per oz.	2,524,000	
from Account B at 34.79 per oz.	55,966,000	
Bank of France		60,550,000
Netherlands Bank		51,244,000
Swiss National Bank		107,778,000
		335,049,000
Decrease in Gold Stock calculated from Specific Authorizations		$149,380,000
Decrease in Gold Stock as shown in Weekly Balance Sheets		$145,489,000[1]

[1] Without the balance sheets for this period, missing from the files, it has been impossible to estimate closely the transactions in Accounts A and B at the Bank of England and a discrepancy of some $4,000,000 in the changes in the gold stock has not been reconciled.

VI. Desterilization, First ~~Check~~ Czech Crisis and Unstable Exchanges: January-August 1938.

The release of $300,000,000 in gold from the Inactive Account on September 13, 1937 was only the first step in the abandonment of the gold sterilization policy. The second was taken on February 14 when the Secretary announced that gold acquired in the Mints and Assay Offices after January 1, 1938 would be included in the Inactive Gold Account only to the extent that such acquisitions in any one quarter exceeded $100,000,000. In order to make this policy retroactive as from January 1 certain adjustments had to be made in the Inactive Gold account, some of which affected the Stabilization Fund. Under the new policy governing the Inactive Gold Account purchases from the General Treasurer by the Stabilization Fund to replace gold released for export were taken from the Inactive Account but new imported gold purchased by the General Treasurer and bought from him by the Stabilization Fund under the instructions of November 4, 1937 was no longer passed through the Inactive Account as ~~was~~ a wash ~~interest~~ entry. Between December 31, 1937 and February 14, 1938 when the new policy went into effect the Stabilization Fund had made purchases from the General Treasurer of both types. It had bought on January 2, 1938 from the Inactive Account $4,999,999 in gold to replace gold released for export and had purchased under the general instructions of November 4, $27,010,000 in gold. In addition the Fund had acquired "from other sources" (chiefly purchases from Mexico and from the Bank of France) $4,450,000 and had sold to the Government of Mexico $9,093,000 in gold under the new repurchase agreement. These transactions increased its gold holdings from $30,004,000 on December 31, 1937 to about $48,400,000 on February 14, 1938. On February 15 the Fund sold to the

CHART V

General Treasurer all the gold which it had purchased since December 31, 1937 except the $4,999,999 bought from the Inactive Account to replace gold sold for export on January 2. This resulted in a net sale to the Treasurer on February 14 of about $31,000,000. On February 15, however, the Fund bought $9,093,000 in gold from the Inactive Account to replace its sales to the Mexican Government and also sold a further $1,125,000 in gold to the Treasurer. As a result of all these adjustments the Fund disposed of just over $22,000,000 on balance to the Treasury ~~and brought its gold holdings up to just over~~ $57,~~000,000~~ (Chart 5).

After this adjustment was completed, together with other adjustments for small items chiefly in the free gold account of the Treasurer, the Treasury was able to determine the exact amount of gold available for deposit with the Federal Reserve Bank of New York in order to new policy as of January 1. The gold deposited was the gold which had been sterilized by the General Treasurer or purchased by the Stabilization Fund since the beginning of the year. This sum was $46,067,079 and on February 15 Mr. Bell sent a letter of instructions to the Treasurer putting the new policy into effect. The terms of this letter were as follows:[1]

> "***you are authorized and directed to so deposit today with the Federal Reserve Bank of New York for credit to your account, the sum of $46,000,000 in gold certificates and continue to deposit with that bank hereafter until further notice or until the aggregate of $100,000,000 is reached within each quarter, gold certificates equivalent to the daily accretions of gold in your account in multiples of $500,000, on the basis of daily Treasury statements."

Except for the transactions with Mexico and France noted above the Stabilization Fund was inactive in the foreign exchanges during the period when the

1 The above details are taken from this letter of instructions ("Inactive Gold") and from the balance sheet and specific authorizations of the Fund.

desterilization policy was being planned and put into effect. No sterling transactions, for example, had been carried out since November 3. The Fund had continued, however, to execute orders for the purchase and sale of francs for the Bank of France between December 31, 1937 and February 15, 1938, which were as follows:

(000 omitted)

Date	Bought	Range Cents per franc	Sold	Range Cents per franc
Jan. 10	4,500	3.39-3/16		
Jan. 14-17			9,370	3.33-5/8 -3.37-1/2
Jan. 20-Feb.8	69,650	3.39-1/8 -3.22-3/4		
Feb. 10-11			8,950	3.28-3/4 -3.31-5/8
Feb. 15	5,300	3.29-1/16		

The declining trend in the franc indicated by these figures was the beginning of a major readjustment in the French currency which ended with the establishment of the Daladier franc in May. Sterling, however, remained strong throughout the month of February and the Stabilization Fund made only one sterling transaction during the month, a sale of £455,000 on February 14 at 5.02-1/2 which was obtained in the usual way by the release of gold from its Account B. This reduced its earmarked gold in that account to $1,276,000. It also sold $20,550,000 in gold to the Swiss National Bank from February 17 to 20, and $9,975,000 to the Sveriges Riksbank between February 21 and March 9.

In March more active support of the foreign exchanges was required by the outbreak of the first Czech crisis. Sterling fell to 4.96 on March 15 and the Bank of England cabled to the Federal Reserve Bank of New York asking it to renew its offer of November 1935 to purchase up to 700,000 ounces of gold from it at $34.77 per ounce.[1] The Fund renewed the offer for 1,400,000 ounces on March 17 but reduced it to 700,000 ounces on March 28, where it remained until the outbreak

1 "Buying and Selling Gold" file.

of the Munich crisis.[1] About $26,000,000 in gold was bought before March 21 under this authority and was earmarked in Account A at the Bank of England and in addition the Fund bought sterling heavily in New York for conversion into gold in the London market. £1,179,500 were purchased on March 16 at 4.96-5/8 and £812,000 on March 18 at 4.95-1/2 and small amounts on March 21 and 25. With the aid of this substantial support sterling recovered and the Fund was able to dispose of £561,000 at 4.96-1/8 on March 19. The gold acquired as a result of these transactions was immediately exported to the United States except for small balances of about $2,500,000 which were left in both Accounts A and B at the Bank of England. After this the Fund retired from the sterling market until April 11 when it made the first of a new series of sales (£130,000 at 4.97-7/16)

From February 14 to the end of March the franc transactions of the Bank of France in New York carried out through the Fund were predominantly in support of francs. For the whole period purchases were 86,800,000 francs and sales only 8,150,000, yet the rate declined steadily from 3.29-1/16¢ to 3.02-1/2¢ per franc. The Bank of France also carried out many small gold transactions with the Fund as a result of which it was a net buyer for the first quarter of 1938 of just over $3,000,000 in gold.

The foreign gold transactions of the Fund at this time included also the repurchase of most of the gold sold to the Mexican Government, and a small purchase from the Central Bank of Chile. The Fund showed on balance little change in its gold account from its dealings with foreign governments and central banks. It continued, however, under the instructions of November 4, 1937,[3] to

purchase from

1 "Bank of England--Gold Letter" file.

2 "Purchase of Sterling for Conversion into Gold" file.

3 These instructions were cancelled on April 15 when the sterilization policy was abandoned (see page [illegible]).

the General Treasurer the equivalent of gold imported into the United States and bought by the United States Mints and Assay Offices. These purchases were quite substantial and though a few small sales were made to the General Treasurer in March the net purchase of $28,000,000 resulted by March 31. The purchase of that day was the last from the General Treasurer made by the Fund until the outbreak of the world war. As a result its goldholdings rose to a temporary peak of $85,126,000 on April 21 (Chart 5). All but $5,000,000 of these holdings was held in safekeeping in the United States.

As of April 14 the gold sterilisation policy of the United States was abandoned. The balance of the Inactive Account of $1,182,974 and the free gold in the working fund of the Treasury ($208,933,000) were then deposited in the Gold Certificate Fund of the Federal Reserve Board. Incident to this transfer the instructions of November 4 concerning the purchase of imported gold by the Stabilisation Fund were cancelled and further gold transactions were carried out with the General Treasurer under authority of the Secretary's letter of November 6, 1936.[1]

From the time when the gold sterilisation policy was abandoned until the first of August the transactions of the Fund were exclusively with the Bank of England and the Bank of France. During April both sterling and francs continued to be firm and from April 12 to 27 the Fund sold 28,750,000 francs and bought only 5,100,000 francs for the account of the Bank of France at rates which ruled generally above .0311-1/2. cents[2] Thereafter the rate broke and by May 5, in spite of further support in New York, fell to the level of .0279. In the interval

1 Check. These details have been taken from the letter of instructions sent by Mr. Bell to the Treasurer of the United States on April 18, 1938. "Inactive Gold" file.

2 "French Francs Bought and Sold for the a/c of the Bank of France" file.

the Fund had bought 37,000,000 francs and sold only 3,500,000 for account of the Bank of France. When the franc had reached this level in New York it was pegged to the £ sterling[1] and shared thereafter the fluctuations of sterling in New York. Consequently it showed in January ? a declining trend. The operations carried out by the Fund for the Bank of France in New York from May 5 ~~1938~~ 1938 to August 1 were as follows:

(000 omitted)

Date	Bought	Range (cents)	Sold	Range (cents)
May 7-20			95,895	2.79-1/2 - 2.80-1/8
May 21-June 15	18,000	2.76-1/8 - 2.78-15/16		
June 21-30			23,585	2.78 -2.78-15/16
July 8-13	31,800	2.75-3/16 - 2.76-15/16		
July 14-Aug. 1			59,400	2.75-15/16-2.76-15/16

In spite of the weakness and readjustment of the franc in New York the Bank of France continued to be a steady buyer of gold from the Stabilization Fund from April 14 to May 23 ~~and~~ but after two small purchases at the end of May it became a frequent seller ~~but~~ in small amounts from June 23 to July 7.

During this period the Fund sold $45,000,000 in gold to the Bank of France of which the greater part was sold at the time of the readjustment of May 5.

With the exception of a single purchase in New York of £1,000,000 from the Sveriges Riksbank on May 21 for conversion into gold the gold transactions of the Fund with the Bank of England were on a small scale in the second quarter of 1938. Moderate sales of sterling at rates from 4.97-7/16 to 5.01 in April and again in June at about 4.97 were the only transactions carried out. In order to provide the sterling for these sales gold was released from Account A as all gold in Account B had been imported. On June 14 another $5,000,000 of gold was bought in London but

[1] Check

this was immediately imported. This was the last purchase by the Stabilization Fund from the Bank of England at the sterling-gold price quoted to it daily under the terms of the Tripartite Agreement until the outbreak of the war. When the Fund reentered the sterling market in August it bought sterling in New York for conversion into gold in the bullion market and when it resumed its direct purchases from the Bank of England in October it bought from the gold earmarked for the Bank of England at the Federal Reserve Bank of New York on a dollar basis. Purchases at $34.77 from the Bank of England, however, continued and a small amount was purchased in July.

The gold transactions of the Fund from January 1 to August 1, 1938 may be summed up as follows:

<u>Bought</u>:

Bank of England			$30,476,000
Account A		$29,260,000	
Account B	$6,883,000		
Less Sold	5,667,000	1,216,000	
In London market			10,530,000
Bank of Chile			175,000
General Treasurer (net)			51,066,000
			$92,247,000

<u>Sold</u>:

Bank of France (net)	$40,572,000
Banque Suisse	20,550,000
Sveriges Riksbank	9,975,000
Bank of Mexico (net)	440,000
	71,537,000

Increase in Gold Stock calculated from Specific Authorizations	$20,710,000
Increase in Gold Stock calculated from weekly balance sheets	$17,092,000

VII. Decline in Sterling and the Munich Crisis: August-November 1938.

The readjustment in the franc on May 5, 1938 ended the period of the "Bonnet" or "floating" franc and began that of the so-called "Daladier" franc which was pegged to sterling at about 179 francs per pound. The subsequent decline in francs was therefore a reflection of a decline in sterling ~~and~~ in dollars which began at the end of May and continued until a new point of resistance of about 4.70 was reached at the end of 1938. After a slight readjustment the guilder, belga and the Swiss franc were maintained stable in dollars. The system of exchange rates existing among the countries members of the Tripartite Agreement was at this timenot a system of stable exchange rates but one in which the French franc and the pound sterling moved together in the terms of the remaining four currencies.

By August the growing tension in Europe had caused a substantial capital movement to the United States and the Fund became active in support of sterling. From August 2 to 30 it bought in New York £974,000 at rates declining from 4.90-1/8 to 4.86-1/16 for conversion into gold in the bullion market,[1] and at the same time it bought gold heavily from the Bank of England. With the approach of the Munich crisis the pressure on sterling became intense and by September 20 the Fund had bought a further £7,567,000 in New York at rates which were still declining to 4.73-3/8. Of this, £4,250,000 was bought at the height of the crisis on September 9 and 13. Purchases from the Bank of England under its standing offer at $34.77 were also increased and the limit of this offer was raised until it reached 4,200,000 ounces good from September 12 to 17. From September 15, moreover, the price was gradually reduced until it reached

1 Throughout these sections the purchases of sterling in New York for conversion into gold have been assumed to be for conversion in the London market and not by the Bank of England. If this is not correct the appropriate changes in text must be made throughout.

$34.60 on September 28 in order to take account of higher war risk insurance rates. It was not again stabilized until December 5 when it was set at $34.7625.[1] By September 26 the total purchases since the beginning of August under these authorizations had reached $237,000,000, the gold equivalent of which was placed under earmark in Account A.

The Fund was also a heavy buyer of gold from other central banks during September. Between August 12 and September 26, $7,460,000 in gold was bought from the Bank of France, from September 9 to 28, $33,306,000 was bought from the Netherlands Bank[2] and on September 27, $5,628,000 was bought from the Swiss Bank. In October, however, purchases of gold from the Bank of France became very small, no gold was sold to the Swiss Bank and the Netherlands Bank sold $16,188,000 in gold to the Fund. In addition the Sveriges Riksbank sold $9,030,000 in gold to the Fund on October 4. In contrast, heavy purchases of sterling for conversion into gold continued at rates within the range of 4.73 to 4.80, gold continued to be bought in London from the Bank of England under the Fund's standing offer, and the Fund purchased $172,375,000 in gold in New York from the Bank of England which released the gold from its earmark at the Federal Reserve Bank of New York. These purchases were resumed in November and a further $42,284,000 in gold was bought in this way from November 14 to 21.

In September the Fund began to execute orders for purchase and sale of sterling in New York for the account of the Bank of England under the terms of the Tripartite Agreement. A purchase of £165,000 at 4.79-1/2 on September 17 and a sale of £1,473,500 at 4.77-1/8 on September 29 were the only transactions

1 "Bank of England--Weekly Gold Letter" file.

2 On September 5, 1938 the Treasury asked the Federal Reserve Bank of New York to advise the Netherlands Bank that it would be in order for them to earmark gold against dollars which they might have to sell to support the guilder. The limit was $25,000,000 and the gold was to be held pending shipment to the United States. These arrangements were for the account of the Fund. "Purchases and Sales of Gold. G.R.A." file.

carried out at this time and it was not until January 1939 that the Bank of England began to support the £ sterling actively in the New York market by releasing its gold from earmark at the Federal Reserve Bank of New York and instructing the Federal Reserve Bank of New York to purchase sterling.[1] The Bank of France, however, actively supported the franc in New York throughout August and September, buying through the Fund a total of 321,000,000 francs between August 8 and September 28. It began to make a few small sales on September 4 and by the end of November had repurchased about 100 million francs. These transactions were carried out on a declining market and the franc reached
cents
a general level of about .0263 to .0264 at the end of November when another temporary stabilization was accomplished.

The large gold acquisitions of the Fund abroad far exceeded its capacity to hold gold and on September 1 it began to sell gold to the Treasury once more in large amounts. Its purchases, however, not only exceeded the total of its own assets but also the capacity of the shipping companies and of the insurance companies. A series of special arrangements had therefore to be made to facilitate the import of this gold to the United States. Contrary to its usual practice, the Fund began to use foreign ships and to insure a part of the gold under the Government's self-insurance facilities.[2] By the end of September the instructions issued to the Federal Reserve Bank of New York to import gold began to include regularly the statement that the Treasury understood that the Federal Reserve Bank could get insurance against marine risk only for a portion of the value of the shipment at the rates specified by the Government and that it could not get insurance against risks of war, strike, riot or civil commotions.

1 "Transactions--Buying and Selling Foreign Exchange--Sterling--Authorizations"

2 Memorandum of Mr. Lochhead to Mr. Oliphant September 7, 1938. Mr. Dietrich's "Gold, 1938-1939" file.

As a consequence the Federal Reserve Bank was instructed to record the shipment under the regulations of the Government Losses in Shipment Act for the amount not privately insured. In addition the Treasury in September made four shipments of gold released from the Bank of England's Account A to the United States by United States Naval vessels.[1] These arrangements still were not sufficient to solve the problem and on September 8 the Federal Reserve Bank of New York was instructed to sell to the General Fund of the Treasury at the flat rate of $35 per ounce gold which was originally purchased abroad for the Stabilization Fund and which was subject to the order of the Federal Reserve Bank at the time specific authorizations for such sale were given by the Treasury. Such gold was to be held by the Federal Reserve Bank of New York in a special custody account for the Treasurer of the United States.[2] Finally, provision was made for holding some of the gold transferred to the Treasurer by the Fund in the United States in a special custody account for the Treasurer of the United States. Under these arrangements the Stabilization Fund was able to hold temporarily more than the total of its active assets in the form of gold. For example, on September 25 its gold holdings were as follows:

Abroad:		
Bank of England		$165,528,000
Account A	$115,636,000	
Account B	49,892,000	
In Transit		33,451,000
At the Federal Reserve Bank of New York		3,158,000
At the Assay Office		89,423,000
Total		$291,560,000

Against this it had a liability item of $145,000,000 for gold held in custody for the Treasurer of the United States, reducing its own gold assets to

1 Mr. Dietrich's "Gold: 1938-1939" file.

2 Letter of Mr. Taylor to the Treasurer of the U. S. in "Purchases and Sales of Gold, G.R.A." file. This procedure solved the problem of allocating to the Fund the costs of importing gold bought by it and sold to the Treasurer. Cf. Memorandum of November 14, 1936 from Mr. O'Daniel to Mr. Bell in "Buying and Selling Gold" file.

3 Letters of September 8, 1938 to the Federal Reserve Bank of New York and to the Treasurer of the United States in Mr. Dietrich's "Gold 1938-1939" file.

$146,560,000 which appeared on the balance sheet.

Under these various arrangements nearly $500,000,000 in gold was sold by the Fund to the General Treasurer between August 1 and November 21. On that date the Fund's sales to the Treasury resulted for the first time in a substantial reduction in its gold holdings (Chart 5).

The gold transactions of the Fund from August 1 to November 21, 1938 may be summarized as follows:

<u>Bought</u>:

From Bank of England for Account A at 34.77 to 34.60 per ounce	$302,000,000	
From gold earmarked by Bank of England in New York	203,700,000	
In the London bullion market by conversion of sterling purchased in New York	89,717,000	
Total bought in England		$595,417,000
Bank of France (net)		8,191,000
Netherlands Bank (net)		17,118,000
Swiss National Bank		5,628,000
Bank of Brazil		1,562,000
Total Gold Bought		$627,916,000

<u>Sold</u>:

Bank of Guatemala	$ 1,014,000
Central Bank of Argentina	5,948,000
Sveriges Riksbank	9,030,000
General Treasurer	495,646,000
Total Gold Sold	$511,638,000
Increase in gold stock calculated from specific authorizations	$116,278,000
Actual increase in gold stock as shown by weekly balance sheets	$104,650,000[1]

[1] I have not been able to find the source of this discrepancy of about $11 million. It is probably due to the rather crude method available to me for estimating gold purchased under the standing offer of the Fund and earmarked in Account A at the Bank of England.

VIII. Transition to a New Sterling-Dollar Rate: November 1938-January 1939.

On November 21, 1938 sterling fell for the first time below 4.70. The Fund continued to buy in New York at declining rates until January 3, 1939 when it reached 4.62-11/16 and made a final purchase of £877,000 on January 9 at 4.67-3/16. This brought its purchases from November 22 to January 9 to £4,410,000 ($20,503,000) and the total amount of sterling bought in New York since August 2 to £21,366,000.[1] In addition the Fund purchased $25,000,000 in gold from the Bank of England's earmark in the Federal Reserve Bank of New York on December 28. Except for the sale of £170,000 on January 5 and 6 and the release of the corresponding amount of gold from its Account B at the Bank of England this completed the intervention of the Fund in the sterling market for its own account. On January 7 the Fund sold £120,000 in New York for the account of the Bank of England at 4.68-1/4 and beginning January 11 it bought sterling regularly for account of the Bank of England under the terms of the Tripartite Agreement. This coincided with the pegging of the sterling rate at the 4.68 level which continued until the outbreak of the World War. While the readjustment of sterling to its new point of resistance was in progress the Fund did not buy any gold from the Bank of England in London under its standing offer, but on December 3 it bought $8,020,000 and on January 3, 1939 $25,892,000 in gold from the Bank of France. The later purchase was for delivery to the Assay Office and sale to the General Treasurer at $35 per ounce. These were the last pre-war sales of gold to the Stabilization Fund by the Bank of France, which, from December 5, 1938 onwards, became a steady buyer of gold from the Fund in small amounts and for long periods was

1 "Purchase of Sterling for Conversion into Gold" file.

almost a daily purchaser.[1] By the time sterling was pegged at the 4.68 level it ~~the Bank of France~~ had bought back nearly $8,000,000 of the gold sold to the Fund in December 1938 and January 1939. During this period of readjustment the trading operations of the Bank of France in francs in New York through the Stabilization Fund were on both sides of the market and in moderate amounts. 44,150,000 francs were purchased and 22,985,000 were sold at rates ranging from .0261-7/8 to .0263-7/8.[2]

Heavy sales of gold by the Fund to the General Treasurer greatly reduced its gold holdings toward the end of November (Chart 5) but in combination with minor transactions with other central banks these were just sufficient to keep the Fund's gold at a level of about $80,000,000 until January 16, 1939.

The gold transactions of the Fund during the period November 22, 1938 to January 16, 1939 may be summarized as follows:

<u>Bought</u>:

Bank of England		$44,582,000
Account B (London)	$24,079,000	
Account B (New York)	20,503,000	
Bank of France		26,020,000
Net Earmark	$ 128,000	
For delivery to General Treasurer	25,892,000	
Banco de Colombia		1,143,000
Banco de Chile		534,000
		$72,279,000

Sold:

General Treasurer		$135,311,000
From safekeeping	$109,419,000	
Bank of France gold	25,892,000	
Netherlands Bank		1,025,000
Banco de Mexico		1,125,000
		137,461,000

Decline in gold holdings calculated from specific authorizations	$65,182,000
<u>Actual decline shown by weekly balance sheets</u>	$68,977,000

1 "Purchases and Sales of Gold--G.B.A." file

2 "French francs Bought and Sold for a/c of the Bank of France" file.

IX. Pegging the Sterling-Dollar Exchange Rate at 4.68: January-August 1939.

On January 4, 1939 Mr. Lochhead of the Stabilization Fund prepared the following memorandum for Under Secretary Hanes indicating the attitudes of the British and French authorities toward the dollar exchange at that moment.[1]

> "Officials of both the British Treasury and the Bank of England continue pessimistic over the outlook for sterling. The predominate factor is the belief that there will be another war scare in Europe in the near future. They feel that any improvement in the political outlook will cause a rise in sterling, as the basis of the present problem is primarily political. The British Fund is losing on an average of from 15 to 20 million dollars per day and they have decided on the following program in order to resist the pressure against sterling:
>
> (1) A complete embargo on foreign lending;
> (2) A complete embargo on forward gold operations;
> (3) A supervision of exchange transactions;
> (4) Replenishment of the British Equalization Fund by a transfer of gold from the Bank of England sometime this week.
>
> Sterling, after a decline to 4.62-1/4 this morning, has strengthened somewhat to 4.63-1/2.
>
> In contrast to the feeling prevailing in England the French Treasury and the Bank of France are comparatively optimistic. They have continued to regain gold, this gain averaging over $5,000,000 each day, and owing to the return of funds to the French market, have been able to reduce the discount rate from 2-1/2% to 2%. Francs are quoted in this market at about 2.62-1/4."

These contrary attitudes were reflected in the transactions of the Fund with the Bank of England and the Bank of France.

The action taken by the British authorities to meet the situation is described in a second memorandum from Mr. Lochhead to Mr. Hanes two days later:[2]

> "Yesterday evening Butterworth called from London and advised that he had been requested by the British Treasury to convey the following information to Secretary Morgenthau:
>
> (1) At 4 o'clock this afternoon they will announce a transfer of gold from the Bank of England to the Equalization Fund. They had originally intended to transfer 60 million pounds, but have now decided to transfer all the gold acquired by the Bank of England since they went off the Gold Standard in 1931. They are taking all the gold in the issue department of the Bank of England, with the exception

[1] Mr. Dietrich's "Gold 1938-1939" file.
[2] Ibid.

of 126 million pounds which was in British possession after they went off the Gold Standard in September 1931. This transfer will amount to 200 million pounds at the old rate, or roughly 350 million pounds at current gold levels ($1,700,000,000). The object of the transfer of such a large amount is to make it clear beyond any doubt that the Exchange Fund will be in possession of sufficient resources to meet any call on it.

(2) On Saturday it will be announced that the Treasury intends to introduce legislation to amend the Currency and Bank Note Act of 1928 when Parliament reconvenes. They will probably revalue the gold in the Bank of England at that time from the old statutory gold rate to something near the present market level, but this will not mean that they have established a fixed price for gold.

As they believe there will be a great deal of comment and speculation they have requested particularly that we make no comment on it on this side, as it might embarrass them to have various interpretations placed on their actions before Parliament meets.

Under these circumstances the Bank of England became a regular buyer of sterling in New York, acquiring the dollars by release of gold from earmark.[1] The only periods of any length before the outbreak of the war when it was not in the market were from January 27 to March 15, from April 30 to May 15, and from May 21 to June 14, and from July 1 to July 26. In January sterling was bought at just over 4.67 but from March 16 onward the rate was kept, with only one or two slight diversions, at 4.68-1/8. (The Fund continued to supply the British authorities with dollars by purchasing gold in London from the Bank of England in accordance with their standing offer and by buying gold in New York from the Bank of England's earmarked holdings.) It was also a frequent and large buyer from ~~the~~ other central banks with the exception of the Bank of France which continued to buy gold from the Fund until July. On balance, however, the Fund accumulated gold on large scale abroad from the middle of January to the outbreak of the World War and was a regular seller to the General Treasurer. The relationship between its foreign purchases and sales to the

1 This is not stated in the files but was the procedure under the Tripartite Agreement. Confirm.

CHART VI

?

I wish these charts had been completed!

Treasurer were reflected in the substantial fluctuations in its gold holdings. (Chart VI).

A. Accumulation of Gold from January 17 to April 3, 1939.

From January 11 to 26 the Fund purchased £2,016,000 for the account of the Bank of England at from 4.67 to 4.67-5/8 and made one purchase of 13,250,000 francs in New York for the Bank of France. It also made one purchase of $10,345,000 in gold from the earmarked account of the Bank of England and continued to sell gold to the Bank of France. In February its support of the foreign exchanges increased very substantially. It began on January 30 to purchase gold from the Netherlands Bank and continued to do so until the outbreak of the war. By March 22 these purchases had amounted to the substantial sum of $80,885,000, of which a part was bought for sale to the Treasury. On January 30 it also purchased $20,026,000 in gold from the Swiss National Bank from its earmark in New York which it kept in safekeeping, and in March it purchased an additional $40,471,000 from them for sale to the Treasury. In February also the Fund began to take gold from the Bank of England in London at 34.7625 per ounce and by April 30 these purchases had amounted to about $88,000,000[1]. It also bought gold from the Bank's New York holding on a large scale and in March these purchases coincided with renewed purchases of sterling in New York on behalf of the Bank of England amounting to £1,731,000.[2] Between March 3 and April 6 the Fund also bought belgas for conversion into gold in Brussels to the total amount of 14,999,000 belgas at .1683, having the gold earmarked for its account in the regular manner prescribed by the Tripartite Agreement, and then imported. The Bank of France, however, continued to take gold from the Fund, increasing its purchases until it had bought from January 17 to April 3 over

1 Estimated as indicated on page 172 note 3 . $67,356,000 of the gold bought from the Bank of England's earmarked gold in New York was for sale to the General Treasurer.

2 "Transactions--Buying and Selling Foreign Exchange--Sterling--Authorizations."

$93,318,000 in gold. At this time the Fund's operations in New York for the Bank of France were restricted to the purchase of 28,250,000 francs from March 17 to March 31.

In March 1939 the Fund was thus in the market either for its own account or that of other central banks under the Tripartite Agreement in support of sterling, French francs and belgas. It endeavored to extend this intervention to Swiss francs but in this case found that its support was not warmly welcomed. On March 30 Swiss francs were offered by Paris and London in New York with no buyers and the Fund intervened under the Tripartite Agreement and bought 250,000 Swiss francs at 22.42, advising the Swiss National Bank through the Federal Reserve Bank of New York that it would request them to convert the francs into gold for shipment at an early date. The Swiss National Bank, however, indicated that it had the situation well in hand, that it could run the rate up to 22.50 if it so desired by intervention in Zurich, thus "rapping the speculators over the knuckles", and intimated that they would rather not have the Federal Reserve Bank intervene without their instructions. The Swiss Bank offered to purchase the francs from the Federal Reserve if this was preferred to conversion into gold and the francs were sold to them at the cost price, 22.42. Mr. Knoke of the Federal Reserve Bank advised the Swiss Bank that he would in the future be guided by their wishes but reserved the right to intervene under the Tripartite if speculative, sudden, or unexpected developments should render such action compelling.[1] This was the only intervention by the Stabilization Fund in the Swiss franc market.

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[1] Memorandum of a telephone conversation between Mr. Knoke and Mr. Schnorf of the Swiss National Bank, March 30, 1939. Mr. Dietrich's "Stabilization" file.

The exchange stabilization operations of the Fund were now, except for the purchase of gold from the Bank of England in London, the one series of operations with the National Bank of Belgium and the single transaction in Swiss francs, confined wholly to New York and the procedure by which gold bought from foreign central banks was placed in safekeeping in the Fund and then sold to the Treasurer was no longer as important as heretofore. Only $18,000,000 was transferred directly to the General Treasurer at this time by the Fund from gold already in its custody.

The gold transactions of the Fund from January 17 to April 3 noted above when combined with certain minor transactions and the purchase of $29,959,000 in gold from the Central Bank of China[1] may be summarized as follows:

Bought:

Bank of England		$166,232,000
In London for Account A	$88,500,000	
From gold earmarked in New York	77,732,000	
Netherlands Bank		80,885,000
Swiss National Bank		60,497,000
National Bank of Belgium		3,870,000
Central Bank of China		29,459,000
Banco de Colombia		2,080,000
		$342,623,000

Sold:

Bank of France		$ 93,318,000
General Treasurer		168,897,000
From safekeeping	$18,000,000	
Gold bought from:		
Netherlands Bank	37,092,000	
Swiss National Bank	40,471,000	
National Bank of Belgium	3,870,000	
Bank of England	67,384,000	
Banco de Colombia	2,080,000	
		262,215,000
Increase in gold stock calculated from specific authorizations		$ 80,408,000
Actual increase in gold as shown in weekly balance sheets		$ 71,587,000 [2]

1 See page

2 I have not been able to find the reason for this discrepancy.

Mr. Lochhead suggested at this time that the Fund should keep $50 million in gold at the Federal Reserve Bank of New York but the Secretary was not prepared to do so and stated that if any such action was desirable the maximum so held should be $25 million.[1]

B. The Problem of Gold Shipments by Parcel Post.

Early in April 1939 a solution was reached ~~of~~ to a problem that had been somewhat irritating to the British authorities in their administration of the Tripartite Agreement since the Munich Crisis--the shipment of gold to the United States by mail. From August 1938 to March 1939 $90 million of gold was imported into the United States by parcel post. These shipments were at first small but they amounted to £3,000,000 in January and £4,000,000 in February 1939. The question of finding some way of stopping this traffic was therefore raised with the Federal Reserve Bank of New York by the Bank of England in February,[2] and on March 25, 1939 the British Treasury prepared a formal note on the subject which was transmitted on March 29 by Mr. Hanes to the Postmaster General. In this note the British Treasury pointed out that gold was being bought in London and shipped to Paris for delivery to the French postal authorities. It was mailed to New York in packages each containing a single gold bar. This had the effect of making a new gold export point, London to New York, which could not be equalled by reducing shipping freight 50%. The British Treasury had attempted to stop the practice by making insurance rates prohibitive but Swiss companies continued to write the insurance. The whole procedure was doubly obnoxious to them because it increased the gold flow from Europe to the United States and dislocated the ordinary methods of management and control.[3]

1 Memorandum in Mr. Dietrich's "Stabilization" file.

2 Memorandum of the Federal Reserve Bank of New York of September 14, 1940, and letter of Mr. Hanes to the Postmaster General of March 29, 1939 in "Dispatch of Gold by Mail or Parcel Post March 25, 1939 to September 16, 1940" file.

3 Comments of the Second Assistant Postmaster General on the British note. Ibid.

In commenting on this note the Postmaster General stated that large consignments of gold had been received in the mails, particularly from France, Egypt, and Australia, and that his Department had been importuned for relief by the steamship companies which received only the nominal tariff for carrying the mails and not the full freight on gold. The United States Post Office also had its own reasons for wishing to stop the shipments, for it had to safeguard them--the Australian shipments from San Francisco to New York and the European shipments from the dock to the Assay Office--and furthermore the gold bars cut the mail bags and got lost. There had already been one hold up.[1] The French postal authorities should cooperate in the matter, the Department felt, since France was pledged to uphold the Tripartite Agreement.

As a result of consultations growing out of this exchange of views an American postal regulation was made public on April 8, 1939, prohibiting the transportation in the regular mails or parcel post from any foreign country into the United States of gold coin, bullion or dust having a value of over $50, and on April 10 Mr. Lochhead advised the British authorities of this ruling through the State Department.

With this troublesome detail disposed of the control authorities continued, after April 1939, to face the major problem of handling the continued gold movement to America.

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1 "Dispatch of Gold by Mail or Parcel Post March 25, 1939 to September 16, 1940".

C. Loss of Gold by the Fund April 3 to July 31, 1939.

During this period the operations of the Fund for the account of foreign central banks followed the lines already established. £9,027,500 were purchased for the account of the Bank of England in New York all at 4.68-1/8. Almost all of this was purchased in April and in the latter part of June and July. Purchases of francs and guilders, however, continued to be small, about 15,000,000 francs were bought in April at about 2.65 cents and 13,750,000 francs on June 30 at the same rate, for the account of the Bank of France and under a standing order from the Netherlands Bank 6,190,000 guilders were purchased for its account at 53.08. No further belgas were bought after April 6.

With the exception of a few minor transactions the gold bought by the Fund from central banks during this period was all purchased in April. Between April 10 and 28 the Fund purchased about $135,000,000 in gold from the Bank of England ($95,000,000 in London and $40,000,000 in New York), $20,000,000 from the Swiss National Bank, $15,000,000 from the Netherlands Bank and $15,000,000 from the National Bank of Belgium, the greater part of which was sold to the Treasury. During this period of pressure on the exchanges no gold was sold to the Fund by the Bank of France which, however, again became a large purchaser in May, June and July. As a result the gold holdings of the fund were reduced to about a level of $80,000,000 (Chart 6).

The gold transactions of the Fund during the period from April 3 to July 31, 1939 may be summarised as follows:

~~1/ I have not been able to find the reason for this discrepancy.~~

Bought:

Bank of England		$140,732,000
Account A (London)	$100,260,000	
In New York	40,472,000	
Netherlands Bank		39,076,000
Swiss National Bank		20,011,000
National Bank of Belgium		17,750,000
Bank of Mexico		4,508,000
Central Bank of Argentina		2,500,000
Bank for International Settlements		1,203,000
		$225,780,000

Sold:

General Treasurer		$235,239,000
From Custody Accounts	$144,144,000	
Gold bought from:		
Bank of England	40,472,000	
Swiss National Bank	20,011,000	
National Bank of Belgium	15,496,000	
Netherlands Bank	15,116,000	
Central Bank of Turkey		2,250,000
Bank of Guatemala		1,050,000
Bank of France		56,958,000
		295,497,000

Decrease in gold calculated from specific authorizations	$ 69,717,000
Decrease in gold shown by weekly balance sheets	$ 71,370,000

X. The Fund During the War Crisis: August-September 1939.

The relative calm that had prevailed in the exchange markets from May through July was broken in August by the crisis immediately preceding the outbreak of the war. During August and early September the activities of the Fund were largely concentrated in the sterling market. On August 1 it reentered this market as a purchaser of sterling in New York on behalf of the Bank of England and continued to buy in large amounts until August 24. £7,432,500 were bought by the Fund for the Bank of England in this period and at the same time it purchased $185,241,000 in gold from the Bank of England in New York. It also bought $88,095,000 of gold in London at 34.7625, increasing its standing order from 700,000 to 2,100,000 ounces for this purpose, for the period August 21 to August 26. Gold under earmark in London appeared in the weekly balance sheet of the Fund for August 24 for the first time since April. On that day $45,000,000 were shown in Account A at the Bank of England but this was immediately imported.[1]

The sterling transactions of August 24 were the last carried out with sterling at 4.68-1/8. The final purchase of gold from the Bank of England's earmark on that day was 2,038,883 ounces (over $71,000,000). In spite of this the British authorities on August 24 made the decision to remove the peg from sterling.[2] On August 25 the Bank of England cabled to the Federal Reserve Bank of New York that it could not give them gold dealing prices,[3] and on September 6 the Treasury received a cable confirming the transfer of the Bank of England's gold to the Exchange Equalisation Account which had been revealed in the House of Commons by Sir John Simon in answer to questions.[4] The last item appearing

1 Gold in Transit on August 8 was $88,000,000. Weekly Balance Sheets.
2 A cable of August 24, 1939 from Mr. Butterworth to Secretary Morgenthau states that the British had decided to let sterling depreciate. Mr. Dietrich's "Gold 1938-1939" file.
3 Mr. Dietrich's "Stabilization" file.
4 Ibid.

in the Fund's file of specific authorizations for the purchase and sale of sterling is a sale of £8,000 at the war time rate of 4.03-5/8 on September 12. On that day the Fund had transferred the balance of £1,676, 15s, 4d held by the Bank of England in the Federal Reserve Account 3 to the Account No. 2, thus closing the "control" account opened under the Tripartite Agreement.

The Netherlands Bank on September 5 cabled to the Federal Reserve Bank of New York stating that its standing order to buy guilders at 53.08 was still valid and that until further notice it would continue to provide the dollars by authorizing theFederal Reserve Bank of New York to release gold from its earmark.[1]

The Bank of France continued to buy gold from the Fund in small lots up to September 8. On August 23 and 24 it also instructed the Fund to purchase 8,200,000 francs for its account at 2.65 cents but with the decision to allow sterling to depreciate it reversed its position in the market and became a seller of francs in New York at rates which regularly declined to 2.31 cents on September 6. On September 8 and 9 the last of these transactions took place, sales for the account of the Bank of France of 3,100,000 francs at from 2.27-1/4 to 2.28-5/8 cents. On September 8 the Stabilization Fund for the first time since December 9, 1936 bought francs for its own account. It instructed the Federal Reserve Bank to purchase 3,700,000 francs at 2.25-3/8 cents, to have these transferred to the Bank of France and converted into gold, together with the small balance remaining in its No. 3 account, and to have the gold held under earmark. The Fund's "control" account at the Bank of France was thus also closed.[2]

On September 9 the Federal Reserve Bank of New York did not receive its

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2 "French Francs Bought and Sold for a/c of the Bank of France" file.

~~2 Memorandum from Mr. Cochran to the Secretary. Mr. Dietrich's "Gold 1938-9" file.~~

1 Mr. Dietrich's "Stabilization" file

daily cable from the Bank of France fixing the French gold price and communicated this information to the Treasury together with the results of a telephone conversation with Paris which indicated that the whole question of French monetary policy was under consideration.[1] The result of this conference was the passing of France to a regime of exchange control which was recognised by Mr. Morgenthau in the following press release: [2]

> "The Secretary of the Treasury stated that he had been advised by the Minister of Finance of France of the emergency action of the French Government in setting up a system of exchange control in France and in French territories overseas. The Secretary said that the United States Government recognised the emergency conditions which impelled this action, and stated that the Tri-Partite declaration continues in effect."

Between the decision of the Bank of England to allow sterling to fall and September 8 the Fund purchased gold from the earmarks of other members of the Tripartite Agreement but on August 31 the National Bank of Belgium repurchased about one third of the $6,861,000 in gold which it had just sold to the Fund. At the same time the Stabilization Fund made substantial sales of gold to non-European countries, selling about $9,000,000 to the Royal Thai Treasury, about $2,000,000 to the State Bank of the U.S.S.R., and about $11,000,000 to the Central Bank of Argentina. It also transferred between August 14 and 28 nearly $200,000,000 in gold to the General Treasurer, but its purchases from the Bank of England had been so large that on balance it built up its gold holdings to the level of about $170,000,000 around which they fluctuated until May 1940 (Chart VII).

The transactions of the Fund in gold during the period of the war crisis (August 1 to September 8, 1939) may be summarised as follows:

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1 Memorandum from Mr. Cochran to the Secretary. Mr. Dietrich's "Gold 1938-9" file.
2 Mr. Dietrich's "Gold 1938-1939" file.

Bought:

Bank of England		$275,336,000
Account A at 34.7625 per ounce (in London)	$88,095,000	
In New York	185,241,000	
Netherlands Bank		13,146,000
Swiss National Bank		10,031,000
National Bank of Belgium (net)		4,318,000
Bank for International Settlements		2,937,000
		$305,768,000

Sold:

Royal Thai Treasury	$ 8,999,000
State Bank of the U.S.S.R.	2,150,000
Central Bank of Argentina	11,377,000
Bank of France (net)	1,683,000
General Treasurer	196,890,000
	221,099,000

Increase in gold calculated from specific authorizations	$ 84,669,000
Increase in gold as shown in weekly balance sheets	$ 80,465,000

CHART VII