

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

FEDERAL RESERVE BOARD 482

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

Dear Sir:

Your letter of _____ addressed to the Secretary of the Treasury in reference to foreign exchange has been referred to this office for reply.

In the opinion of the Board the conditions of which you complain are due not so much to the depreciation of American gold in foreign countries as to the decline in the value of dollar exchange in those countries; which decline, however, has been less than the drop in francs and sterling exchange in the same countries.

It should be borne in mind that the transfer to the United States of large amounts held to the credit of foreign drawers in neutral countries with the banks of the nations which are associated with us in this war, such as France and England, has resulted in an accumulation of funds and credits in this country subject to the order of foreign drawers, which far exceeds the credits available for American banks in the leading neutral countries. This situation might be relieved to a certain extent by reducing to the minimum our imports of goods from these neutral countries, and it could be entirely relieved,

(1) By the shipment of goods in sufficient volume to neutral countries, which goods, however, are badly needed here at home, as well as by our allies; and

(2) By the shipment of gold in sufficient amounts to offset foreign credits here;

Provided the shipments of goods and gold were in sufficient volume to cover not only our own purchases in foreign countries, but also the adverse trade balance of the countries allied with us.

The embargo which was declared in the President's proclamation of September 7th is designed to make available for our own purposes and for our allies, a maximum amount of food stuffs, munitions, and supplies; and to prevent these commodities from falling into enemy hands; and the embargo on gold shipments is likewise designed to prevent any depletion of our gold reserves in the United States, which must be built up as a basis for our constantly expanding volume of loans and credits, as well as to prevent this gold from finding its way through neutrals into enemy hands, thereby strengthening the financial structure of the nations with which we are at war.

- 2 -

The Board has no doubt that your organization approves of the object of the President's embargo proclamation. It is obvious that foreign exchange cannot be created out of nothing, but that it is the result of trade which, for the best interest of our own and of the other countries involved, is now being controlled and directed as above outlined. In these circumstances the mere creation of a Federal reserve exchange bureau could not bring about any change, and could not possibly remedy conditions as they now exist.

It appears to the Board that your organization, in adopting the resolutions which you sent to the Secretary of the Treasury, was not fully informed of all the facts bearing upon the present situation.

Very truly yours,

Governor.