RG 260
FED records
B 396

S E C R E T

-3-

REF NO : Z-4593 15 NOV 46 USFET 39/15

ACTION : G-5

INFORMATION : AG RECORDS
G-2
SOS
POL ADV
OMGUS (R)
FISCAL

SMC IN 5356 15 Nov 46 2040A PL/jdj REF NO: Z-4593

S E C R E T

216329

RG 260
FED records
B 396

HQ US FORCES EUROPEAN THEATER

STAFF MESSAGE CONTROL

INCOMING CLASSIFIED MESSAGE

[illegible] SECRET USFET 13/1261

TOO 121412A PRIORITY [illegible] TOR 121740A

FROM : OMGUS SIGNED CLAY

TO FOR ACTION : USFET

REF NO : CC 6927 12 NOV 46

Reference Allied Control Commission HUNGARY's cables Z 4600 and Z 4892 and our CC 6395.

Request following cable be transmitted from USFET to Allied Control Commission HUNGARY for WEEMS.

[illegible] have been discovered in USFET [illegible] they are not considered Hungarian [illegible] and should be returned to [illegible] FRANKFURT [illegible] US [illegible] BUDAPEST to this effect.

Upon receipt of [illegible] by HUNGARIAN [illegible] that [illegible] Commanding General [illegible] that any items were mistakenly delivered such items will be disposed of according to his instructions and HUNGARIAN Govt will take all necessary steps to make such items available to him.

Z 4600 SMC IN 83[illegible] 5 NOV 46 G-5
Z 4892 SMC IN 89[illegible] 21 OCT 46 G-5
CC 6395 SMC IN 1239[illegible] 28 OCT 46 G-5

ACTION : G-5 ADDED DIST: OMGUS (R) 13 NOV 46

INFORMATION : AG RECORDS
G-2
SGS
[illegible]
OMGUS [illegible]

SMC IN 1042 [illegible] NOV 46 2030A JS/[illegible] REF NO: CC 6927

COPY NO 36

THIS MESSAGE MAY BE HANDLED AS CORRESPONDENCE OF LIKE CLASSIFICATION WITHOUT PARAPHRASE AR 380-5

RG 260
FED records
B 396

File Nr. ~~260-30?~~ 260-41

C O P Y

HQ US FORCES EUROPEAN THEATER

STAFF MESSAGE CONTROL

INCOMING CLASSIFIED MESSAGE

3 Nov

JJAU R E S T R I C T E D USFET 55/02 C

TOO 021040A R O U T I N E TOR 021522 A NOV

FROM : ACC HUNGARY SGD WEEMS

TO FOR ACTION : OMGUS

TO FOR INFO : USFET

REF NO : Z-4500 2 NOV 46

Subject is returned Hungarian gold, reurad CC-6395 of 29 October.

US Minister BUDAPEST informed this Hqs of receipt of following message from USPOLAD BERLIN dated 22 Oct sent to State Department as 2428 repeated to BUDAPEST as 64:

"Records available BERLIN and FRANKFURT would state that reference gold coins were part of cache of Hungarian gold uncovered in AUSTRIA and were not inadvertently included in Hungarian gold shipment."

No action being taken at this Hq.

CC-6395 is SMC IN 12808 30 Oct 46 G-5

ACTION : G-5

INFORMATION : AG RECORDS
G-2
SGS
FISCAL
OMGUS (R)

SMC IN 837 3 NOV 46 0930A JS/egj REF NO: Z-4500

R E S T R I C T E D

216331

RG260
FED records
B 396

HQ U S FORCES EUROPEAN THEATER
STAFF MESSAGE CONTROL
INCOMING UNCLASSIFIED MESSAGE

Admin File
File 910.12.

DHAA USFET 474

TOO 031100 JUNE TOR 032346B JUNE

RECEIVED JUN 1946 1251

UNCLASSIFIED

PRIORITY

FROM : NORWEGIAN MILITARY MISSION BERLIN SGD STEFFENS

TO FOR ACTION : FOREIGN EXCHANGE DEPOSITORY OMGUS REAR

REF NO : NONE 3 June 46

Your telegram May 28, our telegram April 29.

Read as follows:

"According UP report NEW YORK Times April 8 1945 from MERKERS GERMANY the 90th Infantry Division has found vast treasu German gold in a salt mine including 4 millions in Norwegian currency Information of whereabouts this money would be appreciated".

ACTION : OMGUS REAR

INFORMATION : AG RECORDS

SMC IN 1027 4 June 46 0225B EC/gdn REF NO: NONE

COPY NO 1

UNCLASSIFIED

216332

RG 260
FED records
B 397

File Nr 910.13

HQ U S FORCES EUROPEAN THEATER

STAFF MESSAGE CONTROL 114/EA/WALITCHECK

OUTGOING CLASSIFIED MESSAGE

MG

CABLES G-5 DATE:

	CY	ACT	INF	INT	TIME
EXEC					
ADMN					
PLNS					
DP					
SC & L					
GA					
MG (R)					
ECON					

RECEIVED
JUL 1946
440

(1)

C O N F I D E N T I A L

R O U T I N E

TO : AGWAR
WESTERN BASE SECTION, PASS TO SECDEL PARIS
VIA USPOLAD

FOR INFO : OFFICE OF MILITARY GOVERNMENT FOR GERMANY (US)
U.S. FORCES AUSTRIA
ACC HUNGARY

FROM : U.S. FORCES EUROPEAN THEATER SIGNED MCNARNEY

REF NO : S-6908 CITE:ETGEC TOO:051445B

Reference your WX 93185 2 July Finance Division Office of Military Government for GERMANY (US) and Foreign Exchange Depository Office of Military Government for GERMANY (US) rear advises that no portion of trainload of Jewish property looted by SS in HUNGARY and particularly no gold crates were transferred to FRANKFURT.

WX 93185 is SMC in 435 2 July 46 G-5

ORIGINATOR : G-5 AUTHENTICATION: S.R. MICKELSEN
Col

INFORMATION : POL ADV
SGS
TC
JEWISH ADV
AG RECORDS

9

SMC OUT 313 5 July 46 1600B EG/whb REF NO: S-6908
TOO : 051445B

COPY NO.

THIS MESSAGE MAY BE HANDLED AS CORRESPONDENCE OF LIKE CLASSIFICATION WITHOUT PARAPHRASE PER ... PARAS ... AND 23 AR 380-5

CONFIDENTIAL

216333

~~960.302~~
File Nr. ~~960~~.41

C O P Y

17 Nov

HQ US FORCES EUROPEAN THEATER
STAFF MESSAGE CONTROL
OUTGOING CLASSIFIED MESSAGE

S E C R E T

P R I O R I T Y

TO : ALLIED CONTROL COMMISSION HUNGARY

FOR INFO : OMGUS

FROM : US FORCES EUORPEAN THEATER SGD MCNARNEY

REF NO : S^-6049 CITE: ETGEC TOO: 141300A NOV

1. Reference Allied Control Commission HUNGARY cables Z-4500 and Z-4392 and OMGUS CC-6395.

2. Although gold coins in question were part of cache discovered in AUSTRIA, they are not considered Hungarian Property and should be returned to Foreign Exchange Depository FRANKFURT. US Polad is cabling American Minister, BUDAPEST, to this effect.

3. Receipt signed by Hungarians states that if Commanding General USFET determines that any items were mistakingly delivered, such items will be disposed of according to his instructions and Hungarian Government will take all necessary steps to make such items available to him.

Z-4500 SMC IN 837, 3 NOV 46 G-5
Z-4392 SMC IN 8910, 21 OCT 46 G-5
CC-6395 SMC IN 12808, 30 OCT 46 G-5

ORIGINATOR : G-5 AUTHENTICATION: S R MICKELSEN, COL

INFORMATION : AG RECORDS POL ADV
G-2 OMGUS
SGS FISCAL

SMC OUT 644 14 NOV 46 1647A TL/ttf REF NO: S^-6049
TOO : 141300A NOV

216334

RG 260
Entry 1945-49
Box 33

FILE: DISP. OF FOREIGN SECURITIES

SECRET

AG records

7 December 1945

SUBJECT: Transmittal of Report on Gold of the Sparkasse Luxembourg Acquired by the Reichsbank, Berlin, from the Banque de France in Marseilles.

TO : Lt. General Lucius D. Clay, Deputy Military Governor

1. Herewith 29 copies of the report of 21 October 1945 on the Gold of the Sparkasse Luxembourg Acquired by the Reichsbank, Berlin, from the Banque de France in Marseilles, reproduction of which has just been completed.

2. This report traces the Reichsbank's treatment of some 5 million dollars worth of gold belonging to the Sparkasse Luxembourg, which they acquired at the same time and in the same way as the much larger quantity of Belgian gold already traced in the report of 13 August 1945, which was submitted to you on 21 August.

3. However, the Sparkasse Luxembourg appears to have accepted the payment offered for their gold by the Reichsbank, whereas the Belgians did not. After transfer to the Reichsbank's own reserves the Luxembourg gold was, like the Belgian, soon disposed of - nearly 4 million dollars worth going to Switzerland and the remainder to the <u>Reichstelle für Edelmetalle</u> in Germany. But, significantly enough in view of the different legal basis of the two acquisitions, the records show that the Reichsbank did not resmelt this Luxembourg gold before disposing of it, as they had the Belgian.

4. Request 10 copies of this report be forwarded to General Hilldring to be made available to interested agencies in Washington; attached is a letter of transmittal for your signature.

5. Request the following distribution within this Theater, for which purpose copies are enclosed.

Finance Division	5 copies
Industry Division	5 copies
General McNarney	1 copy
Major General Adcock	1 copy
G-1	2 copies
G-2	2 copies
G-3	2 copies
G-4	2 copies

~~SECRET~~

123D-3
311 Clay

Recorded

216335

AC-324

(9)

FILE: DISP. OF FOREIGN SECURITIES

~~SECRET~~

6. Suggest clearance be requested for distribution of this report to the Luxembourg government, as the interested party.

R. A. NIXON
Acting Director

Inc:
Subject report

216336

AC-324

FILE: DISP. OF FOREIGN SECURITIES

7 December 1945

Major General John Hilldring
Civil Affairs Division
War Department
Washington, D. C.

In Re: Report on Gold of the Sparkasse Luxembourg Acquired by the Reichsbank, Berlin, from the Banque de France in Marseilles.

Dear John:

I am forwarding herewith ten copies of the Report on Gold of the Sparkasse Luxembourg Acquired by the Reichsbank, Berlin, from the Banque de France in Marseilles.

I would appreciate your making this report available to the State and Treasury Departments and other interested agencies.

Sincerely,

LUCIUS D. CLAY
Lieutenant General, U. S. Army
Commanding

Incl:
10 copies
subject report

216337

AC-324

RG 260
Entry 1945-49
Box 33

FILE:
DISP. OF FOREIGN
SECURITIES

OFFICE OF MILITARY GOVERNMENT FOR GERMANY (U.S.)

STAFF CABLE CONTROL

INCOMING MESSAGE

DATED 072254Z

RECD 090813A DEC 45
1024/09 why

~~CONFIDENTIAL~~

PRIORITY

FROM : AGWAR SIGNED WARCAD

TO : OMGUS

REF NO : W-87439

German gold in Spain is subject.

1. State Dept instructing Angell as follows:

"In order to take over gold referred to in Madrid's 2433 Nov 30 repeated to London as 671, Paris 557, Berlin 70, Madrid has now informed Department in its 2454 Dec 4 -- not repeated to you -- that British are making arrangements for transportation of said gold by air to Gibralter or London. Dept prefers that gold which is to be included in gold pot should be transported to Frankfurt assuming there are facilities to handle, weigh it, etc where it can be kept with other gold for gold pots. Dept believes any other destination should only be considered if transportation or facilities for handling gold Frankfurt unavailable. You should therefore in consultation with your British and French colleagues, contact General Clay to arrange for transportation of gold to Frankfurt or some other point agreed on by you. Gen Clay being requested by WD to cooperate with you. Angell should immediately advise Madrid of arrangements and pending receipt such information Madrid can advise Spanish authorities that definite arrangements being concluded for quick removal gold from Spain".

2. In accordance with foregoing request you cooperate with Angell in making arrangements for transportation of gold to Frankfurt or other suitable point, provided facilities for handling unavailable Frankfurt.

ACTION: Finance

INFORMATION: O/SS
OICEA
Pol Aff
Transport
AG Rec

216338

SCC IN 15692 9 Dec 45 1530A JK/em REF NO: W-87439

Copy No. 26

~~CONFIDENTIAL~~

The Making of an Exact Copy of this Message is Forbidden

RG 260
Entry 1945-49
Box 33
FILE: DISP. OF FOREIGN SECURITIES

312 PA

RESTRICTED December 12, 1945

TO: Mr. J. M. Dodge
Director, Finance Division

FROM: Office of Political Affairs

There is given below for your information the text of a telegram received from the American Embassy at Madrid.

"Embassy Naval Attache arranging naval transport plane DC 3 from Port Lyautey to be available at Madrid for loading gold, and departure early Thursday December 13 for flight to Frankfurt or other point as decided between Department and British Foreign Office. Since British Embassy has authorization for Gibraltar only, we assume we and British Embassy will have parallel definite instructions regarding gold before Thursday morning. Opt that removal of gold is urgent. In accordance with Department suggestion 1982 of December 6, repeated 5707 to Paris; 10593 to London; to Berlin 1018, will attempt to include the 5 boxes of gold previously recovered."

312-4 (PA)
123-17-3

Loyd V. Steere,
Acting Director.

76-1771

CC - Mr. C. Fahy
Director, Legal Division
Mr. R. A. Nixon
Acting Director, DICEA
Office of Staff Secretary

Recorded
1

216339

RG 260
Entry 1945-49
Box 33

FILE: DISP. OF FOREIGN SECURITIES

312 PA

December 15, 1945

RESTRICTED

MEMORANDUM

TO : Mr. J.M. Dodge, Director
Finance Division
Mr. R. A. Nixon, Deputy Director
I.C. & E.A. Division

FROM : Office of Political Affairs

312.4 (PA)

There is transmitted below the text of a further message received from Madrid with reference to the shipment of gold from Madrid to Frankfurt. (See our memorandum of December 14).

"Arrangements for shipment of gold to Frankfort outlined in Embassy's 79 of December 11 to Berlin, suspended due to complete cancellation of flight by naval authorities. Military Air Attache in communication with USFET and Weisbaden to endeavor to arrange for special flight for shipment of gold.

"Please facilitate sending plane to Spain as soon as possible especially in view of our commitments to the Spanish government requiring the immediate shipment of the gold from Spain. Answers questions raised in your 1018 to Department are as follows:

"Shipment to be made from Madrid only; will consign of coins only - no bars or bullion; packed in 31 sealed canvas bags, sacks numbers 1 to 8 and 10 to 29 inclusive contain four small sacks each with one thousand English gold sovereigns; sack 9 contains three full and one partly full smaller sacks containing in all 3641 English sovereigns; sack 30 contains 5614 miscellaneous gold coins, mostly pieces of twenty, Belgian francs, Italian, English, etc. plus a small amount of gold ten and twenty dollar Russian and pieces of twenty Spanish, Austrian, French, Tunisian, etc.; sack 31 contains one thousand pieces of English sovereigns and two thousand pieces of twenty composed of French, Italian and Belgian gold coins."

216340

Loyd V. Steere
Acting Director

Recorded 1

JAT:DM
cc: Office of Staff Secy.

FILE: DISP. OF FOREIGN SECURITIES

OFFICE OF MILITARY GOVERNMENT FOR GERMANY (U. S.)
Office of the Commanding General
APO 742

17 December 1945

Major General John Hilldring
Civil Affairs Division
War Department
Washington, D. C.

In re: Report on Hidden Gold-Reserve Program Initiated by the German Reichsbank During Schacht's Second Term of Office.

Dear John:

I am forwarding herewith ten (10) copies of a report on The Hidden Gold-Reserve Program Initiated by the German Reichsbank During Schacht's Second Term of Office.

I would appreciate your making this report available to the State and Treasury Departments and other interested agencies.

Sincerely yours,

LUCIUS D. CLAY
Lieutenant General, U. S. Army
~~Commanding~~ DMG

Incl:
10 copies
subject report

rewritten by S/S

216341

RG 260
Entry 1945-49
Box 33

FILE:
DISP. OF FOREIGN
SECURITIES

AG
Records

18 December 1945

In re: Report on Hidden Gold-Reserve Program
Initiated by the German Reichsbank
during Schacht's Second Term of Office.

SCHACHT'S
3/2
123.3-3

Dear John:

I am forwarding herewith ten (10) copies of a report on The Hidden Gold-Reserve Program Initiated by the German Reichsbank During Schacht's Second Term of Office.

I would appreciate your making this report available to the State and Treasury Departments and other interested agencies.

Sincerely yours,

LUCIUS D. CLAY
Lieutenant General, U. S. Army
Deputy Military Governor

Major General John Hilldring
Civil Affairs Division
War Department
Washington, D. C.

Signed & Dispatched
12/19

1 Incl:
10 copies subject report

Recorded
1

SO/104
AC-367

7

216342

RG 260
Entry 1945-49
Box 33

FILE: DISP. OF FOREIGN SECURITIES

3/2 PA

December 18, 1945

RESTRICTED

MEMORANDUM

TO : Mr. J.M. Dodge, Director, Finance Division

FROM : Office of Political Affairs

123.7-3
311-Y (PA)

There is transmitted below the text of message received from Madrid concerning the pending gold shipment from Madrid to Frankfurt. This message has been relayed to our Frankfurt office and its substance has been conveyed over the telephone to Colonel Cragon of your office.

"Assume Berlin has now received our telegram which answers Berlin's telegram asking status of proposed gold shipment. USFET and Weisbaden should also have received military air attache's communication asking special plane be sent here for gold shipment due cancellation of previously promised naval flight. Meanwhile gold is in emergency deposit under Allied guard in trusteeship headquarters, (former German Embassy) but physical situation is dangerous and our position reference foreign office is increasingly embarrassing in view of our assurances of immediate removal from Spain upon delivery. Please expedite transport and advise arrival time."

Loyd V. Steere
Acting Director

CC: Office of Staff Secretary
JAT:DH

5

216343

S-124

RG 260
Entry 1945-49
Box 33
FILE: DISP. OF FOREIGN SECURITIES

Office of Staff Secretary

RESTRICTED January 2, 1946

MEMORANDUM

TO : Mr. J. M. Dodge, Director, Finance Division.
Mr. C. Fahy, Director, Legal Division.

FROM: Office of Political Affairs.

For your information, the following is the text of a message sent by the American Embassy at Madrid to the Department of State and repeated to this Office.

"Foreign Office Direcgenpolecon informed representatives of this and British Embassies that, besides the approximate ton of gold counted by Spanish foreign exchange in value as 115,641 English gold sovereigns, he has instructions from Foreign Minister following conversation reported in Embassy's 2433, November 30, 1 p.m., repeated London 671, Paris 557, Berlin 70, to deliver all other German official funds held by Spanish Government. Including only funds received directly by Foreign Office (other funds to be separately delivered) he calculated a balance of pesetas 32,443,841.86. Foregoing peseta figure includes a sum of pesetas 350,000 volunteered by him and he also listed small quantities of miscellaneous foreign currency, both in addition to those specified in trusteeship memorandum. He questioned however, additional sum of pesetas 5,000,000 shown by trusteeship information as delivered on May 8 by German charge d'affaires and did not mention significant quantities of Reichsmarks and escudos believed to have been received by Foreign Office. We shall seek concurrent delivery of these sums.

123.7-3 X 3/2-4 (PA)

From foregoing admitted peseta balance he then proposed to deduct pesetas 1,283,683.50 divided one million for costs of administration of Blocking Law and balance for money paid by Foreign Office in September through November for support of German customs guards and soldiers in Spanish concentration camps. Embassy's reiterated position that official and quasi-official assets must be restored intact, leaving any Spanish claims for independent consideration and also questioned the merits of the claims but in the interests of avoiding interminable argument agreed to acceptance of the deduction for camp support (pesetas 283,683.50) provided acceptance not to be deemed 216344

(5)

RG 260
Entry 1945-49
Box 33
FILE: DISP. OF FOREIGN SECURITIES

deemed a precedent.

Embassies expressed hope that Foreign Office would take similar immediate steps to clean up other compromising situations such as the German official shipping (Bachi, Transcomar) and fluorspar mines (Somar, Fluoruros) believed to be held with the knowledge of Spanish officials by Spanish cloak companies and stockholders. Director Gen. stated that he spoke to the Sub-Secretary of Merchant Marine recently on the ships, that the same Spanish group was behind both the ships and the mines and since he knew them to be penniless several years ago he assumed they must be straw men to have acquired such vast assets in so short a time. He indicated he would lend his good offices in an effort to bring these matters to a satisfactory solution.

He also indicated Foreign Office would probably acquiesce in trusteeship of the repeated request for registration of Allied title to official and quasi-official assets, but suggested that trusteeship in disposing thereof would be expected to comply with Decree 313, passed during Civil War, described by him as prohibiting acquisition or disposition of assets by foreigners without consent of Spanish Foreign Exchange Institute. This matter was reserved for study.

He then mentioned for the first time the matter of trusteeship direct intervention in German private assets and also mentioned trusteeship attempts in Siemens and Electro Quimica de Flix. He expressed regret that the census information provided by Foreign Office apparently did not meet the requirements of trusteeship and Embassies pointed out that most of such information was inconsistent with the facts as learned from Germany and other sources. He noted that appointment of directors in Spanish companies under civil war decree requires prior approval of Spanish Government but did not stress the matter and seemed disposed to come to terms. Further discussion of this matter was postponed to December 10. Tenor of conversation suggested that Foreign Office may accept principle of Allied direct intervention in these companies subject to approval of nominees by Spanish Government."

Loyd V. Steere,
Acting Director.

CRColeman/rhm

5

216345

RG 260 FILE:
Entry 1945-49 DISP. OF FOREIGN
Box 32 SECURITIES

SECRET

~~Off. of Staff Sec~~

February 1, 1946

SECRET

MEMORANDUM

TO: Colonel D. L. Robinson, Acting Director, Finance Division.

FROM: Office of Political Affairs.

There is given below for your information a paraphrase of a telegram sent by the Department of State to the American Embassy at London and repeated to this office:

Brandt of MEWFO furnished you a background story re German gold in Switzerland, which was known to the Department, and raises the following questions:

It was known to monetary statisticians everywhere that at the start of the war the Germans possessed monetary gold reserves of about $70,000,000 in gold which had been spent by Germany at the latest by 1943 in her war effort. If the Swiss accepted the 100 tons of gold offered them by the Germans in 1943 which was worth $123,000,000, how can it be conceded to the Swiss that they acted in good faith? Moreover, how can the Swiss claim they acted in good faith when this gold was acquired at the time they knew that it had been refused for those very reasons by the Swedes? (Documents found in Germany by the United States military forces indicate this; in the meantime it has been established that the aforementioned gold in fact was gold looted from the Belgians.) In connection with the above facts the January 1943 declaration must have been known in part at least to the Swiss; this constitutes a strong argument in our opinion against the Swiss bona fides.

123.7-3
x
3/2-4 (PA)

In view of the need to concentrate on attaining complete agreement with the British on the matter of policy and in view of approaching negotiations with the Swiss, a unilateral approach to the Swiss re gold cannot be considered without British and French. The Department on the other hand feels it advisable that on all the major complaints which will in forthcoming negotiations be topics, the Swiss should be informed in accordance with advice from the Legation at Bern. In attempt to have Brandt reconsider the matter, the above, therefore, should be brought to his attention.

216346

SECRET

Note

Received

S-512

(15)

RG 260
Entry 1945-49
Box 33

FILE: DISP. OF FOREIGN SECURITIES

Note was presented to the Department by the French (re telegram 71, Paris, January 5 repeated to London as5 and to Bern as 3) that they believe the Swiss would not tolerate an investigation by Allied team re looted gold; the negotiations agenda should include the looted gold question; as to questions on the agenda the Swiss should be forewarned. This position, Waller pointed out, is based on the French belief that the Swiss are not conscience stricken - name calling can serve no useful purpose - and knowledge of the sensitivity of Swiss re neutrality, soverign rights, and that a good business deal need be shown the people of Switzerland.

The Swiss the Department agrees should be informed in advance that an issue will be made in forthcoming negotiations of the acquisition of looted gold from Germany during the war. A similar view is held by the British. Regarding advance presentation of items included in agenda for negotiation, instructions are being drafted for Bern.

Advise this office of reaction of MEWFO.

Donald R. Heath,
Director.

cc: Office of Staff Secretary.

WKW/zmf

15

S-512

216347

RG 260
Entry 1945-49
Box 33

FILE: DISP. OF FOREIGN SECURITIES

~~SECRET~~

March 19, 1946

SECRET

MEMORANDUM

TO: Colonel D. L. Robinson, Acting Director, Finance Division. For: Mr. Kramer, Chief, External Assets Branch.

FROM: Office of Political Affairs.

There is given below for your information a paraphrase of a telegram sent by Madrid to the Department of State and repeated to this office.

The entry of trusteeship by our nominees into Deposito de Carbones de Tenerife took place recently. Based on information secured from a Spanish dummy just prior thereto, the nominees caused the company's former German manager, Janssen, to take 20 kilos of gold out of the company's safe and deposit it voluntarily with us for safekeeping under proper balement receipt. The gold bars are stated to belong to the Sociedade Insulana de Transportes Martitimos, Ltda, Lisbon. For the present and without informing the Foreign Office, we are keeping the gold until the investigation as to the ownership thereof is completed.

123.7-3
X 004
X 312 P.A.

Loyd V. Steere,
Deputy Director.

cc: Office of Staff Secretary.

Recorded
1

~~SECRET~~ 20

216348

RG 260
Entry 1945-49
Box 33

FILE: DISP. OF FOREIGN SECURITIES

Sts. of Secretary

SECRET

October 7, 1946

MEMORANDUM

TO : Mr. Jack Bennett, Director
Finance Division

Mr. Bell
Mr. [illegible]

FROM: Office of Political Affairs

There is attached a copy of a cable from the American Embassy, Lisbon, on the subject of gold looted by the Germans and sold to the Bank of Portugal.

For the Director:

Loyd V. Steere,
Deputy Director

Enclosure:

Lisbon's unnumbered telegram dated October 3

Copy for Staff Secretary

Telephone 42526

pdoy-1731

41

216349

FILE: DISP. OF FOREIGN SECURITIES

Secret

BRIEF

10 October 1946

SUBJECT: Gold Looted by Germany and sold to the Bank of Portugal

TO : The Chief of Staff

1. Allied members of the Portuguese-Allied Subcommittee on Gold, at the 1 October 1946 meeting in Lisbon, identified Belgian-owned 962 gold bars in possession of the Bank of Portugal as remelted gold, estimated as 11,793,824 fine grams valued at $13,271,600. Delegates presently checking with their respective governments as to ability for similar check on gold purchased by the Bank of Portugal from Germany during the war.

2. If it is possible to procure certain data from Germany or from Swiss National Bank as to individual bars sold to Bank of Portugal, much argument with the Portuguese would be eliminated. The telegram attached from Lisbon prepared by Messrs. Rubie and Schmidt, of the Finance Division, OMGUS, who are returning to Berlin shortly from Lisbon, give details of past activity in Germany in this connection and indicate further steps to be carried out.

3. If the Chief of Staff desires, I will contact Messrs. Rubie and Schmidt on their return to Berlin for further information as to what is being planned in this connection.

123.7-1
x 091-Portugal

H.L.Y.

41

216350
AC

RG 260 Box 399
FED

September 1947

SUBJECT: Berlin Trip 13 September to 15 September 1947.

TO : Chief of Branch.

1. Departed Frankfurt 12 Sept 47, 1735 hrs., and was met by Finance Division Sedan at Wannsee station Saturday morning. Saturday afternoon, I attended the Inter-Allied Track and Field Preliminary Meet and Sunday afternoon accompanied Mr. and Mrs.Robertson to the Inter-Allied Track and Field Meet Finals. The meet was held at Olympia Stadion and was an impressive sight with the many flags of nations participating and the two American bands and the attendance of some 80,000 people, mostly Germans. We enjoyed excellent seats in the Officials' Box and Reserve Section. The events as a whole were very interesting, even though the United States ended in second place as France won the meet and Britain placed third.

2. Monday a.m. the meeting was held with Mr.Jo Freeman presiding while Mr.Ball was on leave. Other members present included Messrs.Robertson, Anderson, Jones, Rose, Dowdy, Aiken, Caldwell, and Bender. Miss Jane Miller also was present. At the beginning of the meeting, which commenced at 1000 hrs., Mr.Freeman advised that he would have to leave very shortly to attend another Finance Conference. Consequently, there was very little reporting from any of the members present.

(a) Mr.Freeman told of General Clay's attitude toward the influx of displaced persons from the Russian Zone and stated that these DP's will be returned by the Americans as far as the Russian border, and, if the Russians were not there to accept them, no further effort would be made by the U.S. to return them to Russia.

(b) Mr.Robertson stated that an investigation was going on as to what Congressman E.E.Cox said in his speech in denounciation of General Clay's Denazification Program.

(c) Miss Miller stated that Civilian Personnel Office no longer will contact individuals two months prior to termination of a contract, but a day or two prior to termination of the contract, the person involved will be called to the Personnel Office for an interview.

216351

RG 260 Box 399
FED

(d) Mr.Jones of Public Finance stated only that he had attended the Public Finance Conference in The Hague and, due to the shortness of the meeting, did elaborate on what transpired there.

(e) Mr.Aiken stated that quadripartite agreement had been reached on new small denomination of coins for Germany, with the materials in the British and American Zones,being used by the U.S. to provide new coins for the French and U.S.Zone, and the materials in the Russian Zone would be used for the production of new coins for the British and Russian Zones. The materials held by the Germans will be kept until the currency reform. No new materials will be purchased from outside Germany. He also stated that quadripartite agreement had been reached on Decentralization of Banks and smiled as he stated that this had been going on for the last year and a half.

3. Lts.Bell and Hendrichs expected to report to Col.Brey Tuesday, 16 September, as replacements for the Security Officer jobs to be vacated by Capts.McCoy and Brewer.

Robert B. Bliss
ROBERT B. BLISS
Head, Accounts and Reports Section

Civilian Pay Cheques were to have left Berlin 15 Sept, according to Miss Barker, addressed to each individual in FED.

216352

RG 260 Box 399
FED

NUMBER ____ DATE 9 Sept 47

INTER-OFFICE ROUTING SLIP
Foreign Exchange Depository
OMGGUS (Rear) APO 757

To	Section	Init.
2	Chief	
1	Executive	
7	Administrative	
3	Accounts	
4	Claims	
5	Currency	
6	Depository	

____ For Necessary Action
X For Information
____ For Retention

Disposition and Remarks ____

H.

NUMBER ____ DATE 9 Sept 47

INTER-OFFICE ROUTING SLIP
Foreign Exchange Depository
OMGGUS (Rear) APO 757

To	Section	Init.
1	Chief	
✓	Executive	
5	Administrative	
	~~Accounts~~	
4	Claims	
	Currency	
3	Depository	GK

____ For Necessary Action
____ For Information
____ For Retention

Disposition and Remarks ____

~~[illegible]~~

Swanson
File - Berlin trip

216353

RG 260 Box 399
FED

File No. 910.90

REPORT ON BERLIN TRIP, 27 OCTOBER 1947, BY MR. ANGOTTI.

1. Staff Conference.

a. Mr. Ball said that he had attended a meeting held by General Clay on 26 October 1947 and mentioned the following:

(1) Discussions between U.S. and England in Washington were blocked by problem of Pounds held by U.S. in London. General Clay ordered that JEIA sign no export contracts until convertibility is settled.

(2) Restitution Law on physical, identifiable property will be published some time in November. Central Claim Section to be set up to handle these claims either on a unilateral, bizonal or tripartite basis.

(3) Mr. Freeman and Mr. Conrad are in Poland, working on trade negotiations.

b. Mr. Reinsel, Miss Miller, Mr. Aikin, Mr. Robertson, and Mr. Bender had nothing to say.

c. Mr. Rose said that no information had been received from Switzerland regarding 50 Million Dollars held by Swiss apparently for account of Germans, ~~on which he could get no information~~.

d. Mr. Schwarz gave me the attached list of statistical reports which are now being submitted to his office. He passed out a similar list to each Branch Chief.

e. Mr. Ball again spoke at this point regarding the expediting of roundrobbins affecting each Branch. He cited a specific case, in which a paper took one month to go thru four Branches, and by that time the paper was meaningless. He wants particular attention paid to things of this sort.

f. Lt. Col. Stoker spoke at great length regarding the functions of his office. He wants the Finance Division Branches to delegate men to advise him on any of his problems. It does not appear that the FED is involved.

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g. When my turn came, I briefed the gathering on the preparation for delivery of gold by the FED. I also told them that the FED was delivering some 6,000 carats of diamonds to Netherlands the latter part of this week. I told them that PW payments aggregating over 100 Million Marks were in process by the Currency Section. Also, that Paymaster General Lacombe had visited the FED regarding the counterfeit AMM and that he would probably make a formal request for information to the Finance Division.

2. After the meeting, I talked to Mr.Bender and was able to get the release for the 6,000 carats, as well as the copy of cable sent by FD to Washington regarding delivery of the diamonds. I told him that, since the Depository Section is so heavily occupied with the gold delivery, it would appreciate the holding up of any requests for information for the time being unless highly urgent. Mr.Bender advised me that he had some correspondence with regard to the delivery of the gold, which would be forthcoming to FED within the next day or so. He wanted to know about the items held by various Banks in each Land, particularly as to the letters being prepared by the FED, covering collection of these items. He expressed the opinion that they should go out as early as possible.

Deferred

3. Mr.Ball told me that we should furnish guards on the delivery of the gold.

4. Halloween PARTY is being held by the Finance Division on 30 October 1947, and an invitation has been extended to each member of the FED. This party is to be held at the Harnack House.

JOSEPH A. ANGOTTI
Head, Currency Section

Incl.:
One list

JAA:Fi

216355

RG 260 Box 399
FED

File

3 September 1947

910.90

MR. ANGOTTI'S TRIP TO BERLIN, 29 SEPT 1947.

1. I left Frankfurt Sunday afternoon, 28 Sept 1947 at 1630 hrs. by plane and arrived in Berlin 1800 hrs. and registered at the Harnack House. I reported to Finance Division Monday morning at 0830 hrs. I delivered to Mr.Bender the letter on turn over of currency to IRO and talked to him briefly about bringing up the matter of the life of Currency Section with Mr.Ball.

2. I attended the staff conference, which was presided over by Mr.Ball and attended by Mr.Aikin, Mr.Reinsel, Lt.Col.Stoker, Mr.Rose, Mr.Bender, Mr.Jones, Mr.Schwarz, and Miss Miller. The meeting was very brief. Mr.Ball had no comments. Mr.Freeman advised that payments to PW's in Berlin thru Stadtkontor had started. Mr.Bender discussed the delivery of gold from the FED in connection with the gold pot. They are still awaiting definite instructions. Mr.Rose advised that eight American cars had been picked up in the Soviet Sector in Berlin on Sunday by the Russians and wanted someone to find out why. Lt.Col.Stoker taked about his shortage of help. When I was called upon, I mentioned the following:

(a) Depository was looking over its records to determine just what belonged into the gold pot.

(b) That we were proceeding with paper work in connection with currencies to be turned over to IRO while waiting for okay from Finance Division.

(c) That there was pending for release 6,000 carats of diamonds to Holland and currencies to IRO.

(d) That the Currency Section was currently processing over 100 million marks in Certificates of Credit for PW's.

3. After the meeting adjourned, I talked to Mr.Ball, with Mr.Bender present, regarding the Currency Section. I asked Mr.Ball what new activities, if any, would be assigned to it by Finance Division. Offhand he could not say, he thought possibly we might be connected with the currency reform. I then asked him how long did the Finance Division want the Currency Section to exist. He could not answer that question at the present time. I then told him that the Currency

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Section was in process of liquidation at the time it was assigned to OMGUS and that the only new activities started since that time were payments to PW's, the custodianship of the Army marks and MG Court fines, also that we were going out of the MG Court fine business very shortly and that it might be possible to return the Army marks and payments of PW's to the Army. Mr.Ball replied by saying that we could not get rid of those activities. I then advised him that we would continue as heretofore, closing such activities as possible. He suggested that, if possible, I take on other duties as the currency activities took less and less of my time. That closed this discussion.

4. I talked to Mr.Aikin about the minting of new coins, and he advised that the way had been cleared and they would soon start the actual work.

5. I left Berlin on the 1910 train, 29 Sept, and returned to duty to-day.

JOSEPH A. ANGOTTI
Head, Currency Section

JAA:Fi

216357

RG 260 Box 400
FED

OK/JL

26 July 1948

SUBJECT: Weekly Progress Report for Week ending 24 July 1948

TO : Mr. Gabell

FROM : Depository Section

1. Gold Operation No. 2, Shipments 31 & 32 were delivered to Pan American Airways on 19 July, Shipment 33 on 20 July, Shipments 34 & 35 on 21 July, Shipments 36 & 37 on 22 July and Shipments 38, 39, 40 & 41 on 23 July.

2. Mr. Hallert arrived from Berlin on 19 July to help in the preparation of a securities master list. He left on 23 July with work papers covering securities and also with 3620 FED Inventory Forms covering part of recent turnover of Law 53 assets from Russian Zone to Landeszentralbank Frankfurt.

3. On 21 July transfer of the contents of the Air Raid Shelter to the Lower Main Vault commenced. The only items that will be left in the Air Raid Shelter will be certain extremely heavy lots such as 70 tons of silver in Shipment 56, Roumanian and Yugoslavian silver coin, printing plates, and French Francs. It is expected that it will take 7 to 10 days to complete this movement after which it is planned to begin work upon the assembling of the currency pot.

Edwin P. Keller
EDWIN P. KELLER
Head Depository Section

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RG 260 Box 399
FED

OFFICE OF MILITARY GOVERNMENT FOR GERMANY (U. S.)
(Rear Echelons)
Finance Division
Foreign Exchange Depository
APO 757

File Nr. 90.90

26 August 1947

M E M O R A N D U M

Subject: Report of Trip to Berlin, 22-25 August 1947.

From : Major Reed.

To : Colonel Brey.

1. Auto mileage was approximately 580 kms one way. Delivered six Courier parcels to Mr. Bender at 0900, 23 August.

2. Mr. Smollar was in the office on the morning of 25 August and conferred with Mr. Bender relative necessary arrangements for IGCR crating to be charged to German economy. Mr. Gabell was informed by telephone that it was believed OMGUS (Rear) could effect the transition with Military Government in Frankfurt.

3. Mr. Bender requested the following:

To Mr. Ball previously decided: to be kept in Frankfurt files only. H.

(a) A copy (8 pages comprising 4 lists) of Netherlands Diamonds for Berlin office files.

(b) A copy, if available, of Hungarian assets inventory for file.

(c) A copy, if available, of IGCR assets inventory for file.

(d) A copy of the inventory of IGCR assets (for attachment to the authorization of release), as requested by telephone on August 25th. SENT.

4. A conference was held from 1110 hours to 1150 hours, 25 August, with Messrs. Ball, Robertson, Jones, Schwartz, Bender, Freeman, Conrad, Rose, Reinsel, Aiken, Caldwell, Miss Miller and the undersigned attending. Discussions were of general nature ~~and~~ of specific interest. Mr. Ball gave an account of his visit to Frankfurt with complimentary remarks concerning FED operations and the satisfaction which the visit afforded him

Mr. Robertson spoke of a new directive which requires reduction of cable action copies from 11 to 2 copies and information cables from 6 to 1 copies, which was felt to be too radical reduction. Reduction was occasioned by paper shortage and for security reasons.

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Mr. Rose brought to attention the fact that General Clay has indicated his desire for discontinuance of all censorship by 31 December. This applies particularly to telephone and mail.

Miss Miller and Mr. Montsinger? discussed job reduction program which, it was explained, would not effect present incumbents. However, when a person leaves a job which has been reclassified lower or has been recommended for elimination, replacement will be guided accordingly. Finance Division was not believed to be effected by re-classification.

The undersigned spoke briefly of security operations in FED, the reduction of military guards from 32 to 16 daily with increased security through installation of alarm system and outside barriers and how operated.

5. The undersigned returned approved Netherlands and Hungarian releases, authority for opening vault rooms and one paper on silver identification.

5. One sidelight of information was the fact that four American ears were stolen from in front of Harnock House Saturday night and Mr. Ball's residence was burglarized with loss of all his clothing.

GN Reed
GEORGE N. REED
Major, AGD
Chief Security Officer

Reed:ib

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FED

FOREIGN EXCHANGE DEPOSITORY
Finance Division OMGUS (Rear)
APO 757

Date 23 July 47

TO: Roberts

FROM: Roberts

~~Col Brey~~ WB
Mr. Sabell FG
Mr. Keller AK
Mr. Ceccgatta JR

to General Files

216361

INVENTORY FORM

INVENTORY BY Becker TAG NO CT - 191 FORM NO 811

INVENTORY BY ______ SHIP.NO 2 - F CLASSIFICATION coins-gold

SECURITY O Henry N. Irlen CONTAINER NO C - 293 UNIT CONTROL 3

born

RECORDED John W. Bowyer CONTAINER burlap sack DATE 6 September 1946

APPROVED Edwin P. Keller APPRAISAL NO ______ LOCATION 15 IMV

QUANTITY: 3

DESCRIPTION: German Government
20 mark coins (gold)

they were contained in an envelope with the
printing "Müller & Sohn, Münzenhandlung, München,
Schafflerstr. 9."

C/L	10	C/L	54
S/L	10-36	S/L	

AUTH	POST	VER
443	[illegible]	

CANCELLED JE No. 236
10/3/48

~~See Inventory Form~~ [illegible]

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RG 260 Box 401
FED

RG 260 Box 399
FED

LIST OF PAPERS

FILE NO. 910.90 FILE TITLE Reports - Berlin (F.D.) Trips

No.	Date	Subject	No.	Date	Subject

216363

RG 260 Box 399
FED

FILE NO. 910.90

10 June 1947

SUBJECT: Berlin Trip

TO : Chief of Branch

1. No car met me at the station in Berlin. Capt. Rohrer said that a car was sent but did not arrive until after the bus had left for OMGUS.

2. Mr. Ball presided at the Staff Meeting and spoke on the following subjects:

a. Only one Branch - Foreign Exchange and Blocking Control - had any further gripe to make in connection with the criticism made by Ostrander.

b. Washington classification experts, who have been reviewing OMGUS classifications, will stay a little longer and may possibly review every job in OMGUS. One case which was given to these experts as a test was a CAF-13 in for a promotion to a CAF-14. They studied the job description and dropped it to a CAF-11.

c. Nothing much happened at General Clay's weekly meeting as the General had to leave early to greet Secretary of War Patterson.

3. None of the Branches had much to report and most of the time was taken up by Mr. Anderson who told about the radio program "Know Your Army" which is broadcast each Friday evening at seven o'clock. This week it will deal for fifteen minutes with the Finance Division and Mr. Anderson told me that it would deal principally with the Foreign Exchange Depository.

4. I mentioned the following items:

a. The IG inspection

b. The listing of Dachau packages

c. The IGCR inventory turnover. Anderson immediately wanted to write up a story, but I told him that it would certainly be best to clear anything of that sort with FED.

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FED

5. Before the conference Mr. Brown and I discussed certain items as follows:

a. The release of the Norman Helmet. The necessary release has been signed and received by FED.

b. The desire of the Netherlands Government to have Mr. Ascher come to the FED to check on diamonds which may belong to his country. Mr. Brown agreed that Mr. Ascher should not come until after the inventory is completed. Mr. Brown also asked that Mr. Gabell prepare a memorandum to that effect to be signed by Mr. Ball and to be sent to the Political Affairs Division.

c. The latest Hungarian cable. Brought back a copy.

d. The cable on disposal of currencies. This has been considerably revised from its original form and was expected to be sent to AGWAR during the day, Monday.

Freeman W. Greene
FREEMAN W. GREENE
Assistant Head, Depository Section

216365

RG 260 Box 399
FED

NUMBER ______ DATE ______________

INTER-OFFICE ROUTING SLIP
Foreign Exchange Depository
OMGUS (Rear) APO 757

To	Section	Init.
	Chief	
	Executive	G
5	Administrative	
3	Accounts 9/6	
1	Claims	
✓	Currency	
4	Depository	

______ For Necessary Action

______ For Information

______ For Retention

Disposition and Remarks ______

Re paragraph 2a, U.S. civilians discriminated against ~~no such~~ by ruling re ~~travel~~ ATC planes. Military personnel on leave orders ~~can~~ ride ATC planes if space available, but not W.D. civilians.

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RG 260 Box 399
FED

F FILE NO 910.90

27 May 1947

SUBJECT: Report of Trip to Berlin by Mr.Angotti 25 May 1947 thru 27 May 1947.

TO : Chief of Branch.

1. I left Frankfurt on Sunday evening, 25 May 1947, on the 17.35 train and arrived in Berlin at 8.10, 26 May 1947. The car that was sent out to meet me broke down somewhere on the way, and I took the bus. Incidentally, this bus no longer goes direct to OMGUS, a chan-ge must be made enroute to another bus, which lets you out in the vicinity of Trueman Hall, an unhappy situation if you are encumbered with baggage.

2. I arrived at Finance Division at 9 o'clock and immediately went into conference with Mr.Brown with reference to Mil.Govt.Court Collections. Mr.Brown succeeded in having Mr.Ball approve the change recommended, which was that the Germans receive these Court Collections instead of the Currency Section. Concurrence is still to be worked out by the Currency Section of this office.

3. I told Mr.Brown that a proposed reply to WX-96654 had been sent up to him,and he confirmed having received it.

4. I next conferred with Mr.Robertson relative to increases for Mr.Harris, Mr.Bliss, Mr.Herman, and Mr.Swanson. He informed me that the increase for Mr.Swanson had already been processed. I believe, he talked to you over the phone about the other three. I also advised him that we would have no Enlisted Man to be used as a temporary replacement for Mr.Scott in Col.Stoker's Office.

5. I next attended the Meeting, and the following took place:

a. Mr.Ball wants people to referred to him on any matter of importance. He was recently embarrassed by not knowing what had happened or who had visited one of the Branches. not FED

b. Major Bacon, Secretariat, had nothing to say.

c. Col.Jones, Public Finance, brought up the point that legislation had been passed by the Germans in the US Zone contrary to ACA regulations, due to a weakness in the MG set-

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FED

up. He pointed out that the British did not have this trouble and that steps should be taken to correct.

d. Mr.Brown, Deputy Chief, had nothing to say.

e. At my turn I told them about the following:

(1) The coming IG Inspection.

(2) The IGCR situation which is about to start.

(3) Reduction of German personnel.

(4) Schedule of currencies, which is being prepared for delivery to Finance Division.

(5) Mil.Govt.Court Collections.

(6) PW Payments.

(7) Currency flown to the British Zone.

(8) That Mr.Freeman had finally got on the plane for America.

f. Mr.Aiken, FIB, had nothing to say.

g. Mr.Robertson said that Classification Experts would visit the Finance Division in the next week to find out, whether or not people are being overpaid. Mr.Ball told me that he did not think they would visit Frankfurt.Mr.Robertson also brought up the fact that Finance Division might lose their TWX facilities. I pointed out that that would be a definite hardship on us. Mr.Ball directed that a staff study be made by Mr.Robertson.

h. Mr.Tannenbaum had nothing to say.

6. The Meeting than broke up with the statement by Mr.Ball that there would be another one next week at the same time.

7. I conferred with Mr.Stern, FEBC, regarding Mil.Govt. Court Collections. He will expect our concurrence, but not in such a hurry.

8. I left Berlin at 7.10 and reached Frankfurt at 10.40 on 27 May 1947.

JOSEPH A. ANGOTTI
Head, Currency Section

JAA:Fi

216368

RG 260 Box 399
FED

Berlin Visit 21-24 March 47 File Berlin trip

Friday, 21 March 1947

FILE NO. 910.90

Saw Mr. Stern of FE & BC and inquired as to what had become of securities holdings of Reichsbank, Berlin. Stern stated that whatever securities were held by the Reichsbank at time of capitulation were now in the hands of the Russians and that in his opinion the Polish claim for securities should be returned to them with the suggestion they take the matter of restitution up with their allies the Russians.

Discussed the matter of Wuerzburg silver coins with Mr. Jones (FE & BC). It developed that Stern had forwarded the original inquiry. Jones called Stern in but latter stated he had not yet received our reply. Stern departing Sunday night on a trip involving setting up of organization to disburse PW payments.

Stopped in to say hellow to Mr. Robertson. Told me he had 17 or 19,500 greenback dollars which he wanted me to bring back to Frankfurt as courrier. It was also decided to hold Capt. Irlenborn over as an armed guard.

Ball at Harnack House for Messrs. Bennett and Ball

Quite a swanky affair that was held in the main lounge. Messrs Bennett and Ball with their wives (Ball married two weeks ago) greeted each arriving guest with Robertson making the introductions. Women all in evening gowns and corsages. About twelve men wore tuxedos. Free drinks, Hors d'oeuvres, and punch. About 11 p.m. the musicians called for an announcement and Mr. Brown gave a short speech calling attention to the purpose of the party - Bennett's leaving to what might be termed the Heavenly region, and Ball taking over in Bennett's place, and also stating that he had been wondering, why he (Brown) had been asked to make the speech of presentation and that now he knew why since he had to admit being embarrassed by the fact that the item to be presented was not yet available. At any rate it would be a scroll bearing the signatures of all members of the Finance Division.

Mr. Bennett spoke pleasantly thanking everybody for their splendid cooperation and hoping that the same help would be extended to Ball.

Mr. Ball then spoke to the effect that since Mr. Bennett had gone to the Heavenly region there was only one other place left for him to go to. Stated he did not hope to achieve the same degree of accomplishment credited to Mr. Bennett but that he would do his best. He got a good round of applause.

The FED contingent was present in full strength and looked very presentable.

Saturday, 22 March 1947

Saw Mr. Rose and obtained files covering Puhl interrogation. Did not sign receipt. Promised to return same after perusal.

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FED

Saw Mr. Kagan in reference to getting transcript of SS Loot testimony developed at Nuernberg trial. Fortunately his unit had made preliminary surveys of this matter for use of prosecutors at the trial and he had this report together with transcript of actual cross-examination at trial of Puhl and Pohl. He turned over all these files to me and I signed receipt therefore. Also informed me that further interrogations are pending and in event we have any more points requiring clarification to send him a memo which he will forward for inclusion with other matters on which principals will be questioned. Claimed he enjoyed close personal contacts with investigators preparing cases coming up for trial in six weeks.

Spoke to Brown re Freeman non-concurrence Law 53 matter. Told him we were merely trying to be helpful and that a writing on this subject may soon be expected from F.E.D. Brown stated he felt our proposal was a good one and that he felt Freeman also appreciated our efforts but that latter's jet-propelled nature left little time for tactful considerations.

Brown will come to Frankfurt on Wednesday to pick up his new Ford car and would appreciate being met at station by F.E.D.

Monday 24 March 1947

Saw Mr. Adler (on Brown's instructions) re matter of numismatic coin and Reichsbank securities. He has close contacts with Reichsbank and expects to have a meeting with Gerlich of Berliner Stadtkontor today. Gave him my phone number in Frankfurt.

Robertson informed me Capt. Irlenborn left by plane with $ 19,000.-- this a.m.

Meeting (Ball)

The forty hour week arrangement has finally been definitely settled on previous basis, i.e. half off Wednesday Afternoon, half off Saturday a.m. No all day closing Saturdays.

Gen. Keating states some Branch Chiefs were in ~~hatch~~ habbit of writing or cabling to Washingtin re policy matters without letting their Branch Directors know. Constitutes an embarrassing situation which must cease. General Keating also suggested change in hours from 9 - 6 to 8 - 5. Will be put to vote. Ball laughingly urged everybody to vote for 9 - 6 as he liked to sleep mornings. Prevailing belief however that vote would be favourable to change to 8 - 5.

VIFE'S ORDERS?

Ball stated he has decided to discontinue coming to office to work on Sundays but will always be available for any emergency at his home. Said he tried that out yesterday for first time and found he felt much better for it.

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FED

Brown was seated ahead of me at meeting and beat me to the Hungarian silver restitution topic. He later informed me that F.E.D. would be solely responsible for all matters in connection with this restitution and all questions, suggestions and arrangements will be cleared through Colonel Brey, so that F.E.D. will be fully aware at all times of developements.

All Branch Chiefs should keep Mr, Ball informed of developements of any nature so that he will have some familiarity with subject in event of telephone calls.

Mr. Rose informed me two Frenchmen would arrive in Frankfurt on Wednesday, 26 March, for purpose of examining our records in reference to Belgian gold and that Mr. Ball had given his consent hereto. Asked Rose to provide Frenchmen with a letter addressed to us for identification purposes.

FRANK J. ROBERTS

RG 260 Box 399
FED

Xat Berlin Trips

19 March 1947

910.90

SUBJECT: Diary of Trip to Berlin by Mr.Joseph A.Angotti, Head, Currency Section.

TO : Chief of Branch.

1. I left Frankfurt Saturday, 15 March, 1730, by train, arrived Berlin 1100, 16 March, registered at the Visitors Bureau and was billeted in the Gossler Hotel. I reported to Finance Division 0900, 17 March. I attended Staff Conference, starting at 1000 hrs.

2. This meeting was presided over by Mr.Bennett, who spoke at some length, expressing his appreciation of the efforts of his staff. He pointed out that the problems would be greater in the future than they had been in the past. Among them were the following:

a. Development of German banking system.

b. Property Control to be conducted in such a manner as to leave no possibility for criticism of the Finance Division.

c. Foreign Exchange and Blocking Control must be very careful not to have its purpose defeated by our Allies and to turn Blocking Control over to the Germans as rapidly as possible.

d. Public Finance must watch over Occupation Costs and Taxation, so that they would not become too burdensome.

3. Mr.Bennett, after stating that he would be available for advice and that he did not know where his new office would be, then turned over the chair to Mr.Ball, the new Director. Mr.Ball stated that he was happy in his new job and would do everything in his power to carry on in the tradition left by Mr.Bennett. He stated that relationship with other Divisions was a problem, but did not state what the problem was.

4. Lt.Col.Jones, Chief, Public Finance Branch, advised that German income tax would be higher after 1 April 1947. This will be caused by the fact that the American and British Zones did not comply with ACA Law, which allowed no deductions, by allowing a 39 mark deduction. This may cause some

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FED

grumbling among the Germans. However, certain changes are going to be made shortly to adjust ~~inadequacies~~ inequities.

5. Mr.Robertson, Administrative Officer, discussed the 40 hour work week, pointing out that the hours had again been changed and no Saturdays off were contemplated. He stated that an exception would be made in the case of the FED, since it was in Frankfurt. He also called attention to the fact that reduction of indigenous personnel must be made by 15 May 1947, and wanted to be sure that each Branch had received instructions. The meeting then ended.

?

6. The following matters were taken up by me with the results noted:

a. Redeployment and Replacement of Sgts. Light and Hofstetter and Promotion of Sgt.Hernandez:

I turned this over to Mr.Christenson.

b. Collection of Advances to MG Missions:

Mr.Hagen, FIB, advised that the Czech Mission would pay up this week, but the Chinese settlement would not be made until June when the Chief of the Mission will return to Berlin.

c. Settlement of Advances to Allied Governments:

IRS and proposed cable to the War Department was turned over to Mr.Brown, who promised to take care of it, after a little discussion.

d. Disposition of AMM Held by German Banks:

Mr.Ball advised that no action could be taken to retire these AMM.

e. Delivery of Reichmarks to German Trustee of Reichsbank:

I advised Mr.Schwartz, FIB, that no action had been taken by us to-date as the vault had not been prepared by the German Trustee.

f. Party for Mr.Bennett and Mr.Ball:

Mr.Hartch, Chairman of the Party Committee, advised that there would be no gift involved.

g. Amount of Balance to be Maintained with Reichsbank Bremen and Closing of Account with Land Central Bank Darmstadt:

In a discussion with Mr.Aiken, Chief, FIB, it was felt that the decision should be made by the FED, and FIB would concur.

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FED

h. Statement requested by Mr.Bennett as to Excess Marks on Hand:

Mr.Tennenbaum and myself talked for about an hour. I came away a little uncertain as to what he actually wanted. I pointed out to him that our statement shows that the Navy had actually returned excess marks, but that the Army had not. I believe he wants some sort of a statistical study of the Quarterly Reports prepared by this office together with the Monthly Statements forwarded to the War Department in such a form that he can show the history of the Currency Section activity with regard to Advances and Returns of Allied Military Marks. He thought also that the Currency Section should report to the Director, Finance Division, the return of excess marks.

i. Central Control of Confiscated Funds turned over to Bürgermeisters by MG Courts:

Mr.Ball said that this was a matter entirely for the Finance Division to settle and should not be referred to the Legal Division. We should inform him in writing of what is going on.

j. Status of Revision of MGR, Title 5, Covering MG Fines, Forfeitures, and Confiscated Funds:

I did not accomplish anything on this.

k. Disposition of Funds Collected by MG Courts:

I spent some time trying to explain to Mr.Brown what this problem was all about. Finally, Mr.Ball sat in with us and asked that an IRS be prepared, placing the question before the Legal Division. I drafted one that was disapproved by Mr.Brown. I drafted another that met with the approval of Mr.Brown and then was sent in to Mr.Ball. Mr.Ball returned it, saying that it should be rewritten more completely, stating all the facts as we have them including the history. I advised Mr.Ball that we were not prepared to furnish any figures as we were in the middle of analyzing these accounts on our books. He said, figures were immaterial. He also stated that this is the first time that he had been aware of this problem and wondered, if Finance Division had

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concurred in the USFET directive, dated 20 Nov 1946, turning Confiscated Funds over to the Bürgermeisters. I advised Mr.Brown that I would take this matter back to Frankfurt with me and submit a new IRS in a more complete form, to be signed by the Director, Finance Division, for the attention of Legal Division.

JOSEPH A. ANGOTTI
Head, Currency Section

JAA:Fi

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3 E D
FILE NO. 910.90

NOTES ON STAFF MEETING IN MR. BENNETT'S OFFICE ON MONDAY, 17 MARCH 1947

Present: Messrs. Bennett, Aikin, Ball, Bender, Brown, Dirks, Freeman, Keller; Messrs. Matthaus, Reinsel, Robertson, Tenenbaum; Maj. Bacon; Col. Jones, Stoker

Mr. Bennett opened the meeting by commenting that he had thought of having his last staff meeting on Saturday, the 15th, when Mr. Ball assumed directorship, but had decided against it for the reason that a number of persons were out, it being the first Saturday off under the new forty-hour work week. He then made the following remarks:

"I want you to know that I appreciate the accomplishments of the Finance Division during the time I have been privileged to be its Director. You have every reason to be proud of those accomplishments. I told you at the beginning of the year, in some detail, of the accomplishments I thought outstanding and I won't repeat them now; but I do want you to know that in turning over the Finance Division to Mr. Ball as the new Director, I am confident you will continue to maintain, under the leadership of Mr. Ball, that high grade performance which you maintained in the past. I know that Mr. Ball on his part will provide you with even better guidance and leadership. The problems that lie ahead, of course, are even greater than those which you have met in the past.

"In banking, we must push forward with decentralization before the control passes out of our hands and before our Allies can water down our program. We must see that a sound banking system is developed, for that is the very foundation upon which the future of Germany will rest. Mr. Aikin, therefore, has upon him a responsible and important job.

"In the field of Property Control there is the great responsibility of bringing about a decontrol of property belonging to foreign owners and Nazis in order to prevent in the one instance property from getting into undesirable hands and in the other instance,

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to prevent our being justly accused of carrying out a carpetbagging program here. There is also the problem of returning to people the property which has been wrongfully taken from them. The psychological aspects of these problems go far beyond their apparent practical features, and Mr. Heinsel has a real job cut out for him. We are sure he has the ability to do that job as it should be done.

"In the field of Foreign Exchange, the difficulties that face us are multiple. We face them even now daily. We have the responsibility not only to see that our foreign exchange assets are protected from the Germans and are not wasted in unsound programs, but also to see that our purposes are likewise shared and respected by our Allies. In blocking control we must turn our responsibilities over to the Germans as fast as we can. We must get these details out of our hands and devote our time to policy. I am sure those tasks are in able hands, and that Mr. Freeman will know how to treat with them.

"In the field of Public Finance, occupation costs will assume tremendous importance when we get into any kind of centralized operation with our Allies. They will be the foundation of any agreements we can work out, particularly with our Allies in the East. There must be agreements worked out that will prevent the defeat of our purposes and at the same time so protect and bolster the German Government as to prevent it from becoming a pre-doomed institution. We have to consider our problems and so work out our arrangements that they are consistent with our firm conviction that a democratic state is the best form of government. Taxes must be watched very carefully for several reasons, primarily as a certain source of revenue, but also as a means of discouraging inflation and as an essential foundation of a sound monetary reform program. Col. Jones, I am sure, has those problems in hand.

"In the field of External Assets, Al Bender knows very well the problem before him. We must assist our government and the other governments we are working with to dig out these German assets abroad, not only so that we can get the benefits of these assets for ourselves and our Allies, but also so we can be assured that they will not be used against us. Reasonable means of compensation for the Germans will have to be worked out. I am certain Al will continue to handle these problems as highly satisfactorily as he has in the past.

"I do not overlook the work done by the Foreign Exchange Depository. We all recognize what they have done in the past and will do in the future in seeing that the valuables they have in custody get into the right hands. I have felt very secure that those things down there were in safe hands. This feeling of security about the FED is most comforting and has certainly permitted me to sleep well nights. I am sure Mr. Ball will share that same appreciation. We must pay high respects to the boys in Frankfurt who have made that possible.

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"Neither can we here in Berlin overlook the work of the Bizonal Control Group in Frankfurt, who have given us such good reports of the Bizonal operations. It has been largely due to their efforts that the morale of the Joint German Committee for Finance has been so high.

"I don't know where I shall be physically located eventually, but for the present I shall be right here. Other arrangements will be worked out in time, but wherever I am physically located I shall be available for consultation to Mr. Ball and I am sure he will feel free to call on me at any time for any problem, large or small; and no matter where I shall be physically I shall be here in mind and spirit working with you on the same sort of problems you have been working on in the past. I shall continue to give my thoughts and efforts to helping you solve those problems. I say again that in turning over the Division to my successor I do so in every confidence that there is nobody better qualified to carry on than Mr. Ball."

Mr. Ball replied:

"I haven't very much to say except that I am very happy that Jack is going to be here where I can call on his knowledge, experience and ability to help me. I hope very sincerely that I will be able to carry on the tradition that Mr. Bennett has built up of being one of the hardest hitting divisions in OMGUS, not only for our own division but in providing financial counsel to the other divisions of OMGUS. That is one of the most difficult problems we face. We must be continually on the alert to see that other divisions are conscious of the financial implications of OMGUS problems. I am dependent on you to keep this organization running. It is impossible for any one man, or two or four, to sit on top of all details in order to come to a solution. In reality I am only a top man and you will have to run it from the point of view of operations and technical ability."

Mr. Keller reported that they were still doing a lot of physical work at the FED. The inventory of loot from the concentration camps is still going on. They have four teams working on currency. They are now getting into other problems, such as analyzing and reconciling accounts which they have on their books. They are having a lot of inquiries about AMMs, etc., which they have to refer up here. Mr. Brown commented that there was a cable in the book this morning directing the return of silver and coins to Hungary.

Mr. Freeman reported that the most interesting occurrence in his branch was Conrad's work in setting up, in concurrence with our Economics Division and British Finance and Economics, the documentation of the export-import program. There has been 95% total concurrence on the program. It is planned that the whole procedure will be handled at the German level, and that the banks will handle the documentation. Mr. Freeman further reported that the sterling-dollar problem had come to a full stop, and that the

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British had apparently decided to sign no more offset agreements until this is cleared up. In this connection, Mr. Ball said that a cable had been sent to Washington setting forth the whole problem and the matter should be settled in one way or another within a few days.

Col. Jones reported that last week in connection with the price policy program they found that both Economics and Manpower were riding the three horses of lower taxes, higher wages and subsidies. They had to resist it pretty strongly, but he thought they would be successful. Col. Jones also mentioned a problem in connection with the fact that under the wage tax Germans in the American and British Zones have been allowed a 39 Mark deduction, which on a literal interpretation of ACA law is a violation of the law. This has been permitted for a long time because the Germans thought we could not have intended doing what was done. The Russians and French did put the law into effect in their zones and have now insisted, and agreement has been reached quadripartitely, that this deduction will be stopped in the American and British Zones by 1 April. Col. Jones said this will bring repercussions and there will be a tremendous howl because it means a substantial tax increase when the pressure has been for lower taxes. He says, however, that they are working now on other adjustments which will just about offset this increase, but which will not be ready to be put into effect by 1 April. Col. Jones thought it might be helpful if some announcement of these plans could be made at the same time it was announced that the deduction would be stopped, and it was decided that an announcement to the effect that plans for adjustments were being worked on could best be made from the Land offices.

Mr. Reinsel reported on the current position of the Restitution Law, saying the Stuttgart draft was finally presented to the Laenderrat on Tuesday and accepted by the Laenderrat with four far-reaching reservations. These reservations are practically a verbatim statement of the Finance Division position - - which is that we have considered the law to be so hidebound we can't administer it. Mr. Reinsel also said that insofar as the decontrol law is concerned, he is disappointed over the lack of progress being made. It has now been returned by the Allied Secretariat, and he does not yet know what is behind it.

Col. Stoker distributed the new schedule of committee meetings and remarked that the major change was that the subcommittee meeting on monetary and credit matters was postponed. The German Joint Committee for Finance is now prepared to put into operation the Foreign Trade Disbursing Office as soon as definite and final instructions are received.

Mr. Bennett mentioned a meeting of the Advisory Committee at Hamburg, to which our Finance Ministers had been invited. The Political Advisor's Office raised objection to the meeting because it was felt political questions might be discussed, and so the Advisory Committee was told to withdraw the invitations to the Finance Ministers in the U.S. Zone. Col. Stoker said they had not planned to accept the invitation.

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Mr. Aikin reported a "reverse run" situation on the banks of Bavaria last week. MG officials telephoned that the banks in Bavaria had been receiving very large quantities of AMMs, all of which were brand new and all of which indicated printing in the Soviet Zone. Deposits the last week in February were doubled the first week in March. The Soviets announced last summer they had stopped printing, but perhaps they had large supplies. Mr. Bennett suggested that they should find out the names of the accounts involved and see if there is a pattern. Mr. Aikin said CID was investigating and they should have a report early in the week.

Mr. Aikin also mentioned that they had had reports that several banks in the French and British Zones had refused to accept AMMs with minus marks. They have tried to find out what banks are refusing but have not yet received this report.

Mr. Bender reported he had talked briefly with Saul Kagan, who had just returned from Munich, and that apparently Col. Lorz is not satisfied about some of the people in his organization. Too much information is getting to the Germans, and it doesn't sound very good.

Mr. Robertson stated the Division would comply with the forty-hour week schedule. Copies of memo on this subject should have been received. Manpower has issued a directive requiring a 20% reduction in indigenous personnel. The deadline is 15 May.

Mr. Ball wished Mr. Bennett good luck in his new position on behalf of everyone.

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File - Berlin Trips

CHECK ON STATUS IN BERLIN

FILE NO. 910.90

1. IRS concerning recruiting of American Jewel experts. Cable going out —

2. IRS concerning the marshalling of assets in FED. Understand letters are out.

Col Berry

X 3. The question of transferring reichsmarks to the trustee for the Reichsbank. — accomplished

X 4. The status of the request for TD&A for vehicles. (Robertson). cleared with Central Office

5. Whether or not any answers were indicated to the questions raised in recent staff study and cable. (Bennett) None —

6.

~~Mittendorf - re - 9 Germans in Reichsbank Bldg.~~

Directors' Bldg

Col. Gibney
~~Chief~~ Mil. Pers.

40 hr
cont.
Green

For Mr. Gabell

Brown -

1 GCR

S/S Brown - Clay - [illegible] - Robertson for Ball

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F. X. DEPOSITORY

OFFICE OF MILITARY GOVERNMENT FOR GERMANY (U.S.)

STAFF CABLE CONTROL

OUTGOING MESSAGE

File Nr. 910.11

UNCLASSIFIED

ROUTINE

TO : WARCAD FOR FOX

FROM : OMGUS SIGNED CLAY

REF NO : CC-2071 TOO :270959A March 46/kg

1. Finance Division advises that recruitment of personnel for that division should be delayed pending arrival of persons now en route or to whom commitments have been made. Current strength plus persons Fox and Dodge have reported will almost fill 1 June manning table and it is believed that most of the persons already employed but not yet present should be placed here before more are procured. Fox will hereafter be notified of any special vacancies to be filled.

2. In regard to Fox's question by letter on Foreign Exchange Depository, Finance Division believes personnel available and en route will satisfy initial requirements for depository inventory and that until these have had an opportunity to study existing situation more experts should not be procured. Further believed that many experts will be procurable in Europe for special details of limited duration in process of inventory.

3. The above should not be interpreted to cancel any personnel already procured or to whom written or verbal commitments have been made.

ORIGINATOR : FIN AUTH : SUSANNA P TURNER
MAJ

INFORMATION: O/SS
DAS, PERSONNEL, CONTROL OFF, AG RECORDS

REF NO : CC - 2071 27 MARCH 46 1500A JAK/MC

UNCLASSIFIED

Copy No. 5

The Making of an Exact Copy of this Message is Forbidden

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OFFICE OF MILITARY GOVERNMENT FOR GERMANY (U. S.)

AG CABLES

TOO: 09[illegible]

INCOMING MESSAGE

RECD 0905282 Apr 47
165/09 leh

RESTRICTED

R E S T R I C T E D

P R I O R I T Y

FROM : AGWAR FROM WDSCA ES

TO : OMGUS

INFO : EUCOM

REF NO : WX-95766

Status Export Account with USCC and status Trust Fund Receipt Account quote deposits, proceeds of remittances to and exports from occupied territories. Symbol 218905.3-Germany and status account Federal Reserve of New York is subject. RCS WDSCA-11.

This statement is cumulative through 28 Feb 47. Total sales $2,694,961.61. Total expense applicable to sales and to unsold inventory $153,154.22. Net proceeds $2,541,807.39. Expense of New York showroom in amount $423.10 included under expense instead of being reflected as Fixed Assets.

Disposition of Net Proceeds as follows:

Accounts Receivable	$ 34,615.00
Deposited in Trust Fund	2,318,666.52
Deposited in Fedl Res Bank NY	188,525.87
TOTAL	$2,541,807.39

Deposits held by USCC against future deliveries not incl in Total Net Proceeds $ 321,502.53

Disposition of Net Proceeds and addl Miscl Receipts

Deposited to Trust Fund

From USCC	$2,318,666.52
From UNRRA	85,000.00
From Miscl	954.40
TOTAL	$2,404,620.92

AGC IN 54478

R E S T R I C T E D

RESTRICTED

Exempt from paraphrase. Handle in compliance with AR 380-5.

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Deposited to Federal Reserve of New York

From USCC	$ 188,525.87
From UNRRA	131,750.00
Credit from Lima Lt & Pow Co	38,064.00
From Bank of England for Bd of Trade Timber Control	1,138,154.08
TOTAL	$1,496,493.95

Receipt of Major Items of Goods Received and Quantities Unsold at 28 Feb 1947, as follows:

Hops	- Receipts	2,096,582 lbs
	Unsold	329 lbs
Toys	- Receipts	922,328 pcs
	Unsold	95,664 pcs
Photographic and Biological Equip	- Receipts	1,710 pcs
	Unsold	20 pcs
Schippach Dunkelblau Clay	- Receipts	220,460 lbs
	Unsold	- 0 -

Quantitative figures given above are after weight adjustments at port of entry.

Transmitted this date, via TAG 10 copies of a Statement of Account under terms of Contract dated 14 Feb 1946 between WD, OMGUS and USCC reflecting transactions from inception of contract through 28 Feb 1947.

In addition there is transmitted 10 copies of a Statement of Account under terms of "Advance" contract dated 25 October 46, between WD, OMGUS and USCC reflecting transaction from inception of contract through 28 Feb 1947.

Please acknowledge receipt thereof direct to Chief, CAD, WDSS, Washington, D.C.

ACTION : ECON

INFORMATION : FIN, POL AFF, IA&C, CONT OFF

INVENTORY FORM

INVENTORY BY Dr. Peus TAG NO 191 A FORM NO ~~811~~ 15371

INVENTORY BY ______ SHIP NO 2 F CLASSIFICATION other assets collections

SECURITY O Lt. Weaver CONTAINER NO Shipment 2 F-numismatic coins UNIT CONTROL 3

RECORDED ______ CONTAINER wooden box DATE 20 February 1948

APPROVED Edwin P.Keller APPRAISAL NO ______ LOCATION 8 IMV

==

QUANTITY: 3

CANCELLED JE No. 264

DESCRIPTION: German Government

3 20 Mark coins (gold) of Prussia
Wilhelm I of 1883
Friedrich III of 1888
Wilhelm II of 1888
Numismatic coins. Total weight: rough grams 23.9 .

This form replaces the original 811 which has been cancelled.

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INVENTORY FORM

INVENTORY BY Becker TAG NO T - 7323 FORM NO 870

INVENTORY BY SHIP.NO 1 CLASSIFICATION other Assets

SECURITY O Henry N. Irlenborn CONTAINER NO C - 383 UNIT CONTROL 1

RECORDED John W. Bowyer CONTAINER wooden box DATE 24 Sept. 1946

APPROVED Edwin P. Keller APPRAISAL NO LOCATION 16 LMV

==

QUANTITY: 1

DESCRIPTION: $ 5 American Express Co
money order No. AK 2219444
payable to G. Berenson
issued at Lawton Oklahoma 20 June 1939

CNT NO. 25 50
C/L C/L
POST.
VER.

RG 260 Box 401
FED

216386

RG 260 Box 400
FED

0K/24/

14 June 1948

SUBJECT: Weekly Progress Report for Week ending 5 June 1948

TO : Mr. Gabell

FROM : Depository Section

1. Delivery to General Weems of a collection of 40 items of jewelry temporarily held for him by the F.E.D. for storage was made on 2 June.

Edwin P. Keller
EDWIN P. KELLER
Head, Depository Section

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File

Memorandum for Files

27 November 1946

SUBJECT: Trip to Berlin

File Nr. 910.90

1. Arrived Berlin 1000 hours 23 November. Reported Finance Division 1030 hours.

2. Discussed J.G.C.R. cable with Mr. Gabell 1200 to 1300.

3. Attended Weekly Staff Conference 25 November.

4. Mr. Bennett presided - and stated following

(a) Emphasized desirability utilize Germans in every way possible in Military Government.

5. Mr. Bender mentioned that new name his Branch is now External Assets and Intelligence Branch. Said British extremely slow in obtaining information German external assets.

6. Mr. Gries (Financial Institutions) spoke of rumors that Soviets are devising a plan for German bank of issue. Also reported that Greater Hesse refusing approval banking reform plan.

7. Mr. Freeman spoke of payment marks to PW's of shortage token coin to make payments and arrangements made for minting same.

8. Mr. Reinsel (Property Control) stated that a Central liquidating agency for German property now considered desirable by French and Russians.

9. Undersigned spoke of inventory of loot. Mr. Bennett suggested desirability Branch Chiefs visiting F.E.D. to see operations first hand. Also mentioned J.G.C.R. cable, complexities involved, and necessity all interested Branches studying and clearing problems involved.

10. Meeting adjourned 1100.

EDWIN P. KELLER
Edwin P. Keller

216388

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File Nr. 910.90

4 December 1946

SUBJECT: Finance Conference Berlin 2 December 1946

The meeting started at 1000 hrs. and representatives of all sections were present. The following items were noted:

1. Mr. Bennett, after a conference with Gen. Keating, stressed the importance of the fast movement of papers across desks, and the importance of speedy transmittal and handling of correspondence.

2. Representatives of the Austrian Government are expected the latter part of next week for discussions.

3. Transactional communications across Germany are expected to be opened as of 16 December 1946.

4. A severe shortage in paper available to the Germans causing an expected ten-percent cut in newspaper production.

5. The maximum use of German personnel was again stressed, and the necessity of giving them more and more responsibilities. It was also mentioned that the necessary security be taken in the handling of classified documents as regards Germans.

6. The Washington conference on bi-zonal unification with the British, established a definite American policy with agreements on mutual trade priveleges and equal responsibility for deficits. Gen. Clay expects Germany to balance off in three years if he can effect a fifty percent jump in coal production in the next year.

7. The one and one-half million one-half mark notes in Frankfurt will be turned over to the Reichsbank for one-hundred mark notes. Minting of smaller denominations will start in order to make the mark value seem more real.

8. The payment of Prisoners of War is to be thirty cents instead of the suggested forty cents. This is comparable to the British pay of twenty-seven cents instead of matching the rising costs of living.

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Finance Conference Berlin 2 December 1946

c. Two representatives of IGCR, Mr. Schwartz and Mr. Fisher, are now in London and on their way here for a series of discussions on finance reparations.

Charles F. Walsh
CHARLES F. WALSH
Capt. CAC

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file

910.90

MEMORANDUM

12 February 1947

SUBJECT: Report on Berlin Trip

1. Presented report on Colombia shares to Mr. Brown. Drafted suggested cable to effect that shares were held in Foreign Exchange Depository, but not yet inventoried, therefore exact amount held unknown. Stated that shares were believed to be subject of Belgian as well as French Claim and that further investigation depended upon submission by claimants of full details including lists certificate numbers etc.

2. Discussed securities restitution with Mr. Brown. In light of State Department cable regarding block of Dutch securities held in Wiesbaden suggested all securities be centralized by deposit with F.E.D. Mr. Brown was in favor of first writing to Land Military Governments asking for lists foreign securities held. Letter was drafted along these lines but on discussion here it is planned to submit a broader plan providing for complete marshaling of all valuable assets with F.E.D.

3. Discussed personnel problem of turnover of jewelry experts with Mr. Robertson. His suggestion was to try to recruit such experts in the United States, by sending a representative of the F.E.D. on TDY to the U. S. A study is being prepared along these lines.

4. Security officers for whom interviews were to be arranged failed to appear. It is possible that such officer material might be located in Marburg.

6. The Monday morning meeting was called off.

EDWIN P. KELLER

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910.90

Resume of Berlin Visit 16 - 18 February 1947

A. Subjects mentioned by Mr. Ball at Meeting:
(Per announcement at General Clay's Staff Meeting)

1. Leakage of Information

The Russians have learned in some manner that the American contingent intends to insist on bringing up at the forthcoming conference in Moscow the subject of German PW's in Russia. All branches df M G are accordingly again cautioned to prevent leakage of information.

2. International Red Cross

Thus organization has no official standing, is not recognized by ACC, but nevertheless is permitted to engage in certain activities. In certain respects it is in conflict with the American Red Cross and is suspected of engaging in activities outside its proper scope. This data merely passed on to members of M G for their information and guidance.

3. Parcel Post

Members of the Finance Division are warned by Mr. Ball (and by Mr. Robertson) that use of APO addresses to forward packages to Germans is in conflict with regulations, and that Finance Division personnel have been worst offenders. Presumably in order if names of Germans are not indicated.

4. Censoring of Mail

General Clay stated that it was his understanding that U.S. Personnel mail to States is not being censored.

5. Commissary Accounts

Mr. Ball stated that according to Col. Milburn commissary accounts not paid by the 20th of the month will be shut off. Over-purchases will also be penalized.

B. Other Matters

1. Gave Mr. Tenenbaum paper on History of F.E.D. which was requested in connection with pending Moscow Conference.

2. Interviewed Mr. Waldemar Reekow of Berliner Stadtkontor in reference to currency totals stored in Merkers Mine. Established fact that the list of such currencies previously submitted by Reekow was incorrect, also that the records now available in this connection are fragmentary and unreliable. This subject

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will be discussed in greater detail with Mr. Keller.

3. Interviewed Herrn Georg Kropp, formerly second director Reichsbank Museum, now connected with Hubertus Krankenhaus in Schlachtensee. Kropp, in the absence of records, could not give me specific data as to disposition of Fulton coin collection but spoke freely about numismatic practice of the Reichsbank. In view of the elaborate manner in which such rare coins were spread out for display it was impractical to transport and store the entire collection in Merkers Mine. Only the choicest and rarest coins were brought to Merkers (nine bags thereof). The remainder, together with the voluminous card index record (formerly the Rappaport index record which had been maintained up to date for past seven years) survived the bombings and remained intact until fairly recently when it was removed by the Russians. In this removal, Kropp declared, the Russians disregarded his pleas to preserve the meticulous arrangement of the coins, but dumped all in random fashion into bags. He estimated it might take ten years to again identify all specimens by use of card index if latter is still intact. Kropp agreed to send us a complete written story of origin, growth and eventual disposition of the numismatic coin collection of the Reichsbank Museum. For this purpose it will be necessary for him to consult with several of his former subordinates.

FRANK J. ROBERTS

Treasury Depa... nt
Division of Monetary Research

Date 9/4/41 19

To: Mr. Cochran

COPY

From: Mr. White

Your memorandum seems quite satisfactory. I am appending a note which is self-explanatory. You might want to take a sentence out of it to add to your section on Argentina which will explain to the Secretary why Argentina has not been as eager to consummate the arrangements as she might otherwise have been.

9/4/41 - Or. to Cochran with his memo to Secy dated 9/3/41 entitled Stabilization Agreements.

Treasury artment
Division of Monetary Research

Date August 14 1941

To: Mr. White

COPY

From: Mr. Spiegel

Subject: Current Argentine Position

Argentine gold and foreign exchange reserves have increased steadily since the loan negotiations of last November and December. From a low point of $400 million at the end of November, 1940, they have increased to $445 million at the end of July, 1941 The reserve ratio has remained approximately the same, decreasing from 75 percent to 74 percent over this period. These increased reserves are to be explained partly by flow of European funds to Argentina--both funds of European refugees and Axis funds fleeing United States freezing. Decreased imports due both to Argentine restrictions and to United States priorities are also partly responsible. The Prebisch Mission predicted gold losses of $10 million monthly.

Recent reports from Argentine also indicate that the condition of the internal money market has improved. Government issues are now being oversubscribed whereas previously the reverse was the case.

This improvement in Argentina's financial position goes a long way towards explaining the delay in Argentine ratification of the Stabilization credit.

St. - 5 - S. [illegible] NKM

September 3, 1941

Secretary Morgenthau

Mr. Cochran

STABILIZATION AGREEMENTS

China: On July 14, 1937 the Treasury entered into an agreement with the Central Bank of China to purchase yuan up to a total of $50,000,000 U.S. currency. The agreement has been renewed each six months and now expires December 31, 1941. At present we hold 65,000,000 yuan, whose book dollar value is $19,112,500, and against which $19,379,015.65 in gold is held at the Federal Reserve Bank of New York as collateral. The rate of interest is 1/2% above the current rediscount rate of the Federal Reserve Bank of New York.

Brazil: On July 15, 1937, the Treasury entered into an agreement with the United States of Brazil, which expires on July 15, 1942. We agreed to purchase milreis up to a total value of $60,000,000, with Brazil leaving on deposit in New York gold collateral to guarantee the repurchase of the milreis by Brazil. The rate of interest is 1/2 of 1% above the current rediscount rate of the Federal Reserve Bank of New York. There have been transactions under this arrangement, but at present we are holding no milreis. This agreement also provides for the sale of up to a maximum amount of $60,000,000 in gold by the United States to be held under earmark in our vaults for the account of Brazil. This agreement was modified on September 2, 1938, to permit Brazil to ship gold from abroad to be held in this earmarked account. Up to August 30, 1941, $29,465,770.90 in gold had been sold by us to Brazil and $11,532,765.19 had been shipped by Brazil to New York to be held under earmark.

Argentina: On January 1, 1941, the Treasury entered into an agreement with the Banco Central de la Republica Argentina and the Government of Argentina. Under this agreement we undertake to purchase Argentine pesos up to the equivalent of $50,000,000 U.S. currency. No collateral is required. The interest rate is fixed at 1-1/2%. The agreement comes into operation and effect upon ratification and confirmation by Argentina of the authority under its constitution and laws to enter into this agreement. Up to the present time the foregoing conditions have not been met and the agreement is inoperative. The agreement was drafted to expire on June 30, 1941. An extension of the agreement has also been drafted, but cannot be made effective until the agreement itself becomes operative.

China: On April 1, 1941, the Treasury entered into an agreement with the National Government of the Republic of China and the Central Bank of China. This calls for the purchase by the Treasury of Chinese yuan up to the equivalent of $50,000,000 U.S. currency. No collateral is required. The agreement expires June 30, 1942. Interest at the rate of 1-1/2%. China has not yet called for the $50,000,000. The Chinese-American-British Stabilization Board in China, on which Mr. A. Manuel Fox is the American representative, did, however, begin to operate in the middle of August. The Chinese Government banks have deposited with the Federal Reserve Bank of New York their contribution of $20,000,000 to the joint Stabilization Fund.

216396

Mexico: An agreement with the Government of the Republic of Mexico and the Banco de Mexico is practically ready for signature. This involves purchases of Mexican pesos by the United States up to the equivalent of $40,000,000 U.S. currency. There is no collateral. The rate of interest is at 1-1/2%. The repurchase clause with Mexico gives that country 180 days' notice and then an additional 180 days within which to repurchase. This is a generous departure from our usual 30 days' notice. The Department of State expects its related negotiations with Mexico to be consummated in time for the signing of the Stabilization agreement before September 16. The Treasury is also to agree to purchase up to 6,000,000 ounces of silver monthly from Mexico, under an arrangement similar to that which we have with Canada.

Colombia: The Ambassador of Colombia has recently returned from his country to which he went a few weeks ago with a draft Stabilization agreement with the Stabilization Fund of the Government of Colombia, the Banco de la Republica, Bogota, Colombia, and the Government of the Republic of Colombia, under which the United States would buy Colombian pesos up to the equivalent of $3,000,000 U.S. currency. No collateral is involved. The interest rate would be 1-1/2%. We should have further discussions with the Colombian Ambassador shortly.

Ecuador: When the Ecuadorian Minister of Finance visited Washington in August he discussed with the Secretary, and subsequently with the Secretary's assistants, the question of a Stabilization agreement which might provide as much as $5,000,000 U.S. currency. It is not believed that more than perhaps half of such a sum could at all be justified. The Department of State has requested that we continue negotiations with the Ecuadorian Ambassador.

Bolivia: We have promised the State Department that we would consider a Bolivian request for monetary assistance.

HMC:lap-9/3/41

Monetary - Stab Fund - US

March 21, 1944

MEMORANDUM FOR FILES

Because the Swiss wished to limit the over-all provision of Swiss francs, it appeared to me that we might find difficulty in meeting the Swiss franc needs of relief and humanitarian agencies unless we excluded them from any category on which limits are placed. In talking to Strassele, I repeatedly made the point that we do not know what the needs for such purposes would be, but that we could not agree to placing a limit on such needs.

I talked the matter over with Messrs. White, Pehle and Fox. I told them we already had had some rejections of applications for Swiss francs against blocked dollars for humanitarian agencies. The arrangement for sending such agencies to the Swiss causes delay. There is also the undesirable aspect of having the Swiss choose which agencies they will provide with Swiss francs. The Stabilization Fund should be in a position to meet these needs promptly without reference to the Swiss.

It seemed that the best way of accomplishing this would be to agree to purchase all Swiss francs for humanitarian needs with dollars which could be used to acquire gold for export to non-enemy countries. After discussion, it was generally agreed to acquire Swiss francs for humanitarian needs in this way and to sell the Swiss francs for such purposes out of the Stabilization Fund.

I informed Mr. Knoke of the decision and told him to include this provision when arranging to buy Swiss francs from the Swiss National Bank.

B. M. Bernstein

CC to Mr. Pehle, Mr. Fox, Mr. Knoke

EMB:lr 3/24/44

Monetary - Stab Fund - 1946 (Replace)

Memorandum of a Meeting
March 17, 1944

Present: Mr. Stressle, Swiss Legation
Mr. Pfenninger, Swiss National Bank
Mr. Fox and E. M. Bernstein, Treasury

In accordance with arrangements made at the close of the previous discussion, we resumed consideration of the best means of making Swiss francs available to the New York market.

On the previous afternoon and evening I had discussed the question by telephone with Mr. Knoke and Mr. Fox. We went over the alternative ways of handling the problem and agreed that from our point of view it was desirable to keep the sale of Swiss francs for non-commercial purposes to a considerable extent in our own hands. So far as concerns the sale of Swiss francs for commercial purposes, there could be no objection to having them sold exclusively by the Swiss against blocked dollars in view of the arrangements of which we were informed the previous day.

When the meeting was held, Mr. Fox explained that we were prepared to amend the trade licenses to require the purchase of Swiss francs for trade purposes against blocked dollars. As explained to Stressle and Pfenninger this in effect would give the Swiss monetary authorities the power to determine how much Swiss francs will be available in payment of exports. If the Swiss carry out their plan to limit exports to the amount of Swiss francs they make available, there will be no excess demand to come into the New York market.

The question of supplying Swiss francs for diplomatic expenses was discussed but after taking into consideration the fact that such remittances were now effected by francs supplied against blocked dollars and in view of the stated intention of the Swiss National Bank to provide francs for such purposes against blocked dollars, it was agreed that no change should be made in respect to remittances for diplomatic purposes. With regard to francs for humanitarian needs, it was pointed out we should be reluctant to consider the delay and uncertainty that might accompany the requirement that remitters go to the Swiss for francs.

On all other needs, Mr. Bernstein expressed the hope that after the arrangements requiring Swiss francs for trade purposes against blocked dollars had been completed, they would not be large. In fact, we hoped they could be kept within the limit of 3 million Swiss francs a month in addition to the 3.25 million allotted to us by the Swiss.

Dr. — Stab. Fund —

The proposal was then outlined for an account (No. 4) to be opened in the name of the Federal with the Swiss National Bank. This account would be credited with Swiss francs the Federal buys above the allotment. The Federal in turn would open a dollar account (T) for the Swiss National Bank to which would be credited the corresponding dollars. Balances in this account could be used to buy gold for export at any time to any country not an enemy of the United States. Gold so purchased may also be earmarked in an account (T) which may be exported at any time as provided above.

It was pointed out that the Swiss could see what is happening in these accounts. If an excessive amount of francs were to go into the New York market, we could go over the matter again in a few months.

Mr. Strassle and Mr. Pfenninger agreed that this arrangement would be suitable.

E. M. Bernstein

EMB:lr 3/28/44

Monetary Stab. Fund U.S.

January 27, 1944

Mr. D. W. Bell

Mr. White

Treasury has been advised by the Red Cross that the dollars derived from the sale of Swiss francs to the Stabilization Fund in December, 1943, were not adequate to provide each German prisoner of war with the full payment of the Christmas gift which had been promised by the German Government as the number of prisoners was 122,745 instead of 120,000.

The Red Cross requests that the Stabilization Fund purchase an additional 32,940 Swiss francs to provide for full payment of the gifts.

With your approval, we propose to purchase these Swiss francs at the rate of 23.30 per Swiss franc for the account of the Stabilization Fund, crediting the Red Cross.

CDG:lr 1/27/44 1/29/44 - Or. & cc ld 1/19/44 to John Pehle from Int.Red.Cross sent to DWBell

216401

Monetary - Stab. Fund - U.S.

Dec. 15, 1943

Mr. D. W. Bell

Mr. White

The International Red Cross, on behalf of the German Government, is transferring 1,440,000 Swiss francs to this country to distribute $2.34 to each German prisoner of war.

As the German Government is making available free Swiss francs for this payment, we believe the Stabilization Fund ought to acquire these Swiss francs at the official rate of 23.30. If you approve of this transaction, we shall ask the Federal to pay the International Red Cross in Washington $335,520 while the American legation in Bern (which now holds the 1,440,000 Swiss francs) will be requested to transfer the Swiss francs to the account of the Federal at the Swiss National Bank.

NOTE: Original returned to Mr. White 12/16/43, marked "OK D.W.B."

HMB/jm
12/15/43

Monetary - Stab. Fund: U.S.

Nov. 16, 1943

Mr. D. W. Bell

Mr. H. D. White

Since the first of November the Stabilization Fund has sold approximately $600,000 in Swiss francs to governmental departments, including $300,000 to the State Department.

The State Department is now about to purchase an additional $475,000 in Swiss francs for representational expenses in enemy territory.

There is also pending a sale of $100,000 in Swiss francs to the Y.M.C.A. and a possible sale to Peru for diplomatic purposes.

As the present holdings of the Stabilization Fund amount to $840,000 in Swiss francs, we propose with your approval to buy $1,000,000 in Swiss francs from the Sveriges Riksbank.

CDG:lr 11/16/43

monetary -
Stab. Fund -
U.S.

Jan. 23, 1943

Mr. D. W. Bell

Mr. White

The State Department is in need of rather large amounts of Swiss francs to meet the expenses of the Swiss Government in representing our interests in enemy territory. For this purpose the Stabilization Fund in the past acquired a million Swiss francs from Turkey which were recently sold to the State Department. The Swedish Riksbank is prepared to sell us $1 million worth of Swiss francs which the Stabilization Fund would hold for sale to the State Department at a rate covering our purchase price and expenses.

If you approve this transaction can be put through at once.

It will be desirable to supplement this purchase from Sweden with other purchases of Swiss francs to assure an adequate supply for the State Department in the next few months. We should like to make inquiries concerning an additional $2 million worth of Swiss francs if you approve.

You will recall that Secretary Morgenthau authorized us some months ago to acquire $2 million worth of Swiss francs which we were unable to get at that time.

EMB/grs
1/23/43

Stab. Fund - U.S.

MEMORANDUM TO THE FILES May 18, 1942.

Subject: The matter of the Swiss franc rate in New York (see also memoranda May 7 and May 9).

On May 11 and 12, 1942, attention was given in the Treasury to the sharp increase in the Swiss franc rate in New York for which transactions other than commercial were being effected. This rate moved rapidly in a thin market to a high of 36.20 cents per franc on May 12. On May 11 the Chase Bank had been unable to fill a 10,000 franc order and sent the rate up 2 cents on a 5,000 franc purchase. On May 12 the Credit Suisse sold 100,000 francs in the market at rates starting at 36.20 cents and moving down to about 31 cents.

Mr. Knoke had proposed that the Stabilization Fund endeavor to acquire francs from Portugal and sell some of them in New York at rates at around 23.5 cents.

Mr. White proposed to the Secretary (see memorandum from Mr. White to the Secretary May 11) that the Stabilization Fund acquire francs and undertake such operation. The Secretary agreed to this on May 12, 1942.

Mr. White spoke to Mr. Pehle by phone on May 12 concerning the proposed step and Mr. Pehle asked why we are particularly concerned over the gyrations of the Swiss franc rate in New York and urged that we use caution in doing anything to enable the Swiss to acquire more escudos. Mr. White thereupon suggested a meeting on the subject.

At this meeting, attended on May 12 by Messrs. Foley, White, Pehle, B. Bernstein, E. M. Bernstein, Southard, Towson and DuBois, there was considerable discussion centering principally around the question of steps which might be taken to prevent transactions at rates above par. Mr. Pehle again stated that he did not see why we were particularly concerned over a small amount of remittance business either to Switzerland or to United States at rates above par. It was generally agreed that it might ultimately be desirable to modify the Swiss general license so as to make it applicable to transactions at rates other than parity. In the meantime, however, it was agreed at Mr. White's suggestion that we should proceed in the attempt to have the Stabilization Fund acquire about 3.5 million Swiss francs from Portugal since they could at least be used to supply the needs of this Government or of the Vatican or the Yugoslavs or any other buyer whose needs for francs were approved by us. It was clearly understood that no francs would be sold in the market to private buyers without further consideration of the matter.

On May 13 Mr. Southard telephoned Messrs. Livesey and Luthringer in the State Department to inform them of Treasury's intention to purchase Swiss francs and explained that there was no decision as to the

See file Switzerland for attachments

216405

subsequent use of the francs other than that they would be available to the State Department. Mr. Luthringer telephoned Mr. Southard later in the morning and said that he had discussed the proposal with Mr. Hiss, who had in turn talked to Mr. Acheson about it. He stated as a result of his conversations that there is no State Department objection to Treasury's purchase of Swiss francs from Lisbon. State realizes that such a purchase might encourage the Portuguese to buy more Swiss francs but on the whole State felt that it would put this Government in a stronger position vis-a-vis the Swiss if we had a larger stock of Swiss francs.

Mr. Southard thereupon informed Mr. Knoke that it had been agreed that the Federal should attempt to purchase Swiss francs from Portugal to an amount of approximately 3.5 million at a rate of approximately 23.30 cents per franc but indicated to Mr. Knoke that there was no agreement whatever in the Treasury as to the disposition to be made of these francs once they are bought other than that they would, of course, be available for Governmental use. Mr. Knoke therefore drafted the attached cable which he phoned to Mr. Southard, who read it to Messrs. B. Bernstein and Pehle and cleared it with Mr. White, all of whom approved it. This cable was sent to Portugal that evening. On May 14 the Federal received cable No. 16 from the Banco de Portugal informing the Federal that it was not at the moment selling Swiss francs. That evening the Federal replied by cable thanking the Banco de Portugal and telling it that the transaction was not regarded as of great importance.

It was agreed in the Treasury that no further step would be taken in the matter at the present time.

In a Naval Censorship intercept of May 14 or 15 from the Swiss Bank Corporation in Basle to its agents in New York, the former took the latter to task for its operations earlier in the week in the New York market and indicated that the Swiss National Bank is not willing to see Swiss francs supplied to the New York market for non-commercial purposes.

Mr. Luthringer informed Mr. Southard that the Swiss have told the British that they would make Swiss francs available against blocked sterling provided the British would permit the transfer of 15 million pounds sterling in gold to Canada to be earmarked, at the discretion of the Swiss, for Spanish or Portuguese account.

FAS:dm:5/18/42

May 11, 1942

Secretary Morgenthau

Mr. White

Subject: Use of Stabilization Fund to control the Swiss franc.

1. The exchange rate for the Swiss franc has recently risen in the New York market from 23.3 cents to 34.25 cents.

This increase is due entirely to the refusal of the Swiss National Bank to purchase dollars or earmarked gold as long as they are no more freely available than at present. Clearly the Swiss Bank hopes that by starving our exchange market for Swiss francs we will be forced to yield and allow the Swiss greater freedom in using their blocked funds.

2. We consider it important to take whatever steps are feasible to force the Swiss franc rate back toward 23 cents. Presumably the Swiss would make francs available at 23 cents to meet the direct needs of the United States Government in Europe, but if the legitimate private needs were satisfied the rate would probably move to 40 cents.

3. We propose the following measures:

(a) Have our Stabilization Fund purchase Swiss francs from the Portuguese at a rate as near 23 cents as possible. There is reason to believe that 3.5 million Swiss francs offered to us by the Portuguese in January are still available.

(b) Have the Stabilization Fund sell such amounts of Swiss francs in New York as are necessary to bring the rate down near 23 cents.

4. This procedure is a stabilizing activity and hence seems appropriate for the Stabilization Fund. If we undertake it, the Stabilization Fund will have to go long on Swiss francs. But the risk is not great for these reasons:

(a) The Swiss are unlikely to permit their exchange to go below 23.3 cents in New York.

(b) If the Swiss Bank prohibits the Stabilization Fund from opening an account for the purpose of making sales of francs in the New York market, we could then make the Swiss francs available to the State Department for the necessary Governmental purposes in Europe.

5. Are you willing for the Stabilization Fund to undertake the above program?

FAS:Am:5/11/42

216407

St. Fund-U.S.

April 17, 1942

Mr. White

Mr. Southard

Subject: Use of Stabilization Fund to hold Swiss francs for the State Department.

1. Following your instructions I phoned Mr. Hiss in the State Department on this matter and found that he was out of town for several weeks. I then called Mr. Reinstein, also in Assistant Secretary Acheson's office.

2. I explained to Reinstein that should the State Department wish the Stabilization Fund to purchase a sizeable quantity - say the remaining million-odd dollars of the agreed $2.2 million - of Swiss francs to be held for subsequent use by other countries designated by the State Department for expenditures in Axis countries, the Treasury would be willing to do this provided the State Department gives some form of written guarantee against exchange losses. Mr. Reinstein said he would familiarize himself with the matter and get in touch with me.

On April 16 Mr. Reinstein phoned me and said that after inquiring around the State Department he had found that he should take care of the matter and asked again to have the situation explained to him. I therefore repeated what I told him before, elaborating on the matter by pointing out that should, for example, Colombia want a few Swiss francs it was our understanding that the State Department might wish to let Colombia purchase some francs from this Government, but of course it might happen that an exchange loss could arise in this transaction. I said that it was my understanding that there was no need at this time for the State Department to decide what policy it would adopt concerning the rate at which it would resell the Swiss francs to any other government. All the Treasury Department wants is an understanding that should such resale result in a loss, the loss would be for the account of the Department of State. Mr. Reinstein said he now understood the matter and would find out what the State Department wanted done with reference to the use of the Stabilization Fund as a buyer and holder of Swiss francs.

FAS:dm:4/17/42

216408

St. Fund - U.S.

March 18, 1942

Secretary Morgenthau

Mr. White

Subject: Acquisition of Swiss Francs by the Stabilization Fund

1. The State Department has requested the Treasury Department to facilitate the acquisition of the Swiss francs necessary for meeting the expenses incurred by Switzerland in representing the interests of this Government and of other American republics in enemy territory.

2. The Stabilization Fund could be useful in facilitating such payments by acquiring Swiss francs for resale to the State Department and to other American republics that prefer to arrange the necessary transfers through this country. As transactions will be made at an agreed rate of exchange, the Stabilization Fund need not undertake any risk in buying, holding, and selling Swiss francs for this purpose.

3. In connection with an application for a Foreign Funds license to transfer \$2.2 million from the Swiss National Bank to the Spanish Foreign Exchange Institute, the Swiss National Bank has agreed to sell to this Government Swiss francs to the amount of \$2.2 million. As the license must be granted on the recommendation of the State Department, this would appear to be a favorable opportunity for acquiring Swiss francs without making additional free exchange available in Europe.

4. The State Department has already purchased \$250,000 of Swiss francs which have been transferred to the Greek Minister in Bern to be used by him for relief purposes in Greece. The State Department has an additional \$650,000 available for acquiring Swiss francs at this time. The State Department has asked whether it would be possible for the Treasury to acquire the remaining Swiss francs (\$1,300,000) for resale to the State Department and other American republics within the next few months.

HDW:EMB/jm
3/18/42

Monetary Stabilization General

January 10, 1942

Mr. White

Miss Kistler

Subject: Exchange Stabilization Funds

The most significant development in this field during 1941 was the establishment of the Sino-American and the Sino-British Stabilization Funds to stabilize the relationship between the Chinese yuan and the U. S. dollar and the British pound sterling, respectively. Separate, but closely parallel, agreements were signed in April between China and these countries. The agreements provide for the appointment by the Chinese Government of a five-man board (three Chinese, one American and one British national) to manage the funds. Under the agreement with Great Britain, the British Treasury agreed to provide 5 million pounds sterling in addition to the existing Sino-British Stabilization Fund which was set up in 1939. The agreement with the United States calls for the purchase by the U. S. Stabilization Fund of Chinese yuan to the amount of U. S. $50 million, and for a contribution by Chinese Government banks of 20 million U. S. dollars to the joint fund. The Stabilization Board began operations in August.

An earlier, repeatedly renewed, arrangement between the United States and China, signed on July 14, 1937, also provide for stabilization operations in Chinese yuan.

The United States has also entered into stabilization agreements with Mexico, Brazil and Argentina. The agreement with Mexico was signed on November 19, and provides for the use of $40 million of the U. S. Stabilization Fund to stabilize the U. S. dollar-Mexican peso exchange rate. The United States-Brazilian Stabilization Agreement, signed on July 15, 1937, and modified on September 2, 1938, is still active. The undertaking with the Argentine, signed on January 1, 1941, has not yet become operative, because of the failure of the Argentine Congress to ratify and confirm the agreement. Under this arrangement, $50 million of the U. S. Stabilization Fund is set aside to promote stability between the currencies of the two countries.

On August 15, Russia received $10 million from the U. S. Stabilization Fund against gold to be delivered within 90 days, and on October 10, an additional $30 million against gold to be delivered within 180 days. These were the first two instances in which the U. S. Treasury purchased gold for future delivery.

216410

Division of Monetary Research

Exchange controls in Europe and the British Empire have eliminated the need, so far as concerns these areas, for customary stabilization fund operations. There are no stabilization funds now in operation in Europe and the stabilization funds of Great Britain and Canada have been virtually inactive since the beginning of the war. The pre-war resources of the British Stabilization Fund were virtually exhausted during the first two years of hostilities; gold held in the Fund fell from $2,038 million on September 1, 1939, to $151 million on September 1, 1941.

TMK:rel
1-12-42

216411

MONETARY AND STABILIZATION FUND RECORDS, GENERAL: China

Box 123

Public Access Granted per M. Cross + R. Wolfe

HANDLE AS SECURITY CLASSIFIED

216412

Put - Chinese Stabiliz Folder Also the

Draft 2 - 12/5/40

AGREEMENT

Made the ________ of ____________, at the City of Washington, District of Columbia, between the National Government of the Republic of China, herein called China, party of the first part, the Central Bank of China, herein called the Bank, party of the second part, and the Secretary of the Treasury of the United States of America, herein called the Secretary, party of the third part.

In consideration of the premises and of the mutual covenants herein contained, it is agreed as follows:

(1) China shall establish and maintain a Foreign Exchange Control Board of China (herein referred to as the Board). The Board shall consist of five members, all of whom shall be appointed by China. At least one of such members, who shall be designated to act as chairman of the Board and shall receive a salary of ________ United States dollars per year, shall be appointed by China upon the recommendation of the Secretary; shall be permitted to serve so long as desired by the Secretary; shall be removed from office by China upon the request of the Secretary; and shall be permitted to keep the Secretary fully informed of all activities of the Board, effected or contemplated. At least one other member of the Board ~~shall be~~ may be a subject of the British Empire ~~[illegible]~~ appointed by China on the recommendation of the British Treasury. Salaries of the members of the Board and all expenses incurred in connection with the activities and functions of the Board shall be paid by China.

(2) China shall vest in the Board full and complete power to manage, transfer, dispose of, and otherwise control all foreign exchange assets of China and the Bank now in their possession or hereafter acquired, including the stabilization fund to be established as provided in paragraph

Box 123

216113

Draft 2 – 12/5/40

MONETARY

(4) hereof. As used herein, the term "foreign exchange assets of China" shall be deemed to include, among other things, all amounts loaned, advanced, or granted by the Government of the United States or any department, agency or instrumentality thereof to China, the Bank, or any agency or instrumentality thereof, or person or organization acting on their behalf.

(3) China shall also vest in the Board authority to establish a system of foreign exchange control. To this end China shall grant the Board complete power and authority to investigate, regulate or prohibit, directly or through any person or agency that it may designate and under such rules, regulations and definitions as it may prescribe, by means of licenses or otherwise, any of the following: (a) transactions in foreign exchange; and (b) the import, export hoarding or withdrawal of gold, silver or other precious metals or coin or currency or capital, services, securities, goods or other property. China shall also grant the Board complete power and authority: (a) to take appropriate steps to require the transfer to China ~~the Board or a person designated by it of~~ all right, title and interest in any foreign exchange, gold, silver or other precious metals, coin, currency or securities; and (b) to require any person to furnish complete information with respect to any transaction, effected or contemplated, or any property, subject to the control by the Board as herein provided, including the production of any books of account, contracts, letters or other documents in the custody or control of such person. China shall by appropriate sanctions enforce all action taken by the Board pursuant to the foregoing powers.

(4) China shall establish a fund to be known as the Stabilization Fund of China (herein referred to as the "Fund") for the purpose of stabilizing the exchange value of the Chinese yuan. China shall by appropriate steps cause to be transferred to the Fund all of the assets of the existing Anglo-Chinese Stabilization Fund A in the amount of approximately __________ yuan and 2,700,000 pounds sterling, and all of the assets of the Anglo-Chinese Stabilization Fund B in the amount of 3,000,000 pounds sterling. China shall also cause to be transferred to the Fund by Chinese governmental banks an amount of at least 12,500,000 United States dollars; and such other assets as may be acquired by China or the Bank pursuant to this Agreement. All of the assets transferred to the Fund shall be used exclusively in carrying out the purposes of the Fund, and the Fund shall be used solely for the purpose of stabilizing the exchange value of the Chinese yuan.

(5) The Secretary, through the Federal Reserve Bank of New York as fiscal agent of the United States, will purchase Chinese yuan from the Bank from time to time as requested by it. The yuan so purchased shall be credited to the Federal Reserve Bank of New York (as fiscal agent of the United States) on the books of the Bank in a special account to be opened in the name of "Federal Reserve Bank of New York as Fiscal Agent of the United States". Upon receipt by the Federal Reserve Bank of New York of advice from the Bank by cable that this account has been credited with a stated amount of Chinese yuan, the Federal Reserve Bank of New York as fiscal agent of the United States will in turn credit the Fund on the Books of the Federal Reserve Bank of New York in a special account to be opened in the name of "Stabilization Fund of China, Special

note

216115

Account" in an amount in United States dollars equal, at the then prevailing buying rate of exchange in New York for cable transfers in yuan on Shanghai, to the amount in yuan so credited to the Federal Reserve Bank of New York on the books of the Bank.

The Secretary, at the time of the purchase of such yuan, may, in his discretion, designate terms and conditions under which the dollars credited to the "Stabilization Fund of China, Special Account" may be withdrawn.

The total amount of yuan purchased by the Secretary from China and the Bank and standing to the credit of the Federal Reserve Bank of New York as fiscal agent of the United States on the books of the Bank as aforesaid, together with the interest accrued thereon whether credited or not, shall not at any time exceed in the aggregate the equivalent of United States $50,000,000, computed at the rate at which such yuan are to be repurchased pursuant to the provisions of paragraph (8) hereof.

(6) Interest shall be credited quarterly to the special yuan account in the name of "Federal Reserve Bank of New York as Fiscal Agent of the United States". Such interest is to be computed at the rate of 1½ percent per annum on such amount of yuan as is equivalent at the average rate at which the yuan in such account were purchased, to the number of dollars in the "Chinese Stabilization Fund, Special Account" which the Board is authorized to withdraw from such account at the date of computation of interest.

(7) At any time that the Board shall be entitled to withdraw any of the dollars credited to the "Chinese Stabilization Fund, Special Account", and at any time that the total foreign exchange assets of China

and the Bank under the control of the Board, exclusive of the foreign exchange assets of the Fund, shall be less than the amount of dollars advanced by the Export-Import Bank to China pursuant to an agreement dated _____________, 1940, no action may validly be taken by the Board with respect to the foreign exchange assets of China and the Bank, including those in the Fund, without the approval of the Chairman of the Board.

(8) Upon the request of the Secretary after June 30, 1941, and within 120 hours of the dispatch of a cable containing such request, China and the Bank, or either of them, shall repurchase or cause to be repurchased by the Fund (in United States dollars) the following, at the rate or rates of exchange specified:

(a) Any or all of the yuan purchased by the Secretary through the Federal Reserve Bank of New York as fiscal agent of the United States and standing at any time to the credit of the Federal Reserve Bank of New York on the books of the Bank as aforesaid, at the same rate or rates of exchange at which such yuan were purchased; and

(b) Yuan in the amount of interest accrued on, and whether or not credited to, such special yuan account, at the average rate of exchange at which the yuan upon which such interest has accrued were purchased by the Secretary through the Federal Reserve Bank of New York as fiscal agent of the United States. In the absence of a request by the Secretary yuan in the amount of such accrued interest shall be purchased or caused to be purchased (in United States dollars) at the said rate of exchange at the end of each successive 90-day period from and after the date hereof and upon the termination of this Agreement.

If China or the Board shall attempt to withdraw any dollars from the "Stabilization Fund of China, Special Account", except in accordance with the terms and conditions designated from time to time by the Secretary of the Treasury, as provided in paragraph (5) hereof, or in the event of the failure of China and/or the Bank to repurchase or cause to be repurchased by the Fund yuan (including interest) as hereinabove provided, China and the Bank shall become immediately obligated to repurchase or cause to be repurchased by the Fund all of the yuan at the rates of exchange herein indicated, and the dollars remaining in the "Chinese Stabilization Fund, Special Account", shall be applied by the Federal Reserve Bank of New York to the repurchase of the yuan.

China and the Bank or either of them may at any time, with the consent of the Secretary, repurchase or cause to be repurchased by the Fund in United States dollars any or all of the yuan referred to in paragraphs (a) and (b) above at the rate or rates of exchange hereinabove specified.

(9) China and the Bank will take and cause to be taken such further action as may be reasonably requested by the Secretary to effectuate the purposes and intent of this Agreement.

(10) Any obligation of the Secretary to purchase any amount of yuan pursuant to this Agreement shall be conditional and dependent upon the prior performance by China, the Bank of China and the Board of any duties, obligations or things to be performed or done or liabilities to be discharged by them under this Agreement, and any arrangements made pursuant thereto.

(11) Any obligation of the Secretary to purchase yuan under this Agreement shall terminate on June 30, 1941 (in the United States), subject to earlier termination at any time as specified in notice given by the Secretary. If an extension of the Agreement is agreed upon, the Agreement shall continue in full force and effect during the period thus agreed upon. In the event that China and the Bank wish an extension of this Agreement, they will give the Secretary notice to that effect in writing or by cable at least thirty days prior to the termination of the Agreement. The termination of the Agreement shall not affect any of the rights, powers or privileges of the Secretary or of the Federal Reserve Bank of New York as fiscal agent of the United States, or any of the duties, liabilities, or obligations of China or the Bank hereunder, all of which shall continue in effect until China and the Bank shall have fully performed their said duties and obligations and discharged said liabilities.

Stab Fund Gold

Rushmore 22 Apr

Aug 24 1939 last purch by Fed
as Fis Agt of gold in Lon mkt for Fund
last sale Jan 7 39 for Fund

HB pty
They operated only for Fund (+ RFC)

BADC Fin Financial News Sept 9 1933
Spec Circ 393 Fin & Invest Div
The London Gold mkt by Bratter
15 pages

~~Took 1 mil Sw fres 2331 + 429/ 1~~

Sw fres
Some bought at 2330
Fund never shows loss - always covered up
So profits are left in to cover possible
losses
Comcl bks take pfts every 6 mos.

Gold - St. Fund

February 13, 1941

Mr. Cochran

Mr. Dietrich

The following is a brief outline of the procedure in connection with (1) the purchase and sale of gold by the United States Assay Office in New York and (2) authority of the Stabilization Fund to purchase and sell gold.

1.

Gold Purchased by the Assay Office

On February 1, 1934 the Secretary of the Treasury made public an announcement that he would purchase imported fine gold bars (.899 fine or better) through the Federal Reserve Bank of New York as fiscal agent of the United States. The gold so purchased is at the rate of $35 per fine troy ounce, less the usual Mint charges and less 1/4 of 1 percent for handling charges, all subject to compliance with the Regulations issued under the Gold Reserve Act of 1934. Under the procedure set up when such gold comes to the United States for sale, the consignee delivers to the Federal Reserve Bank of New York a statement showing the consignor, the number of cases, and the fineness of the gold, together with a statement from the Bureau of Customs stating that the gold has been in continuous customs custody since it entered the country and that it has been delivered to the United States Assay Office. The Federal Reserve Bank then writes a letter to the Assay Office referring to the shipment stating that it is satisfied that the shipment meets the condition mentioned in the Secretary's announcement of February 1, 1934. Other gold which does not come under this classification is delivered to the Assay Office without reference to the Federal Reserve Bank.

Upon receipt of gold deposits, the Assay Office weighs the gold in order to obtain the gross weight. The Assay Office then makes an advance payment usually between 90 and 98 percent, depending upon the fineness and condition of the gold. The gold is then melted and assayed and final payment made on the basis of $35 per fine ounce, less 1/4 of 1 percent, less the usual Mint charges.

Whenever the Assay Office makes either an advance or final payment for gold, the item "Gold" on the Daily Statement of the United States Treasury is increased by the amount of the payment. Payments are made by bullion checks drawn on the Treasurer of the United States. In order to replenish the Treasurer's account, the Treasury deposits with the Federal Reserve Board gold certificates for the value of the gold purchased and the Board telegraphs the Federal Reserve Bank informing it of the deposit. The Federal Reserve Bank then credits the Treasurer's account.

The Mints and Assay Offices also receive deposits of domestically mined gold and unmelted scrap gold. Deposits of gold containing less than 200 parts of gold to 1,000 by assay are not accepted by the Mints or Assay Offices and are usually sent to commercial refineries for melting and parting and refining.

<u>Gold Purchased by the Assay Office from the Fund</u>

From time to time the Fund has occasion to replenish its cash and it is necessary to sell gold to the Treasury. Such sales of gold, in accordance with the Secretary's previous instructions, are made to the Assay Office, through the Federal Reserve Bank of New York, at the flat price of $35 per fine ounce. If the gold deposited is good United States Assay Office bars which have been held in this country since their original sale by the Assay Office, payment is received for 100 percent of their value. If the gold should be U. S. bars which have been outside the United States or foreign bars or coin, the Assay Office will follow the same procedure as previously mentioned as to advances, melting and final payment. The payment received by the Federal Reserve Bank of New York is credited by that bank to the account on its books entitled "Secretary of the Treasury, Special Account".

In some cases gold is delivered to the Assay Office by the Fund with instructions that an advance be given in good United States bars which are to be held for account of the Federal Reserve Bank of New York "Secretary of the Treasury, Special Account". The Assay Office procedure in this instance is to handle this deposit of gold the same as if it were sold with the exception that payment is made in gold and not in cash.

The Fund often purchases gold released from earmark which is deposited at the Assay Office with the instructions that after melting and refining, the gold is to be held by the Assay Office for the account of the Federal Reserve Bank of New York "Secretary of the Treasury, Special Account".

<u>Gold Sold by the Assay Office</u>

Under the Provisional Regulations issued under the Gold Reserve Act, the Federal Reserve Banks may acquire gold by the redemption of gold certificates for the purpose of settling international balances and for other purposes. Originally some use was made of this provision but since the Stabilization Fund is purchasing from and selling gold to central banks, foreign governments and the B.I.S., there is no need to use this provision at the present time.

The Mints and Assay Offices also sell gold for use in industry, profession, or art, provided the purchasers have licenses to acquire specified amounts of gold. Such sales are made at $35 (plus 1/4 of 1 percent) per troy ounce of fine gold plus the regular Mint charges.

Gold Sold by the Assay Office to the Fund

From time to time it may be necessary to increase the stock of gold held by the Fund. In such cases the purchase from the Assay Office is effected through the Federal Reserve Bank of New York at the flat price of $35 per fine ounce. Payment is made to the Assay Office by the Federal Reserve Bank of New York and the account on its books entitled "Secretary of the Treasury, Special Account" is debited for the cost of the gold.

2.

Authority of the Fund to Purchase and Sell Gold

On September 27, 1936, the President approved 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 of the B.I.S. at such times and in such quantities and with respect to such governments or banks as the Secretary deems most advantageous to the public interest.

On September 27, 1936, the President also approved the sale of gold through the Stabilization Fund to all or any foreign governments, foreign central banks, or the B.I.S. at such times and in such quantities and with respect to such governments or banks as the Secretary deems most advantageous to the public interest.

Gold-St. Fund

Stabilization Fund Gold Transactions
with the General Fund of the Treasury. 1/

1936 to July 1, 1946.

Calendar Year	Gold Purchases from General Fund	Gold Sales to General Fund
	(In millions of dollars)	
1936	- -	46.5
1937	230.4	225.0
1938	84.6	622.8
1939	- -	1021.3
1940	- -	2795.7
1941	230.7	184.1
1942	393.2	59.2
1943	811.5	6.4
1944	1319.7	1.1
1945	568.0	24.7
1946 - January	50.	- -
February	- -	- -
March	- -	- -
April	- -	- -
May	- -	- -
June	- -	- -
July		
August		
September		
October		
November		
December		

1/ Purchased and sold at the flat price of $35 per fine ounce, under arrangement approved by the President on November 6, 1936.

Treasury Department, Division of Monetary Research July 12, 1946.

St. Fund - Gold

July 8, 1946.

Mr. Glasser

G. A. Eddy

I have just talked to New York about the source of the $2,100,000 of Czechoslovakian funds which they used last week to purchase gold. As I told you orally, the money came in to the Federal from the Chase Bank. The Federal has no additional information on the source of the funds. Normally, telegraphic transfers do not contain collateral information and it is contrary to custom for a bank to inquire or to reveal the source, except in unusual circumstances. I have told the Federal not to make a special inquiry of the Chase in this case. Do you wish me to ask them to do it, or perhaps to start an inquiry through Mr. Ullmann, the State Department, and The Czechoslovakian Legation?

Norman Ness just called to say that the Export-Import Bank has received inquiries from Peru and Costa Rica for relief for shortages of dollar exchange, pending the availability of the World Fund.

With my approval, he is saying that inquiries for an exchange stabilization agreement may be addressed directly to the Treasury. However, he adds that both countries have been "living like drunkards" and that their shortage of exchange is due to chronic deficits and not to any cyclical or temporary change in their foreign trade.

Gold - St. Fund

C O P Y

Memo. Dated September 29, 1939.

For Cochran - (Personal)

SUBJECT: Gold Abroad.

The Treasury Department does not seem to run the risk of being unexpectedly handed gold under the tripartite arrangements in London, Paris, Brussels or Berne.

Firstly because as we understand the terms of the tripartite arrangement, conversion into gold for earmark abroad for our account was contemplated only of foreign exchange which we purchased in our markets for the purpose of stabilizing the dollar in terms of the foreign currencies. Therefore as long as we do not buy foreign exchange here we will not get gold abroad. The earmark for our account of gold abroad against dollar sales by other tripartite members has always been considered a matter of special negotiations. (See our special arrangements with England Belgium - both now lapsed - for the purchase by us on a dollar basis of gold abroad.)

Secondly with respect to England and France particularly, because both Bank of England and Bank of France have discontinued quoting us daily buying and selling prices for gold as stipulated in the arrangement.

Rec'd. by phone from
Mr. Lang, Fed. Res. Bk.
of N.Y. - FA

Gold - St. Fund

COPY

January 7, 1942.

To Mr. White

From Mr. Southard

Subject: Gold purchases and sales by the Stabilization Fund.

I gave you a hasty answer two weeks ago to your question as to why the Stabilization Fund regularly buys gold from the General Fund through the New York Assay Office.

The attached memorandum above that in 1941 the Fund on balance sold \$58,000,000 more gold to foreign countries than it bought from them. This gold deficit was approximately balanced by the Fund's set purchases of \$47,000,000 of gold from the General Fund.

The question of the Stabilization Fund's gold purchases from and sales to the General Fund thus boils down to this: Should the Stabilization Fund, during a given period (such as the first six months of 1941) purchase considerable amounts of gold on balance from foreign countries, its special cash account with the Federal Reserve Bank of New York may be run down undesirably low. In such a period the Stabilization Fund would sell gold to the General Fund. Contrariwise, at other times (such as the latter part of 1941) the Stabilization Fund sells considerable amounts of gold on balance to foreign countries and finds it convenient to use some of the resulting cash to pruchase gold from the General Fund through the New York Assay Office.

The general policy has been to hold about \$25,000,000 worth of gold either at the Federal Reserve Bank of New York or with the Assay Office to meet unpredictable demands for gold by foreign countries.

Gold St Fund

October 6, 1938

Federal Reserve Bank,
New York, N.Y.

Attention: Vice President Knoke.

Dear Sir:-

Reference is made to this Department's letter of September 8, 1938 in which you were authorized to sell gold to the General Fund of the Treasury at the flat rate of $35 per fine troy ounce (without deduction of any amount for usual mint charges or 1/4 of 1% for handling charges) and also authorizing and requesting you as fiscal agent of the United States to credit and hold such gold in a Special Gold Custody Account for the Treasurer of the United States.

Upon specific authorization which will be furnished to you from time to time and confirmed by wire, you are authorized to transfer Assay Office bars from the Special Gold Custody Account of the Treasurer of the United States to the Assay Office in New York. Such transfers should be credited by the Assay Office as transfers of funds from the Special Gold Custody Account of the Treasurer of the United States with your bank and corresponding charges entered by your bank in the Special Gold Custody Account as transfers to the Assay Office of New York.

Very truly yours,

(s) Wayne C. Taylor

Acting Secretary of the Treasury.

O'D/EMB
10/6/38

INIT: O'D MC DWB FD AL

Copy dmh
5/15/46.

Part 1

DEVALUATION OF DOLLAR AND STABILIZATION FUND

HEARING

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SEVENTY-SIXTH CONGRESS

FIRST SESSION

ON

S. 910

A BILL TO EXTEND THE TIME WITHIN WHICH THE POWERS RELATING TO THE STABILIZATION FUND AND ALTERATION OF THE WEIGHT OF THE DOLLAR MAY BE EXERCISED

MARCH 2, 1939

Printed for the use of the Committee on Banking and Currency

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DEVALUATION OF DOLLAR AND STABILIZATION FUND

THURSDAY, MARCH 2, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON
BANKING AND CURRENCY,
Washington, D. C.

The subcommittee met at 10:30 a. m., pursuant to call, in room 301, Senate Office Building, Senator Carter Glass (chairman of the subcommittee) presiding.

Present: Senators Glass (chairman of the subcommittee), Bankhead, Adams, Brown, Smathers, Miller, Townsend, and Taft.

Present also: Senator Wagner.

Senator GLASS (chairman of the subcommittee). Gentlemen, the committee will come to order. This meeting is for consideration of Senate bill 910, introduced by Senator Wagner—I assume, by request.

(Senate bill 910 is as follows:)

[S. 910, 76th Cong., 1st sess.]

A BILL To extend the time within which the powers relating to the stabilization fund and alteration of the weight of the dollar may be exercised

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (c) of section 10 of the Gold Reserve Act of 1934, approved January 30, 1934, as amended, is further amended to read as follows:

"(c) All the powers conferred by this section shall expire January 15, 1941, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated."

SEC. 2. The second sentence added to paragraph (b) (2) of section 43, title III, of the Act approved May 12, 1933, by section 12 of said Gold Reserve Act of 1934, as amended, is further amended to read as follows: "The powers of the President specified in this paragraph shall be deemed to be separate, distinct, and continuing powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section in his judgment may require; except that such powers shall expire January 15, 1941, unless the President shall sooner declare the existing emergency ended."

Senator GLASS. The Secretary of the Treasury is here and wants to be heard, and we want to hear him.

Mr. Secretary, you have full knowledge of the content of this bill, and the committee would like to have a statement from you on its substance.

Secretary MORGENTHAU. Mr. Chairman, if it is agreeable to you, I have a prepared statement which I should be glad to read.

Senator GLASS. Yes.

Secretary MORGENTHAU. Is that agreeable to you?

Senator GLASS. Yes, sir; perfectly agreeable.

Secretary MORGENTHAU. Very well, sir.

216430

Secretary MORGENTHAU. Mr. Chairman and members of the subcommittee, on January 19, 1939, the President wrote to the President of the Senate and the Speaker of the House of Representatives recommending the extension of the powers conferred by section 10 of the Gold Reserve Act of 1934 dealing with the stabilization fund and certain powers specified in the act of May 12, 1933, relating to fixing the metallic content of the dollar, which would otherwise expire on June 30, 1939. Senate bill 910, which was introduced on January 23, 1939, by Senator Wagner, chairman of the Committee on Banking and Currency, is in accord with the recommendations of the President, and I am appearing before you in support of this bill.

A discussion of the provisions of S. 910 may be conveniently divided into the provisions dealing with the extension of the stabilization-fund powers (sec. 1 of the bill) and in the provisions dealing with the extension of certain powers specified in paragraph (b) (2) of section 43 of the act of May 12, 1933, which principally involve (*a*) the power to alter the weight of the gold dollar and (*b*) the unlimited coinage of silver. If it is agreeable to you and the other members of the subcommittee, Mr. Chairman, I propose to take up the provisions of S. 910 in that order.

May I proceed?

Senator GLASS. Yes.

Secretary MORGENTHAU. I. Continuation of the stabilization-fund powers: The stabilization fund of $2,000,000,000 was established by section 10 of the Gold Reserve Act of 1934, which was enacted on January 30, 1934. The $2,000,000,000 placed in the fund was obtained from the increment accruing to the Treasury from the decrease in the weight of the gold dollar and consequent increase in the value of the gold held by the United States. As originally provided, the stabilization fund had a life of 2 years, and the President was authorized to extend the period for 1 additional year. This he did on January 10, 1936. In January 1937 Congress, in an act similar to the bill now being considered by the committee, extended the life of the stabilization fund until June 30, 1939. The purpose of the legislation now before your committee is to extend the fund until January 15, 1941.

During the 3 years immediately preceding the creation of the fund more than 30 nations had departed from the gold standard and had adopted either floating currencies or exchange controls. Confronted with these monetary developments, Congress, fully appreciating the need for a special fund, with ample reserves and adequate power to cope with this new trend in international monetary matters, created the stabilization fund.

Since the establishment of our stabilization fund other countries have abandoned the pre 1931 gold standard, until now every country except the United States and one other country important commercially has a currency which, in effect, is either a floating currency or is subject to exchange controls.

Whereas before 1931 currencies fixed in terms of gold and stable in terms of exchange rates characterized most of the world monetary exchange clearing agreements. Formerly, rigid mint parities and unrestricted gold movements ruled international currency relationships; now dependence has to be placed chiefly upon the day-to-day decisions of governments adapted to the continually shifting economic, political, and monetary conditions.

The purpose of the fund is to stabilize the exchange value of the dollar. In carrying out this purpose the fund undertakes a variety of operations.

Sometimes it is called upon to prevent violent fluctuations in exchange rates induced by acute political developments which cause flights of capital from one country to another. Such, for example, was the situation created in the fall of last year when as a consequence of the Czechoslovakian crisis a large volume of funds sought to leave Europe for the United States. The outflow of funds was so large that the amount of gold which it was necessary to ship from Europe to provide dollar balances was far greater than could be taken care of through normal commercial channels. If there had been no stabilization fund to cooperate with the other funds, the dollar exchange would have fluctuated so violently as to disrupt our trade. International monetary chaos might have ensued.

The occasions which call for operations of the magnitude undertaken by our fund last fall are, however, sporadic. Normally the stabilization fund is concerned with hour-to-hour and day-to-day fluctuations in the dollar-exchange rate. When the exchange markets are quiet and there are no unusual disturbances, it is not necessary for the fund to take an active part in the market. At such times it operates in relatively small amounts and participates in a relatively small number of transactions each day, and may even not enter the market at all.

When, however, for one reason or another the operations in the various exchange markets become speculative or panicky in character, with arbnormal fluctuations, then the stabilization fund steps into the market and becomes active in buying and selling gold and foreign exchange for the purpose of minimizing fluctuations.

During these operations it is frequently necessary for the stabilization fund to acquire foreign currencies. The fund attempts to carry out all such transactions with a minimum of risk. In the past, we have been successful in avoiding risk of exchange loss through special reciprocal arrangements between cooperating treasuries under which foreign exchange is immediately convertible into gold at a price fixed each day. Incidentally, it should be pointed out that because we wish to avoid the possibility of an exchange loss we frequently forego the possibility of an exchange profit.

There are also occasions when the exchange rate between the dollar and the currency of a country with small gold holdings is subjected to pressure because of unfavorable political or economic developments. The fund can be employed, and has occasionally been employed, in such circumstances, to help stabilize the dollar exchange.

For example, our arrangement with China was just such an operation. There was strong pressure against the dollar-yuan exchange and China needed dollars in order to strengthen the dollar-yuan exchange rate, thus avoiding additional obstacles to our trade. To eliminate any risk of exchange loss, China agreed to repurchase the yuan at the same rate at which the United States purchased them and China's promise was backed by adequate gold and silver collateral, which was kept on deposit with Federal Reserve banks.

An arrangement of like character was made with Brazil in 1937, but owing to subsequent developments the arrangement was not utilized.

A similar arrangement was made with Mexico. We purchased Mexican pesos and in exchange made dollars available. Again, as in the case of China, the Mexican Government agreed to repurchase the pesos at the price we paid for them, and deposited adequate collateral with the Federal Reserve banks.

There are times when the situation in the foreign exchange and gold markets calls for gold operations by the fund in the London market. If, as a consequence of certain international, economic, or trade developments, pressure should develop against the dollar-sterling rate, the fund might, in order to protect the dollar's position and American commercial and trade interests, engage in gold operations to relieve that pressure. It might, for example, place an order through its fiscal agent, the Federal Reserve Bank of New York, for the purchase in London of a specified amount of gold at a specified price. Upon execution of the order, our fund acquires gold in London and supplies dollar exchange in payment. This gold is placed on deposit in London and may be disposed of in any of several ways, depending upon market developments. Should, for example, pressure against the dollar then occur, the fund could release the gold in London for payment in sterling and then sell sterling for dollars. If, on the other hand, no such pressure develops, the gold can be brought to this country to be held in the stabilization fund or to be sold by it to the United States assay office.

There are numerous other technical ways in which the exchange and gold transactions are consummated, depending upon where the pressure falls, what the reasons for the pressure are, the condition of the various exchange and gold markets, and even the shipping facilities for gold available at the particular time.

From 1934 to the middle of 1936 the stabilization fund acted independently in the purchase of gold and foreign exchange. When in 1936 France was confronted with a monetary crisis, the United Kingdom, France, and the United States realized the necessity of taking steps to safeguard their economies against competitive exchange depreciation which in the long run would benefit none and injure all. Therefore, in pursuance of our policy of promoting stability of the exchange value of the dollar, on September 25, 1936, we joined the governments of Great Britain and France in the Tripartite Declaration of policy with respect to international monetary affairs. Soon thereafter the governments of Belgium, Switzerland, and the Netherlands announced their adherence to this declaration. The machinery for collaboration to attain the common objectives laid down in the tripartite declaration was provided chiefly by the stabilization funds of these countries.

The stabilization fund is, under present conditions, a potent instrument for the protection of our stake in world trade and of every American producer who competes in the American market with foreign producers. The only persons in the United States who can possibly be injured by the operations of the stabilization fund are speculators in foreign exchange. Whereas the businessman needs stability in exchange, the speculator thrives on exchange fluctuations. Any businessman who has had to deal in foreign currency knows that the dollar is the most stable and the soundest currency in the world today. The $2,000,000,000 stabilization fund has been an important and I believe, essential instrument in maintaining that stability.

The occasions when the stabilization fund has been employed for large-scale operations to avoid disruption of the international monetary market have been few, yet the fund operates regularly to minimize undesirable day-to-day fluctuations in rates. Its very existence constitutes a stabilizing factor in the exchange market. It is a major force in discouraging speculators from undertaking raids on our exchange rates. What is even more important, the presence of a $2,000,000,000 fund set aside to be used for exchange purposes, when necessary, effectively discourages the initiation of currency depreciation wars which would, of course, be disruptive to world trade.

One of the responsibilities of the stabilization fund is to assume in times of stress in the foreign-exchange market the functions normally performed by private operators, who, because of the risk involved, may not be willing to act at the very time when there is the greatest need for exchange facilities. There have, for instance, been several occasions in the last year when the fund was virtually the only source of dollar exchange.

There is still another important function which stabilization funds throughout the world perform—namely, the protection of the domestic money and credit market from the impact of large gold losses or gains. Because of the large amount of gold held by our stabilization fund, it is in an excellent position to protect our credit base against heavy withdrawals of gold from this country.

It may be expected that with the restoration of normal conditions abroad gold may leave the United States in large volume. In such a situation the gold in the stabilization fund will cushion what might otherwise constitute a severe shock to our economy.

The emergency in the international economic and monetary field still exists, and, unfortunately, there are no grounds for believing that such emergency will end on June 30, 1939. On the contrary, the recurrence of international crises is as probable now as when the stabilization fund was created in 1934.

Regardless of the trend of international developments, the stabilization fund may have even greater usefulness in the future than it has had in the past.

I turn now to another aspect of the fund. When Congress established the fund it provided that an annual audit should be made and that the Secretary of the Treasury should make a report to the President once a year. There was no provision for any other report. Congress evidently recognized that every precaution should be taken to prevent anyone from attempting, through knowledge of its detailed operation, to gain speculative advantage. It was then known that the British fund was operated with the utmost secrecy, and it was realized that a certain amount of secrecy was essential if our fund was to serve its purpose most effectively.

So far as there is secrecy in the operation of the stabilization fund of the United States, it relates only to the transactions and status of the 200-million-dollar portion of the fund. This account has never held more than a relatively unimportant portion of our monetary gold stock. It is with regard to this portion of the fund that the exchange speculators, interested in following for their own gain the day-to-day operations of the fund, would like to have more detailed information. These speculators cannot now tell whether the operating portion of the fund at any given time consists entirely of gold, or entirely of cash assets, or partly of each. They, or any citizen, of course, can tell from the daily Treasury statement that the stabilization fund contains at least $1,800,000,000 of gold which has never been touched.

Speculators would be the chief beneficiaries from publication of a current record of the day-to-day operations of the fund. Failing to obtain current information, they would like the detailed data on past operations. The past record would enable them better to trace the current activities of the fund.

One of the important ways through which the stabilization fund helps maintain confidence and stability of exchanges is by its psychological effect. The less the speculator knows of the day-to-day operations of the fund, the smaller do those operations have to be.

II. Alteration in the weight of the dollar: I now come to the second section of the legislation which the committee is considering: Extension of the authority to alter the gold content of the dollar. This power, when originally given to the President in the Thomas amendment passed in May 1933, was subject to no time limitation. However, it did provide that the gold content of the dollar could not be reduced more than 50 percent. In January 1934, when the President recommended the enactment of the Gold Reserve Act, he recommended that the authority to change the gold content of the dollar be limited to fixing the dollar at a gold content of between 50 and 60 percent of its former weight. You may recall that on January 31, 1934, the President exercised the power granted him in this act by fixing the gold content of the dollar at 15$\frac{5}{21}$ grains of gold 9/10 fine which was approximately 59 percent of its former weight.

The Gold Reserve Act placed a time limitation on both the stabilization fund and on the dollar devaluation powers. On January 23, 1937, the dollar devaluation power was renewed by Congress at the same time the stabilization fund was extended.

It is my conviction that this power should be continued.

The dollar now has identically the same gold value it had 5 years ago when the President proclaimed on January 31, 1934, that the gold content of the dollar shall be 15$\frac{5}{21}$ grains of gold 9/10 fine. The fact that we have kept the gold value of the dollar stable through the international monetary disturbances and alarms of the past 5 years should be adequate assurance that there is neither desire nor intent on the part of this administration to alter the gold value of the dollar except under circumstances which clearly demand such action.

This power is a weapon in reserve which is needed for the protection of American interests. In the monetary field it is as important as a powerful navy in the field of defense against armed attack.

In the last 5 years, as you know, the currencies of over 50 countries have changed their gold value. Unfortunately, the future is uncertain; the trend of international economic relationships remains subject to constant modification. There is no guaranty that other countries, in their search for what is in their best interests, will not undertake monetary measures which may operate to the disadvantage of the United States. In this connection, remember that virtually no foreign country has fixed the actual gold value of its currency.

For the United States to surrender any of its instruments for dealing adequately and promptly with international economic and monetary problems, as they arise, would tie our hands when immediate action might be crucial. The existence of this power to devalue the dollar has been a warning to the world that we stand ready and able to defend the position of this country in world trade and to protect American goods from intensified competition in the American market. Thus, stability rather than instability is given to international exchange rates by the existence of the power in the United States to deal promptly and effectively with currency depreciation abroad.

It is my opinion that at this time, when the gold content of other leading currencies is permitted to float, and when the international picture is so uncertain, the United States should not permit the power of its Government to deal quickly and effectively with situations that require an alteration in the gold content of the dollar to lapse.

III. Newly-mined domestic silver: I wish to call attention to the fact that section 2 of S. 910, in addition to extending the power of the President to alter the weight of the gold dollar, also extends the power of the President, conferred by the act of May 12, 1933, as amended, to provide for the unlimited coinage of silver. As you know, pursuant to such power the President, on December 21, 1933, issued a proclamation pursuant to which newly mined domestic silver has been received by the mints for coinage and addition to the monetary stocks at a return to the miner of an amount considerably above the world price of silver. Since December 21, 1933, a number of proclamations have been issued modifying the original proclamation with regard to the amount to be returned to the miner and extending the original proclamation. The Treasury is now receiving newly mined domestic silver, under such authority, at a return to the miner of approximately 64½ cents per ounce. The original proclamation, as modified, expires on June 30 of this year. Under the provisions of section 2 of S. 910 the President would have authority to extend such proclamation until January 15, 1941.

Mr. Chairman, if I may, I might give you a copy of the balance sheet of the stabilization fund as of June 30, 1938, which is the last time that was audited, and also a copy of the balance sheet as of December 31, 1938.

Senator GLASS. Just hand them to the reporter, please.

(The statements above referred to are as follows:)

Balance sheet of the exchange stabilization fund as of June 30, 1938

Assets:		
Cash:		
Treasurer of the United States:		
Gold	$1,800,000,000.00	
Checking account	1,643,849.25	
Federal Reserve Bank of New York special account	100,765,630.03	
Disbursing officers' balances and advance accounts	11,829.04	
		$1,902,421,308.32
Accounts receivable: Due from French Cable Co		5,007.34
Special accounts of Secretary of Treasury, Federal Reserve Bank of New York:		
Special account No. 1 (gold) (1,248,862.370 ounces) (see schedule No. 1)		43,701,226.28
Special accounts Nos. 3 and 4 (sterling and francs)		100,331.51
Foreign exchange due from foreign banks, secured deposits, Central Bank of China (165,000,000 yuan)		48,487,500.00
Gold of foreign banks held with Federal Reserve Bank of New York as collateral on exchange deposits: Gold of Central Bank of China (1,395,381,168 ounces)		48,838,340.89
Investments, United States Treasury bonds (see schedule No. 2)		15,107,637.53
Accrued interest receivable (see schedule No. 2)		52,042.78
Commodity-sales contracts		2,651.00
Total assets		2,058,716,045.65
Liabilities and capital:		
Capital account		$2,000,000,000.00
Due to Central Bank of China		605.78
Commodity-sales contracts		2,651.00
Liability for gold of foreign banks held as collateral: Gold of Central Bank of China		48,838,340.89
Earnings (see schedule No. 2)	$10,235,737.45	
Deferred credits (add)	310,250.56	
	10,545,988.01	
General expenses (deduct) (see schedule No. 3)	671,540.03	
		9,874,447.98
Total liabilities and capital		2,058,716,045.65

SCHEDULE No. 1. ATTACHMENT TO EXCHANGE STABILIZATION FUND BALANCE SHEET OF JUNE 30, 1938

SPECIAL ACCOUNT NO. 1—GOLD

Schedule showing location of gold held by and for account of the exchange stabilization fund

Gold held by—	Ounces	Dollars
Bank of England, account A	38,941.816	1,354,006.95
Federal Reserve Bank, New York	47,460.817	1,661,128.59
United States Assay Office, New York (held in safekeeping)	1,162,459.737	40,686,090.74
Total	1,248,862.370	43,701,226.28

SCHEDULE No. 2

Schedule showing total earnings of the exchange stabilization fund from Jan. 31, 1934, to June 30, 1938

Source:	
Profits on—	
French franc transactions	$352,014.24
Gold bullion	711,099.88
Handling charges on gold	1,772,273.12
Silver transactions	105,371.27
Sale of silver bullion to Treasury (nationalized)	3,473,362.29
Investments	491,208.70
Interest on investments	2,866,888.37
Miscellaneous profits	410.44
Interest earned on—	
Foreign balances	56,740.83
Chinese yuan	406,368.31
	10,235,737.45
Deferred credits	310,250.56
Total	10,545,988.01

INVESTMENTS

Schedule showing classes of U. S. Treasury bonds held by the exchange stabilization fund

Class	Face value	Principal cost	Accrued interest	Average rate at which bonds are held
2⅞ percent U. S. Treasury bonds of 1955–60	$5,000,000	$5,026,562.50	$41,796.88	100.5313
2½ percent U. S. Treasury bonds of 1949–53	10,000,000	10,081,075.03	10,245.90	100.8108
Total	15,000,000	15,107,637.53	52,042.78	

SCHEDULE No. 3

Administrative expenses of the exchange stabilization fund from Jan. 31, 1934, to June 30, 1938

Salaries	$379, 961. 67
Travel	31, 785. 80
Subsistence	18, 509. 14
Telephone and telegraph	171, 622. 29
Stationery, etc	11, 232. 67
All other	58, 428. 46
Total	671, 540. 03

Balance sheet of the exchange stabilization fund as of Dec. 31, 1938

Assets:		
Cash:		
Treasurer of the United States:		
Gold	$1, 800, 000, 000. 00	
Checking account	1, 620, 526. 45	
Federal Reserve Bank of New York special account	77, 599, 972. 84	
Disbursing officers' balances and advance accounts	16, 663. 96	
		$1, 879, 237, 163. 25
Accounts receivable:		
Due from French Cable Co		5, 007. 34
Due from Treasurer, United States		2, 979. 22
Special accounts of Secretary of Treasury, Federal Reserve Bank of New York: Special account No. 1 (gold) (2,303,965.650 ounces) (see schedule No. 1)		80, 410, 864. 90
Foreign exchange due from foreign banks, secured deposits: Central Bank of China (165,577,037.24 yuan)		48, 657, 070. 27
Gold of foreign banks held with Federal Reserve Bank of New York as collateral on exchange deposits: Gold of Central Bank of China (1,395,381.168 ounces)		48, 838, 340. 89
Investments, United States Treasury bonds (see schedule No. 2)		5, 026, 562. 50
Accrued interest receivable (see schedule No. 2)		42, 489. 64
Other accounts, deferred charges		9, 302. 02
Commodity-sales contracts		2, 651. 00
Total assets		2, 062, 232, 431. 03
Liabilities and capital:		
Capital account		2, 000, 000, 000. 00
Accounts payable:		
Vouchers payable		8, 250. 97
Balance due Bank of England, gold purchase		756, 526. 76
Deferred credit (net)		184, 014. 55
Liability for gold of foreign banks held as collateral: Gold of Central Bank of China		48, 838, 340. 89
Earnings (see schedule No. 2)	$13, 229, 951. 08	
General expenses (deduct) (see schedule No. 3)	784, 653. 22	
		12, 445, 297. 86
Total liabilities and capital		2, 062, 232, 431. 03

SCHEDULE No. 1. ATTACHMENT TO EXCHANGE STABILIZATION FUND BALANCE SHEET OF DECEMBER 31, 1938

SPECIAL ACCOUNT NO. 1—GOLD

Schedule showing location of gold held by and for account of the exchange stabilization fund

	Ounces	Dollars
Gold in transit	199, 919. 629	6, 946, 872. 02
Gold held by—		
Bank of England; account B	415, 636. 487	14, 369, 659. 31
Federal Reserve Bank, New York	69, 678. 702	2, 438, 754. 56
U. S. Assay Office, New York:		
Held in safekeeping	1, 595, 264. 088	55, 834, 243. 16
Awaiting final report	23, 466. 744	821, 335. 85
Total	2, 303, 965. 650	80, 410, 864. 90

SCHEDULE No. 2

Schedule showing total earnings of the exchange stabilization fund from inception to Dec. 31, 1938

Source:	
Profits on—	
French franc transactions	$335, 072. 94
Gold bullion	1, 294, 301. 21
Handling charges on gold	3, 497, 935. 34
Sale of sterling	90, 141. 13
Silver transactions	105, 371. 27
Sale of silver bullion to Treasury (nationalized)	3, 473, 362. 29
Investments	619, 826. 17
Miscellaneous profits	430. 44
Interest earned on foreign balances	82, 032. 99
Interest on investments	2, 957, 955. 24
Interest earned on Chinese yuan	773, 522. 06
Total	13, 229, 951. 08

INVESTMENTS

Schedule showing classes of United States Treasury bonds held by the exchange stabilization fund

2⅞ percent United States Treasury bonds of 1955–60:

Face value	$5, 000, 000. 00
Principal cost	$5, 026, 562. 50
Accrued interest	$42, 489. 64
Average rate at which bonds are held	100. 5313

SCHEDULE No. 3

Administrative expenses of the exchange stabilization fund from Jan. 31, 1934, to Dec. 31, 1938

Salaries	$457, 561. 06
Travel	35, 296. 17
Subsistence	21, 766. 17
Telephone and telegraph	195, 214. 88
Stationery	11, 443. 50
All other	63, 371. 44
Total	784, 653. 22

Senator GLASS (chairman of the subcommittee). Does any member of the subcommittee desire to ask the Secretary of the Treasury any questions about this?

Senator ADAMS. Mr. Secretary, as a matter of enlightening my own ignorance a little, may I ask you this question: You used the term, here, on page 2, of this statement, that practically all of the countries in the world except the United States have either a floating currency or one which is subject to exchange controls?

Secretary MORGENTHAU. Yes.

Senator ADAMS. Just what is meant by a floating currency, and to what extent is that type of currency a redeemable currency?

Secretary MORGENTHAU. Well, in explanation of what I mean by a floating currency, let us take, for example, the illustration of the pound sterling or the franc. Their prices for gold change nearly every day; the price is never the same price two days running. Except Belgium, the only currency which is fixed is the dollar. Our dollar is fixed at $35 an ounce of gold. Practically all of the countries in the world figure their currency at plus or minus $35 an ounce; and ours has been fixed at $35 an ounce, now, for 5 years.

Senator BANKHEAD. You say that the French currency changes every day?

Secretary MORGENTHAU. Nearly every day.

Senator BANKHEAD. Does that change with the market price of gold, or what changes it?

Secretary MORGENTHAU. Well, I suppose it is within the realms of supply and demand, according to the need.

Senator BANKHEAD. In other words, how is that daily price fixed? Is it automatic, following the value of the price of gold, or is it done by decree or Government order? Or what fixes it?

Secretary MORGENTHAU. No; there is no automatic fixing of the franc. It is permitted to float, and it varies as the people buy and sell it; and it changes with demand, depending on how many people want to buy and sell the franc. It varies nearly every day.

Senator BANKHEAD. Is that based upon fluctuations of the exchange?

Secretary MORGENTHAU. Of the exchange rates?

Senator BANKHEAD. I mean the daily market exchange rates. How do they find out?

Secretary MORGENTHAU. Mr. Chairman and Senator Bankhead, would it be agreeable to you to hear from Mr. Knoke on these points? He is vice president of the Federal Reserve of New York, our fiscal agent, and is in charge of their foreign department. Would it be agreeable to you to have him testify?

Senator GLASS. Yes.

Mr. L. W. KNOKE. The Bank of France publishes every day a buying and selling price for gold. And on that gold price the franc rate is based. From that gold price the market takes its cue and offers and sells francs.

Senator ADAMS. You have the quotation always in terms of dollars or cents, do you not? You have an American quotation for the French franc; and do you have that in Paris?

Mr. KNOKE. You have a quotation of the dollar—of so many francs per dollar.

Senator ADAMS. From another standpoint, the dollar shifts in terms of francs?

Mr. KNOKE. Well, I would rather put it the other way.

Senator ADAMS. I know; but as a matter of fact, the dollar fluctuates in terms of francs?

Mr. KNOKE. The dollar, I would say, is tied up definitely against the unchangeable price of $35 per ounce of gold.

Senator ADAMS. But the $35 is in terms of American currency, is it not?

Mr. KNOKE. That is right.

Senator ADAMS. And if the American currency shifts, as it does, in terms of francs, why, then you have a shifting price for gold, on the one hand, or for the currency on the other hand?

Mr. KNOKE. Well, I would say you have a shifting price for the franc, the gold price of the dollar being fixed.

Senator ADAMS. That is right; we take our dollar as the datum post, and we say that everything else shifts?

Mr. KNOKE. Yes.

Senator ADAMS. But the man in Paris may take the franc as his datum post.

Mr. KNOKE. With this difference: That the man with the franc may find that the franc will buy more gold today and less tomorrow. But we, here, find that the dollar buys the same, every day.

Senator ADAMS. Yes; we have here fixed, by Presidential proclamation, the value of the dollar.

Mr. KNOKE. That is right.

Senator TOWNSEND. What are the speculative possibilities there? You can make profits or losses, can't you?

Mr. KNOKE. When you say "you," to whom do you refer?

Senator TOWNSEND. I mean the trader.

Mr. KNOKE. The trader on the market?

Senator TOWNSEND. Yes.

Mr. KNOKE. Oh, yes. He takes his chances on the price of the franc, just as the cocoa buyer takes his chances on the price of cocoa.

Senator BANKHEAD. Is there much speculation in currency?

Mr. KNOKE. Well, there has been enormous speculation from time to time. At the present time the market rates are fairly steady. But all I have to do is to remind you of the last part of 1938, when francs were under continuous pressure. First the trend was down, and then, with the end of November, when the new Minister of Finance of France took over, the character or tone of the market changed, and now the speculation is rather on the up side rather than the down side.

Senator BANKHEAD. Suppose a man wanted to buy 100,000 francs, if he is speculating on the value: What would he pay for that?

Mr. KNOKE. Buying it here?

Senator BANKHEAD. No; in France.

Mr. KNOKE. Well; it depends. If he is an American, he is likely to pay for the francs in dollars.

Senator BANKHEAD. I am trying to find out how they speculate. What is the procedure and what are the actual mechanics of speculating in money?

Secretary MORGENTHAU. The answer to that question is "no."

Senator TOWNSEND (reading):

What is the nature and extent of this agreement, if any; and if any, is it summarily revocable in the event that any of these nations become involved in war?

You say there is none?

Are there any agreements of this same general nature with any other foreign governments?

Secretary MORGENTHAU. No, sir.

Senator TOWNSEND (reading):

Does the Treasury construe its authority under the Stabilization Fund Act to include the power to deal with wartime problems of international exchange precisely as with peacetime exchange without further instructions from the Congress?

Secretary MORGENTHAU. Well, the best way I can answer that question is this: In the Treasury, nobody there is thinking of war.

Senator TOWNSEND. Thinking of war?

Secretary MORGENTHAU. Of war.

Senator GLASS. You had better be.

Senator TOWNSEND. Well, you are different from everybody else in the country, aren't you?

Secretary MORGENTHAU. Well, I mean that in our operations we are not making any plans for war—in the Treasury. And if there should be a war, I would certainly come before the proper committees and ask them for direction as to how we should conduct ourselves.

Senator TOWNSEND. Very well, thank you.

Senator TAFT. Mr. Secretary, as I understand, the only reason suggested for the power to devalue the dollar is the danger of a possible currency devaluation war, so to speak?

Secretary MORGENTHAU. Yes, sir.

Senator BANKHEAD. Don't you think it has a deterring influence on other nations, too?

Secretary MORGENTHAU. Very much so.

Senator BANKHEAD. And prevents them from doing the same thing.

Secretary MORGENTHAU. Yes, sir.

Senator TAFT. As a matter of fact, the President could devalue the dollar only about 15 percent, today, could he not?

Secretary MORGENTHAU. Well, from 59 down to 50 percent.

Senator TAFT. So that any other nation knows that if there is a currency devaluation war, they can out-devalue us overnight; they can devalue their currency 30 percent or 50 percent if they wish to do so?

Secretary MORGENTHAU. Yes.

Senator TAFT. So our weapon is a very weak weapon to deter them from that?

Secretary MORGENTHAU. Well, it has deterred them.

Senator TAFT. However, they have devalued the franc? It has not deterred the French from devaluing the franc, Mr. Secretary, has it?

Secretary MORGENTHAU. No; but as I pointed out, the best way that we could figure it, the French devaluation has not been harmful to our business.

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Senator GLASS. It has been dreadfully harmful to the French, hasn't it?

Secretary MORGENTHAU. You do not want me to answer that, do you?

Senator GLASS. Yes; I want you to answer that. You ought to know. I know.

Secretary MORGENTHAU. Well, I think it might be misunderstood, that I criticized the French policy.

Senator GLASS. Well, it is a historical fact.

Secretary MORGENTHAU. Well, unless you press me, I would rather not.

Senator GLASS. There is no trouble about it; I do not mind saying it.

Secretary MORGENTHAU. Well, unless you press me about it, I would rather not answer.

Senator GLASS. All right.

Secretary MORGENTHAU. Thank you.

Senator TAFT. The devaluation of the dollar would mean that we would increase the price of gold?

Secretary MORGENTHAU. Yes.

Senator TAFT. And it would mean that we would have to pay $41.30?

Secretary MORGENTHAU. $41.34.

Senator TAFT. Do you think it would be a desirable circumstance, under any conditions, to go out and pay $41.34 for all the gold in the world?

Secretary MORGENTHAU. Well, Senator Taft, I think that the present situation, so far as gold is concerned, is as near right as anybody can make it under the present chaotic condition. I would not recommend to the President or to the Congress that any changes be made unless something should happen which would be of such drastic nature—in other words, I mean that unless we felt the competition so keenly—that we would be called upon to protect our own export situation and the interests of our manufacturers and our farmers against finding ourselves in a similar situation to that in which we found ourselves in 1931 and 1932.

Senator GLASS. That gets it back to the proposition of whether it is more important to protect our comparatively small export trade than it is to create and maintain confidence among the business people of this country.

Secretary MORGENTHAU. In the first place, Senator, I think our export trade is very important, if I may say so. And I do not think that the man who is in the export trade is so concerned about the price of the dollar; I think the least of his worries today is the price of the dollar. He has stopped worrying about it.

Senator GLASS. Well, is it not a fact that confidence is the basis of all business transactions?

Secretary MORGENTHAU. There is no question about it.

Senator GLASS. Is it not a fact that confidence is the basis of all business transactions, whether they be cash or whether they be credit? If it is cash, people want to know what today's money is going to be worth tomorrow; and if it is credit, why, we have got to have confidence in the credit of the Government.

Secretary MORGENTHAU. Well, of course, I think they have such confidence; and I think the price at which we borrow our money is evidence of such confidence.

Senator GLASS. Oh, you have maneuvered the banks into the situation where they have got to take your securities whether they want to or not, to protect those they have loaded themselves up with. That is no evidence of the Government's credit.

Secretary MORGENTHAU. You do not mind if I differ with you?

Senator GLASS. No; certainly not.

Senator TAFT. Mr. Secretary, don't you think a further devaluation of the dollar, after 5 years at one place, is a sufficiently important step to this country so that Congress ought to pass on it, as the Constitution provides?

Secretary MORGENTHAU. Well, Senator, with respect to the power which the President has until June 30, so far as I know there is no question as to its legality.

Senator TAFT. I was not asking that. I was asking whether you do not think that is such a fundamental change and such an important change in the whole monetary policy of this country, today, that it is something on which Congress ought to pass?

Secretary MORGENTHAU. I think Congress did pass on that, 5 years ago, when Congress passed it.

Senator TAFT. Congress gave that power to the President for only a limited time. Now the question is whether we shall retain that power.

Secretary MORGENTHAU. Well, it is my recommendation that it be extended for another 2 years.

Senator TOWNSEND. Why 2 years, instead of 1?

Senator TAFT. Mr. Secretary, what in your judgment is the relative importance of the exports and the imports of the country?

Secretary MORGENTHAU. Well, I cannot just answer as simply as that. I think that the situation is that, with respect to the proportion of our manufactured goods which go into export, in some particular business the amount of exports makes a difference between profit and loss. Now, in other businesses it is relatively unimportant. But there are some who, if they found their exports taken away from them, would find themselves in a very difficult position, certainly. And I think that is even more so in the case of some of our agricultural commodities: Take the export outlet away, and we would find ourselves in a very difficult condition.

Senator TOWNSEND. Well, the stabilization of the currencies of the different countries is most favorable to the exporters and most unfavorable to the importers; isn't that right?

Secretary MORGENTHAU. No; I would not say that.

Senator TAFT. Mr. Chairman, do you intend to go on at this time, or what is your plan? I have a number of questions I should like to ask.

Senator GLASS (chairman of the subcommittee). Well, perhaps we should continue for a while.

Senator TAFT. Mr. Secretary, you say that a billion eight hundred million has never been used, but has been tied up in gold throughout the whole period of the life of the stabilization fund. Is there any reason why the stabilization fund should not be reduced to $200,000,000?

Secretary MORGENTHAU. Well, the only reason why I do not think it should be is, first, that I think the very size of it is impressive.

Senator TAFT. It certainly is impressive; but it seems to me that is hardly a reason.

Secretary MORGENTHAU. And it represents the increment in the profit of the gold; and I have said publicly, and I am glad to say so again, that I think that fund should be kept so that eventually it will be used for only one purpose, and that is to retire part of the outstanding debt.

Senator TAFT. But you are asking us to give the President unlimited power to spend $2,000,000,000 on practically anything he wants to spend it on; we have no check of any kind. I do not object to $200,000,000, but what is the advantage of the other $1,800,000,000 that never has been used?

Secretary MORGENTHAU. Well, the advantage is that it represents, as I say, the increment or profit. It has been there. The President has demonstrated that he does not have to use it. It serves notice on the world that we have a fund which is bigger than anybody else's, except England's, in case they should start.

Again, it is the same idea, to use an illustration, as: Why do you approve, here in Congress, 16-inch guns instead of 12-inch guns?

Senator TAFT. I can understand the use of the $200,000,000 for stabilizing exchange rates. But suppose a permanent condition arises: You do not mean to say that you are going to hold up the French franc indefinitely, with 2 billions?

Secretary MORGENTHAU. No. We have never held up the franc one minute, except with their money.

Senator TAFT. Then, why can't that be done with $200,000,000 instead of $2,000,000,000? It always has been done, up to today?

Secretary MORGENTHAU. Up until now it always has. There are two things: As I say, there is the psychological effect, which is there; and the other reason, which I feel very strongly on, is that the fund is there as reserve, so that when we do use it, it will be used to retire part of the outstanding debt.

Senator TAFT. I have no objection to using it now to retire part of the outstanding debt. But why have it in the stabilization fund?

Secretary MORGENTHAU. Also, may I point out that if you should use it now it would just add to the excess reserves by that amount, and the excess reserves are now rather high.

Senator TAFT. I am ignorant on this question; but is there some way the billion eight hundred million could be sterilized, in the way that you sterilized the gold, last year?

Secretary MORGENTHAU. Well, it is sterilized now.

Senator TAFT. Then could it be taken out of the stabilization fund and still be sterilized?

Secretary MORGENTHAU. I do not think so. Not in the same way.

Senator TAFT. Why not? Frankly, I do not know.

Secretary MORGENTHAU. Well, it would go into another account, by another name; but it would still be there.

Senator TAFT. It would still be there; but you would not have authority to spend it for anything in the world, such as you now have the authority to do. That is the question.

Senator GLASS. It would not be there long.

Senator TAFT. I mean that the difference is a substantial difference. The difference is that, this way, you have the power to spend it for anything you want to spend it for; and, on the other hand, if it is sterilized in some way, then it could not be spent.

Secretary MORGENTHAU. Now, Senator, if you do not mind my differing with you, it can only be used for the specific purposes set up in the law establishing the stabilization fund, and for nothing else.

Senator TAFT. There is a purely hypothetical question which I should like to ask you: Suppose there is a foreign war and suppose you go out and do what you can to buy $2,000,000,000 worth of pounds: Isn't the effect of that to give England the power to buy $2,000,000,000 worth of goods in this country, under the cash-and-carry provisions?

Secretary MORGENTHAU. Senators, if there is a war in any foreign country, before we would use the stabilization fund or any money in the Treasury to assist any country in prosecuting that war, I would come up before the proper committee and ask for guidance.

Senator TAFT. I have no doubt you would, perhaps. But nevertheless, the authority granted in this extension would give you power to do that, would it not, if you did choose to do so?

Secretary MORGENTHAU. To do what?

Senator TAFT. What I suggested: To buy pounds, and in effect, create an English credit here of $2,000,000,000; and we would wake up, in the end, and find ourselves with $2,000,000,000 worth of pounds that were worth nothing? I am not asking whether you would do it. My question is whether that is not legally possible. Isn't that legally possible?

Secretary MORGENTHAU. Well, if I lost all sense or reason in the performance of my duty, I might do a lot of things.

Senator TAFT. In other words, it is legally possible?

Secretary MORGENTHAU. Well, a lot of things are legally possible, which you would not do under the rule of common sense.

Senator TAFT. Is there anything to prevent you, for instance, from buying Government bonds with that fund? Is there anything to prevent you from going into the open market and purchasing Government bonds with this $1,800,000,000 today?

Secretary MORGENTHAU. We could do it this afternoon.

Senator TOWNSEND. As a matter of fact, Mr. Secretary, you have done it, haven't you?

Secretary MORGENTHAU. We have bought a limited amount of Government bonds in order to get some interest in order to pay for our expenses.

Senator TOWNSEND. You have, here, "interest on investments, $2,957,955.24." That probably came from the interest on Government bonds, did it not?

Secretary MORGENTHAU. Well, for your information, the maximum amount at one time was this: We did have a little over $30,000,000

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worth of Government bonds. We have never traded in Government bonds. We bought them once; and we have sold once; and as of December 31, we have reduced that down to $5,000,000, because I found we did not need that much money in order to pay the expenses of the fund.

Senator TOWNSEND. You felt that was a perfectly legitimate transaction, of course?

Secretary MORGENTHAU. Well, I bought the Government bonds in order to get some earnings; because I like to be in a business which at least breaks better than even; and I thought we might as well get enough interest to pay our expenses. I thought that was good housekeeping.

Senator TOWNSEND. Well, to me—coming from the country—I am wondering why you would not buy $1,800,000,000 worth of bonds, when that amount of money has been lying there, dormant, for 5 years, so that you would then have made two hundred million dollars of interest instead of this small amount, here, of $2,957,955.24.

Secretary MORGENTHAU. Well, I just did not think it was what the fund was created for.

Senator TOWNSEND. Well, you used a part of it for that?

Secretary MORGENTHAU. I used a part of it—a very small part of it—in order to get some income with which to pay the expenses.

Senator BANKHEAD. To pay the expenses of the operation of that fund?

Secretary MORGENTHAU. Yes; of the operation of that fund. And when I did not need that much income, I disposed of them, and reduced the amount to $5,000,000, on December 31.

Senator ADAMS. If in fact you had the emergency requirement to use a large part of the fund and if you had it available in Government bonds, then you could only make it available by marketing the Government bonds, and thus destroy the market for Government bonds, and thus destroy what we are trying to do?

Secretary MORGENTHAU. That is right.

Senator TAFT. Mr. Secretary, the law gives the Federal Reserve Board the power to buy and sell Government bonds. But this law gives you the power?

Secretary MORGENTHAU. Yes; that is right.

Senator TAFT. This law gives you the same power?

Secretary MORGENTHAU. That is right.

Senator TAFT. And yet the Federal Reserve Board might want to sell bonds at a time when you wanted to buy bonds? What can you say about that?

Secretary MORGENTHAU. I told Senator Glass that he did one of the greatest services he could have done, when he passed a law having me removed as Chairman of the Federal Reserve Board.

Senator GLASS. I did not mean to put somebody else in, though.

Secretary MORGENTHAU. I did not want all this power in one person's hands. And therefore I am very glad, thanks to Senator Glass, that there is a division between the Federal Reserve and the Treasury, so there would be a joint responsibility and not a single responsibility.

Senator TAFT. How does it happen to be joint responsibility? You may pursue one policy and they may pursue another, and there is nothing to require you to agree?

Secretary MORGENTHAU. Well, I know we hold more Government bonds than the whole Federal Reserve portfolio. Now, I do not want to frighten anybody; but carrying out that thought for the moment: With the Government bonds in our trust funds—and I think we have over 3½ billion dollars' worth of Government securities in the Treasury and in our trust funds now—if there should be a difference, we could decide this afternoon that we wanted to dump 3½ billion dollars' worth of Government securities on the market.

Senator TAFT. Why not give the Secretary of the Treasury this power, rather than the Governor of the Federal Reserve Board?

Secretary MORGENTHAU. No; I am satisfied with the powers I now have. I certainly do not want any more authority.

Senator TAFT. Mr. Secretary, I should like to offer an amendment to cut down the reserve fund to $200,000,000. Frankly, I do not know how to handle the $1,800,000,000 in such a manner as to tie it up in a way to meet Senator Glass' objection. Will you have one of your assistants talk to me about the matter?

Secretary MORGENTHAU. Anybody in the Treasury is at your service.

Senator TAFT. Also, as I understand it, the only reason suggested as to why the fund should be $2,000,000,000 instead of $200,000,000 is so to threaten—I do not mean disagreeably—so to threaten foreign nations that they will not undertake a competitive devaluation of currency?

Secretary MORGENTHAU. No; I think it is more than that, Senator. I think Congress gave the President and the Secretary of the Treasury these powers and made them trustees for this fund. If I may say so, without being immodest, I think that we, as trustees, have rendered a good account to the country. And unless there is some very important reason to change the trusteeship or the size of the trust fund, I think it ought to be very carefully considered before such a change is made.

Senator TAFT. Mr. Secretary, that is something much more than a trusteeship. I never saw a trustee with 2 billion dollars and with the power to spend it for anything he chose, without accounting. In that respect, it is very different from any trusteeship in the world, that I know of.

Secretary MORGENTHAU. Well, I have given you an audited statement as of June 30 and an unaudited statement as of December 31.

Senator TAFT. But you do not have to. Would you object to a requirement that such a balance sheet should be submitted?

Secretary MORGENTHAU. I am willing to say now, publicly, that four times a year we will furnish, through the Treasury bulletin, a balance sheet and, once a year, a copy of the audit. And whenever the fund is wound up, we shall be glad to furnish the Congress with all of the audited statements, for whatever disposition they wish to make.

Senator TAFT. Do you object to a provision in the law to that effect?

Secretary MORGENTHAU. I cannot object to it.

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Senator TOWNSEND. You do not think the stabilization fund should be made permanent?

Secretary MORGENTHAU. I think the recommendation and request of the President—of approximately 2 years—is sufficient.

Senator TOWNSEND. Would you object to its being made 1 year?

Secretary MORGENTHAU. Well, I would have to take up your time again, next year.

Senator TOWNSEND. We are glad to see you come up.

Senator GLASS. We are taking up your time.

Secretary MORGENTHAU. Well, my time is yours, sir.

Senator GLASS (chairman of the subcommittee). Well, if there are no other questions, the Secretary will be excused.

I should like the committee to remain in executive session a little while.

(Thereupon, at 12:17 p. m., the committee went into executive session.)

DEVALUATION OF THE DOLLAR AND STABILIZATION FUND

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SEVENTY-SEVENTH CONGRESS

FIRST SESSION

ON

H. R. 4646

AN ACT TO EXTEND THE TIME WITHIN WHICH THE POWERS RELATING TO THE STABILIZATION FUND AND ALTERATION OF THE WEIGHT OF THE DOLLAR MAY BE EXERCISED

JUNE 13 AND 19, 1941

Printed for the use of the Committee on Banking and Currency

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[H. R. 4646, 77th Cong., 1st sess.]

AMENDMENT Intended to be proposed by Mr. McCARRAN to the bill (H. R. 4646) to extend the time within which the powers relating to the stabilization fund and alteration of the weight of the dollar may be exercised, viz: At the end of the bill insert the following new section:

SEC. 3. Nothing in this Act shall be construed to affect in any manner any of the provisions of section 4 of the Act entitled "An Act to extend the time within which the powers relating to the stabilization fund and alteration of the weight of the dollar may be exercised", approved July 6, 1939.

Senator GLASS. I would like to bring to the attention of the committee a letter from the President of the United States to the Vice President [reading]:

THE WHITE HOUSE,
Washington, April 28, 1941.

Hon. HENRY A. WALLACE,
President of the United States Senate.

MY DEAR MR. WALLACE: The powers conferred by section 10 of the Gold Reserve Act of 1934, as amended, dealing with the stabilization fund, and the powers specified in paragraph (b) (2) of section 43, title III, of the act approved May 12, 1933, as amended, relating to the fixing of the metallic content of the dollar, will expire on June 30, 1941.

The existence and use of these powers have enabled the Government to take important steps in the field of international monetary and economic cooperation and to safeguard the country's interests. Unfortunately, present world-wide circumstances, including the international monetary and economic situation, is not such as would warrant the termination of such powers. Under all the circumstances, I believe that it would be in the Nation's interest to extend these powers until June 30, 1943.

The Secretary of the Treasury and other representatives of the Treasury Department would, of course, be available to discuss in detail with the appropriate committees of the Congress the problems relating to the extension of such powers.

Very truly yours,

FRANKLIN D. ROOSEVELT.

By request I have called the Secretary of the Treasury and such assistants as he might care to bring with him to be heard this morning, and we will now hear the Secretary of the Treasury.

STATEMENT OF HON. HENRY MORGENTHAU, SECRETARY OF THE TREASURY, WASHINGTON, D. C.

Senator GLASS. Mr. Secretary, the committee has under consideration this morning H. R. 4646, being a bill already passed by the House. A similar bill introduced by me will not be pressed. We will consider the House report.

You may proceed if you care to make a statement.

Mr. MORGENTHAU. Mr. Chairman and members of the committee, on April 28, 1941, the President wrote to the President of the Senate and to the Speaker of the House recommending extension to June 30, 1943, of the powers relating to the stabilization fund and of the power to alter the gold content of the dollar, which powers, under the present law, will expire on June 30, 1941. A bill (H. R. 4646) was introduced in the House of Representatives to accomplish this purpose. The House passed the bill on May 27, 1941. I am appearing before you in support of this bill.

When I appeared before your committee on March 2, 1939, to recommend extension of these same powers, I said:

> The emergency in the international economic and monetary field still exists and, unfortunately, there are no grounds for believing that such emergency will end on June 30, 1939. On the contrary, the recurrence of international crises is

These forebodings turned out to be only too true. During the last 2 years the international exchange markets have been more disrupted than they have been in the past 20 years. I am afraid that the period ahead of us will be even more critical.

In reviewing the work of the stabilization fund during the last 2 years, I want to mention in some detail two of the operations which have been undertaken by the stabilization fund.

The first arrangement is with China. You will recall that on December 2, 1940, I appeared before a joint session of the Senate Committee on Banking and Currency and the House Committee on Coinage, Weights, and Measures, to make a statement about the proposed stabilization arrangement with China. I had previously stated to this committee that I would not consent to the use of the stabilization fund to assist any foreign country in prosecuting a war without first consulting with the congressional committees. The transaction we contemplated and entered into with China was for currency stabilization purposes. So long as there was any difference of opinion as to whether this type of transaction was of the character that I had promised to discuss with your committee, I decided to lay all of the facts of the proposed transaction before the joint session of the committees.

I was greatly appreciative of the vote of confidence given to Secretary Hull and myself on that occasion.

Following months of negotiation and study of the Chinese foreign exchange and monetary position, an agreement was signed on April 25, 1941, making available $50,000,000 to China for the purpose of stabilizing the dollar-yuan rate of exchange. The agreement also provided for the establishment by China of a United States dollar—Chinese yuan stabilization fund. Included in the fund's resources will be the dollars acquired from the United States through our purchase of Chinese yuan and a further sum of at least 20,000,000 United States dollars contributed by Chinese governmental banks.

The Chinese Government is placing this fund under the control of a five-man board, one member of which will be an American appointed by China on the recommendation of the Secretary of the Treasury. This board will also have charge of the Chinese yuan—British sterling stabilization funds, which include a 5,000,000 sterling credit recently extended to China by the British Government.

These stabilization arrangements with China should be of great aid to China in her monetary problems and also in the struggle with the puppet currencies. In fact, the mere knowledge in the Far East of the contemplated arrangement has been of some assistance to the Chinese monetary position.

Under the earlier stabilization arrangement of July 14, 1937, with China, we had at one time in the stabilization fund $48,000,000 of yuan. This amount has been reduced to $19,000,000, fully collateralized by gold.

The second arrangement of importance to be entered into by the stabilization fund is the one signed December 27, 1940, with the Argentine Government and the Central Bank of Argentina. Under that arrangement we have agreed to buy $50,000,000 of Argentine pesos and Argentina will use the dollars to stabilize the dollar-peso rate of exchange. The arrangement also provides for the exchange of information and of views bearing on the proper functioning of such a program. The monetary authorities of the two countries expect to hold further discussions in the future, which discussions it is hoped will enable both countries to reap the greatest possible benefit from the workings of the stabilization arrangement. The machinery of the fund was most opportunely at hand to enable us to implement the Good Neighbor policy at a time when Argentina, in common with other Latin-American countries, was disturbed about a prospective drain of its foreign exchange resources. Before the Treasury actually pays any dollars to Argentina under this arrangement, it will be necessary for Argentina to take certain action to confirm the authority of the Argentine Government to guarantee performance of all obligations undertaken by it and by the Argentine Central Bank.

There has been activity recently in connection with the stabilization arrangement which we entered into in 1937 with Brazil. On October 18, 1940, we bought $10,000,000 of milreis from Brazil under this agreement. As Brazil's foreign exchange position improved, Brazil repurchased from us $5,000,000 of these milreis on December 13, 1940, and the remainder on February 13, 1941. Under another part of the same agreement with Brazil we have sold $24,000,000 of gold to Brazil for dollars.

In the period which I am now describing, the functioning of the Tripartite accord, the development of which had appeared to hold so much promise, was interrupted by the war. Since the outbreak of the war, the machinery set up by the Tripartite accord has been inactive. We have not acquired any currency of a belligerent nation since September 1939, and at the present time we are holding less than $4,000 worth of British pounds sterling, Belgian belgas, and French francs, acquired before the outbreak of the war. I venture to predict that the experience in international monetary cooperation gained through the Tripartite accord will prove of permanent value. I believe that that machinery, which functioned in a spirit of cooperation and equality, promises more for future international economic organization than any of the aggressive monetary devices which now hold sway.

During the period from July 1, 1939, to April 30, 1941, the stabilization fund purchased approximately $3,920,000,000 of gold. This gold was bought from 23 different countries. In the same period there were sales of approximately $380,000,000 of gold to foreign countries. Eighteen countries sought and obtained gold from our stabilization fund in exchange for dollars. To give an idea of the far-flung extent of these operations, I will just mention Afghanistan, Java, and Uruguay as among the countries with which the stabilization fund has cooperated in building up their reserves.

The total number of gold transactions of the stabilization fund during this period was large. The circumstances of the purchases and sales were varied. In these transactions the stabilization fund has proved an effective piece of machinery. Incidentally, the existence of the stabilization fund made it possible to carry out, with the essential speed and secrecy, three large acquisitions of gold from hard-pressed friendly countries.

As I have previously promised, we have during this period published quarterly reports of the position of the stabilization fund. This is in

addition to the yearly record of the activities of the stabilization fund which the statute requires that the Treasury send to the President and to the Congress. These annual reports, the most recent one of which sent to the Congress was dated March 12, 1941, give summaries of transactions in all of the accounts of the exchange stabilization fund for the period April 26, 1934, to June 30, 1935, and for each fiscal year thereafter up to June 30, 1940. I have with me for inspection by the committee the balance sheet of the stabilization fund as of March 31, 1941, which ordinarily is not made public until 3 months after its date.

The stabilization fund has proved its value during years of unparalleled crises in international trade and finance. Long ago we made the dollar the strongest currency in the world. Foreign nations and foreign individuals have preferred the dollar to all other currencies. The flow of billions of European capital and the accompanying flow of gold to this country in recent years have made this point clear even to the most unfriendly critics of our monetary policies.

Now we are going forward into times of even greater peril. We are in the midst of many systems of currency and exchange controls. Some are operated with no friendly intent toward the United States. Our stabilization fund is a potent weapon of defense in our international economic relations. This is hardly the time to abandon the machinery of control which we have built up to protect the dollar and the American economy.

Economic warfare, as well as military warfare, is now being waged on all sides of us. There is no certainty that even with peace these aggressive economic instruments will be abandoned by other countries. Nobody can say what kind of international economy will emerge from this war. But it would surely be unwise if we chose this time to let private speculators and foreign governments determine the exchange value of the dollar.

In these circumstances, I have no hesitation in making the strongest possible recommendation that Congress extend the stabilization fund powers.

The reasons favoring the renewing of the President's power to alter the gold content of the dollar to not less than 50 percent of its former weight are comparable to those I have just given for extending the stabilization fund powers. When I was before this committee on March 2, 1939, I said:

> The dollar now has identically the same gold value it had 5 years ago when the President proclaimed on January 31, 1934, that the gold content of the dollar shall be 15 5/21 grains of gold nine-tenths fine. The fact that we have kept the gold value of the dollar stable through the international monetary disturbances and alarms of the past 5 years should be adequate assurance that there is neither desire nor intent on the part of this administration to alter the gold value of the dollar except under circumstances which clearly demand such action.

Just as there were critics some years back who said that an irresponsible administration would squander the stabilization fund in a foolish manner, so there have been persistent critics who said that the President's power to devalue the gold content of the dollar would be used to bring about inflation. There is no basis for believing that we are going to have inflation in this country because the President possesses this emergency power. I am sure that the President will be as zealous as Congress in taking the steps to prevent inflation.

Obviously the Administration has no present intent whatsoever to reduce the gold content of the dollar. But certainly this is not the time to remove flexible powers from the Executive when the executives of all other nations possess virtually complete powers over the domestic and external monetary affairs of their countries. In 1939, I said to Congress:

> This power is a weapon in reserve needed for protection of American interests. In the monetary field, it is as important as a powerful navy in the field of defense against armed attack.

That statement is as true now as in 1939.

What steps will be necessary in the next 2 years in the international monetary field depends to a considerable extent upon the wars which are being fought all around the globe. We are not seers and we cannot describe what the future holds in store. I feel very strongly that for Congress to remove this power at the present time because there is no immediate use for it would be an unwise step in the face of an uncertain future.

(The documents referred to and submitted by the witnessarehere printed in full as follows:)

Balance sheet of the exchange stabilization fund as of Dec. 31, 1940, and Mar. 31, 1941

	Dec. 31, 1940	Mar. 31, 1941
Assets:		
Cash:		
Treasurer of the United States, gold	$1,800,000,000.00	$1,800,000,000.00
Treasurer of the United States, checking account	1,578,599.77	1,522,362.58
Federal Reserve Bank of New York, special account	143,200,401.59	107,426,330.04
Disbursing officers' balances and advance accounts	11,286.23	13,681.98
Total	1,944,790,287.59	1,908,962,374.60
Special accounts of Secretary of the Treasury in Federal Reserve Bank of New York: Special account No. 1, gold (schedule 1)	47,592,800.03	88,314,920.04
Due from foreign banks (foreign exchange):		
Francs	17.88	17.88
Belgas	505.06	505.06
Sterling	2,980.05	2,980.05
Central Bank of China (secured deposits)[1]	19,117,212.66	19,117,212.68
Banco de Brazil (secured deposits)[2]	5,026,712.34	
Total	24,147,427.99	19,120,715.67
Investments in U. S. Government securities (schedule 2)	10,448,723.13	10,448,723.13
Accrued interest receivable (schedule 2)	10,436.48	69,141.70
Other accounts (deferred charges)	26,066.54	17,321.49
Commodity sales contracts (deferred charges)	2,636.00	2,636.00
Total assets	2,027,018,377.76	2,026,935,832.63
Liabilities and capital:		
Accounts payable:		
Vouchers payable	7,689.47	2,420.37
Due to foreign banks	1,428,924.98	508,738.62
Total	1,436,614.45	511,158.99
Capital account	2,000,000,000.00	2,000,000,000.00
Earnings less administrative expenses (schedules 3 and 4)	25,581,763.31	26,424,673.64
Total liabilities and capital	2,027,018,377.76	2,026,935,832.63

[1] Consisted of 65,016,027.40 yuan as of Dec. 31, 1940, and 65,016,027.40 yuan as of Mar. 31, 1941. Gold held as collateral amounted to $19,379,015.65 as of both dates.

[2] Consisted of 100,534,246.58 milreis as of Dec. 31, 1940. Gold held as collateral amounted to $5,063,429.57.

Back figures: Annual balance sheets for the years 1934 through 1940 may be found in the Annual Report of the Secretary of the Treasury for 1940. Quarterly balance sheets commencing Dec. 31, 1938, may be found in previous issues of the Treasury Bulletin.

Schedules for balance sheet of the exchange stabilization fund

SCHEDULE NO. 1. LOCATION OF GOLD HELD BY AND FOR ACCOUNT OF THE EXCHANGE STABILIZATION FUND[1]

	Dec. 31, 1940		Mar. 31, 1941	
	Ounces	*Dollars*	*Ounces*	*Dollars*
Location:				
Federal Reserve Bank of New York	189,382.911	6,628,401.88	201,094.096	7,038,293.38
U. S. Assay Office, New York	1,170,411.386	40,964,398.15	2,322,189.349	81,276,626.66
Total	1,359,794.297	47,592,800.03	2,523,283.445	88,314,920.04

SCHEDULE NO. 2. U. S. GOVERNMENT SECURITIES HELD BY THE EXCHANGE STABILIZATION FUND

Issue	Dec. 31, 1940			
	Face value	Cost	Average price	Accrued interest
2¼ percent Treasury bonds of 1951–53	$10,000,000	$10,000,000.00	100.0000	$9,890.11
2¾ percent Treasury bonds of 1958–63	50,000	49,640.63	99.2813	60.44
2¾ percent Treasury bonds of 1960–65	402,000	399,082.50	99.2743	485.93
Total U. S. Government securities	10,452,000	10,448,723.13		10,436.48

Issue	Mar. 31, 1941			
	Face value	Cost	Average price	Accrued interest
2¼ percent Treasury bonds of 1951–53	$10,000,000	$10,000,000.00	100.0000	$65,521.98
2¾ percent Treasury bonds of 1958–63	50,000	49,640.63	99.2813	400.41
2¾ percent Treasury bonds of 1960–65	402,000	399,082.50	99.2743	3,219.31
Total U. S. Government securities	10,452,000	10,448,723.13		69,141.70

SCHEDULE 3. EARNINGS OF THE EXCHANGE STABILIZATION FUND

Source	Jan. 31, 1934, through Dec. 31, 1940	Jan. 31, 1934, through Mar. 31, 1941
Profits on British sterling transactions	$310,638.09	$310,638.09
Profits on French franc transactions	351,537.99	351,537.99
Profits on gold bullion (including profits from handling charges on gold)	16,801,760.44	17,564,908.91
Profits on silver transactions	105,371.27	105,371.27
Profits on sale of silver bullion to Treasury (nationalized)	3,473,362.29	3,473,362.29
Profits on investments	1,019,326.18	1,019,326.18
Interest on investments	3,355,569.89	3,414,275.11
Miscellaneous profits	473.74	473.74
Interest earned on foreign balances	83,429.71	92,551.68
Interest earned on Chinese yuan	1,411,928.07	1,482,710.10
Total earnings	26,913,397.67	27,815,155.36

SCHEDULE 4. ADMINISTRATIVE EXPENSES OF THE EXCHANGE STABILIZATION FUND

Classification	Jan. 31, 1934, through Dec. 31, 1940	Jan. 31, 1934, through Mar. 31, 1941
Salaries	$814,746.05	$860,470.25
Travel	51,181.79	52,281.23
Subsistence	37,181.43	37,607.43
Telephone and telegraph	300,120.74	306,765.44
Stationery, etc	15,410.15	15,871.75
All other	112,994.20	117,485.62
Total administrative expenses	1,331,634.36	1,390,481.72

[1] Excludes gold held by Treasurer of the United States.

Senator TAFT. No, but it seems to me it is a weapon that could be used to upset confidence without being a weapon against any real foreign power to devalue their currency if we engaged in a foreign war.

Mr. MORGENTHAU. If Senator Danaher doesn't mind my quoting him, after studying this thing very carefully and weighing both the good and the bad in the powers, we in the Treasury have come to the conclusion that it would be in the right direction to continue to let the President have this power.

Senator TAFT. Let me suggest one other thing, the Constitution of the United States says that Congress shall have the power to coin money, regulate the value thereof, and of foreign coin.

So it isn't contemplated that the President should have that power; it is contemplated that Congress should have that power.

Perhaps in a totalitarian state the executive ought to have it.

You say in your report finally,

> I feel very strongly that for Congress to remove this power at the present time because there is no immediate use for it would be an unwise step.

Now, it seems if the Constitution gives Congress the power and there is no immediate use, then Congress has no business in delegating that power.

Mr. MORGENTHAU. That is where you and I differ.

Senator TAFT. You think that Congress should delegate the power although there is no need for it?

Senator MURDOCK. Mr. Chairman, in my opinion the passage of the Gold Reserve Act is one instance under the Constitution where Congress really did exercise its power to control the value of our money and that the delegation of the power to the President was within certain limits. The Supreme Court, I think, has settled the question as to the constitutionality of the delegation of that power.

Senator TAFT. I am not questioning that, but at that time there was an immediate use. At the present time there is no immediate use that anybody can see.

Mr. MORGENTHAU. Well, I have been just as frank as I know how to be and, as I have said, and I repeat again, there might be.

I further say Congress has been delegating this power to the President. I think he has certainly proved to the large majority of the population of the country that he can hold this trust and not abuse it.

Senator TAFT. That seems to be no argument, but I recognize——

Mr. MORGENTHAU. Well, I think it is the crux of the whole thing. The President has had this power——

Senator TAFT. I think the mere fact that Congress has delegated to the President in an emergency a particular power and that he has not used that power or misused it is no reason to delegate it again when there is no emergency.

Senator GLASS. There is an emergency, the greatest kind of emergency.

Mr. MORGENTHAU. I was going to say, Mr. Chairman, if there was an emergency when Congress did this originally, the emergency is ten times or a hundred times as great now as it was then.

Senator TAFT. An emergency is something that is here now; you say that there may be an emergency in the future. I say when that emergency comes Congress can delegate that power, if necessary, or

Mr. Secretary, this power if it was fully used would increase the price of gold from $35 to $41?

Mr. MORGENTHAU. $41.34.

Senator TAFT. What effect would that have upon our banking system? It would increase the book value of all this gold in the United States today, would it not?

Mr. MORGENTHAU. Yes.

Senator TAFT. And can you give us the figures?

STATEMENT OF HARRY D. WHITE, OF THE DIVISION OF MONETARY RESEARCH, TREASURY DEPARTMENT, WASHINGTON, D. C.

Mr. WHITE. The total amount of gold now held is valued at $22,587,000,000, and the maximum increase in value allowed under the legislation which is being considered would increase the value of the present gold supply by $4,093,900,000.

Senator TAFT. You would mark up the value of the gold by $4,000,000,000 if the devaluation was carried out?

Mr. WHITE. It would increase the total value in dollars by that amount.

Senator TAFT. And would that increase the bank reserves?

Mr. WHITE. The increase would not increase the bank reserves. The increment would accrue as in the past.

Senator TAFT. It would increase as to future gold that came in, of course. It would have a larger effect?

Mr. WHITE. Yes.

Senator TAFT. How much gold has come in in the last 12 months, or the last period you have available?

Mr. WHITE. I can give you that exactly if you want a 12-month period, but during this year approximately $670,000,000 of gold has come in; a good deal less than in the comparable period last year. The inflow has declined very greatly.

Senator TAFT. The effect of marking up the gold in that way would be presumably to give the Treasury a profit of $4,000,000,000, and it would be a very easy method to avoid the increase of debt, wouldn't it?

Mr. MORGENTHAU. That is your way of putting it.

Senator TAFT. That is my way of putting it; but is it one of the ways it could be put?

Mr. MORGENTHAU. It would be an unfriendly way of putting it.

Senator THOMAS of Idaho. Mr. Secretary, getting aside from that, what would it do to commodities—wheat and cattle?

Mr. MORGENTHAU. It might tend to increase the price of them.

Senator THOMAS of Idaho. It did do that before.

Mr. MORGENTHAU. I think it was one of the factors.

Senator THOMAS of Idaho. Now, we have a single factor here, a possibility that we hope does not happen, of being forced to decrease the value of the dollar.

Mr. MORGENTHAU. Yes.

Senator THOMAS of Idaho. And in the event we do it, would the farmers get the benefit of the increase in the prices of their commodities? That is the question.

Mr. MORGENTHAU. For whatever amount their commodities were increased they would get the full benefit.

Senator THOMAS of Idaho. Certainly.

Mr. MORGENTHAU. Provided on the other side of the ledger the things that they bought didn't go up as much.

Senator THOMAS of Idaho. They wouldn't know what they were going to get for their bushel of wheat under this condition.

Senator TAFT. Mr. Secretary, can you tell us about what proportion of the total gold in the world this $22,587,000,000 is?

Mr. WHITE. The total world monetary gold supply is estimated at thirty billion and a half.

Senator TAFT. So that we have approximately three-fourths?

Mr. WHITE. We have 22½. About 74 percent.

Senator TAFT. And we paid for a large portion of that $35 an ounce. And if this were devalued we would pay $41 for all the rest?

Mr. MORGENTHAU. That is merely a theoretical possibility.

Senator TAFT. What is your opinion after the war is over whether we have any possible means of ever getting an equivalent for that gold, $35 an ounce?

Mr. MORGENTHAU. Oh, I wouldn't want to guess.

Senator TAFT. Well, is it not certainly a possibility to be considered that we might find all this gold on our hands with a very limited market for it and have, in effect, to take say less than it is worth if we want to use it at all?

Mr. MORGENTHAU. There is one school of pessimism about gold. The only answer that I have to that school of thought is this, that until somebody can bring forward a better medium of settling international balances, and as long as we continue to have a favorable balance of trade, I don't know of any better way of settling our international balances than through gold.

Senator ADAMS. Mr. Secretary, there has never been a time with a piece of gold that you could not exchange it for commodities, has there?

Mr. MORGENTHAU. Not in history.

Senator ADAMS. As far as there is any history, gold has always been one of the things that would always secure an exchange in commodities, and it will continue?

Mr. MORGENTHAU. I think so, and until somebody comes along with a better system, I am going to stick to this one.

Senator TAFT. Mr. Secretary, I do not doubt it will have a value. My question is whether it will have the value we are now paying for it, whether we will have to revalue it.

Senator ADAMS. Senator Taft, my view is we have not changed the value of the gold in the world market. All we have done is change the amount of gold in the gold dollar. That is, an ounce of gold, its purchasing power in the world market, has not changed. We have affected the purchasing price of the dollar, not the world value of the gold.

Senator TAFT. What I am really leading up to is, it seems to me an inconceivable thing that we would increase the price of the gold from $35 to $41 and pay in our commodities or our dollars, $41 an ounce for all the rest of the gold in the world. Do you not think, it would take a great deal of argument on the other side, the reasons in favor of it, to overcome that additional price for gold?

Mr. MORGENTHAU. Senator Taft, earlier this morning I said in answer to a question as to just what is going to happen 1 year or 2

years from now, what are people going to use to pay for goods in the market, that I don't want to guess. The whole conception of international trade has changed so radically in the past 5 years that what will happen to it in the next 5 years I would not attempt to forecast.

Senator TAFT. Mr. Secretary, I quite agree that the question of bank reserves is an entirely different question, but I have offered as a substitute for your bill S. 25, one of the sections of which provides for the repeal of power to issue $3,000,000,000 in greenbacks.

Would you care to comment upon the wisdom of repealing that power as a method of discouraging the inflationary idea?

Mr. MORGENTHAU. Unless the Chairman insists, I would like to stick to bill 4646 because I understand that is the bill which I am here to testify on today.

Senator ADAMS. Mr. Chairman, may I just ask a word as to this $3,000,000,000?

That is not an unrestricted power to issue $3,000,000,000 of greenbacks; the only power is to issue it in payment of outstanding obligations. It is merely an issue of greenbacks to pay outstanding debts so that you decrease the debts to the extent that you issue the greenbacks.

Senator TAFT. Yes; but it would increase the amount of currency as against the Government bonds, which is generally understood as having an inflationary effect.

Mr. Chairman, I don't want to insist on the Secretary's speaking——

The CHAIRMAN. You would just be issuing three billions of dollars that do not bear any interest to retire three billions of dollars that do bear interest.

Senator TAFT. Yes; and of course, if we pursued the power to 125 billions——

Senator GLASS. We could still pursue it to the extent of 125 billions but we are not going to do it.

Senator TAFT. The question I wanted to ask, I don't care whether the Secretary answers it, is whether the issue of that $3,000,000,000 would not have an inflationary effect against the very thing we are trying to accomplish, if it were exercised.

If the Secretary does not care to answer, I will not insist.

Senator ADAMS. May I ask you something, Senator Taft? In revealing the condition where we have circulating some $8,000,000,000 of currency in the open markets and we have 45 billions of bonds and we have 60 billions of bank deposits, I am wondering whether 3 billions would be an added amount which would produce a very substantial inflation. I was just wondering what your judgment was as to that.

Senator TAFT. I think the psychological effect would be very bad. I think stocks would go up about 10 or 20 percent and you would have a general feeling that the country had gone on a paper-money basis.

I feel the psychological effect would be very bad if that were done, and I think most of the congressmen agree with me; but I do not want to press the Secretary.

I have another question: One of the possibilities, Mr. Secretary, about issuing $3,000,000,000 more of silver certificates against the seigniorage. Do you care to comment on that?

Mr. MORGENTHAU. No.

Senator TAFT. Mr. Secretary, I thought we might put in the record here the total amount in circulation today. The Senator from Colorado referred to it as about $8,000,000,000.

Mr. WHITE. Nine billion three. The percentage has remained the same; that is, the percentage of currency outstanding to the total demand deposits is remaining approximately the same.

Senator ADAMS. There is a very definite relationship.

Mr. WHITE. There appears to be in the last 4 or 5 years. If you go back to 1929, it has altered substantially.

Senator TAFT. Mr. Secretary, do you have any reason to suggest why that has increased at such a faster rate than it used to?

Mr. WHITE. Well, there seems to be a fairly steady relationship, as Senator Adams has stated, between the total amount of money outstanding and the amount of money that is needed in the form of coin and currency. Bank deposits are included in what we call money. Cash is called for to do business where checks are not appropriate. We also find banks keep a little more in the till, when deposits are larger. There is also more money in the businessman's tills, and the public's pockets, so that the proportion seems to remain approximately the same.

Now, there have been some special reasons for use of additional currency; hoarding has increased a little with the unsettled world conditions, and that has made some difference.

Senator TAFT. Mr. Secretary, going back to the stabilization fund, I think it should be continued but I would like to ask one or two questions about it.

Do you think that the stabilization fund should have power to engage in open-market operations on Government bonds?

I have been somewhat concerned about the fact that that power is vested in the Federal Reserve Board, and under the stabilization fund it might also be used; and, of course, you did buy a few bonds, as I remember, to provide income for the fund.

Mr. MORGENTHAU. That is right.

Senator TAFT. Do you think that power should be limited so one agency of government alone has the power?

Mr. MORGENTHAU. No. I think again it is a useful thing to have there. There has been no disagreement between the Federal Reserve and the Treasury at any time about the open market. We work very closely together.

Senator TAFT. They suggest, as I read this report, that such a power exists in the stabilization fund only after consultation, I think, with the Federal Open Market Committee.

I suppose you would confer with them anyway.

Mr. MORGENTHAU. Oh, we do. I mean, after all, we both use the Federal Reserve Bank of New York. They are our fiscal agents, and the same man does the buying and selling; and, as far as I know, there has never been any conflict.

Senator ADAMS. Mr. Secretary, I gather the amount of bonds the fund now has is about $10,000,000.

Mr. MORGENTHAU. Ten million.

Senator ADAMS. Ten million; yes. Or it says, I think, 10½ million.

Mr. MORGENTHAU. That is right.

Senator DANAHER. Mr. Secretary, on this very point I have been looking at this schedule too, hoping that you would explain the mechanics of the transaction on the $10,000,000 worth of the 2¼ percent bonds, which would probably clear the air here.

Mr. MORGENTHAU. We have had those for a long time. We bought them originally when there was practically no income in the fund.

We have them there to furnish a certain amount of income against the expenses which 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; and that is the only purpose.

If the Congress felt we should not have any Government bonds, should not have $10,000,000 of them, I could still dispose of them. It is just that I like the feeling that the income pays for our monthly expenses.

Senator DANAHER. In that particular transaction, did you substitute bonds for gold?

Mr. MORGENTHAU. No; I will ask Mr. Bell to explain it.

Mr. BELL. No. The fund has a credit balance with the Federal Reserve Bank of New York. That is part of the fund in use as an operating fund. These bonds you refer to were subscribed to by the Secretary when they were originally issued. The Treasury authorized a charge to that account which paid for the bonds.

It was just a transfer on the books of the Federal Reserve in New York from one account to another.

Senator TAFT. There is one thing, Mr. Secretary, I don't understand. During the period from July 1, 1939, to April 30, 1941, you said the stabilization fund purchased approximately three billion nine hundred twenty million of gold.

This gold was bought from 23 different countries.

Of course, there is nothing in the present statement of the bank showing they still have that gold because that would be only the gold they had when they started. What is the nature of that transaction?

Mr. MORGENTHAU. Well, we used the stabilization fund as sort of a clearing house.

At the time we were doing that some governments didn't want these transactions to appear immediately.

Senator TAFT. You mean the Federal Reserve Bank ordinarily buys it, the Treasury?

Mr. MORGENTHAU. Most all of these transactions are from foreign governments. Let us say, for example, we were buying some gold from Holland and they wanted that transaction not disclosed immediately for fear somebody would say that they were afraid of an invasion, or something like that; and they would ask us not to disclose that transaction, say, for a month or two.

Well, the easiest way to do it—after all, it was their business, not ours—I am using Holland as an example. It might have been Belgium or some other country. It might have been France. And we ran these funds through the stabilization fund until the time we reached $200,000,000, and then it would flow into the Treasury.

We never would give more than two hundred million, but it would give a certain amount of secrecy to the transaction, which most of these governments or their central banks would ask us to give.

Senator TAFT. The only purpose of secrecy—it could be done by other agencies?

Mr. MORGENTHAU. It was a channel to give secrecy to other governments' business; not our own.

Senator TAFT. Referring to this Chinese loan, the original loan, as you put it, was secured by gold. In this present loan what is the obligation of the Chinese Government? Does the stabilization fund buy yuan?

Mr. MORGENTHAU. Let Mr. Bell explain it.

Mr. BELL. Yes; the stabilization fund will buy yuan and the obligation of China is to rebuy the yuan at the same rate we pay for them.

Senator TAFT. But under the last transaction that is not secured by gold?

Mr. BELL. No; that is secured by yuan and the credit of the Chinese Government and Central Bank.

Senator TAFT. So, when you get through with the war, in effect it amounts to a loan to China because all we have is an obligation of the Chinese Government to rebuy paper money issued by them. Is that correct?

Mr. BELL. That is the obligation, to repurchase yuan, and, of course, the Central Bank and the Government of China have the obligation to see that we get our dollars back.

Senator TAFT. Is that the same thing as to the Argentine?

Mr. BELL. Practically.

Senator TAFT. Nothing has been done under that?

Mr. MORGENTHAU. The Argentine Parliament has not confirmed it.

Senator TAFT. But the agreement would be we would buy 50 millions of Argentine pesos and we would have those pesos in the stabilization fund and we would have the obligation of the Argentine Government to redeem tham at some future time.

Mr. BELL. That is right. In addition, the Central Bank is on the obligation to repurchase.

Senator TAFT. The Brazilian loan was the same?

Mr. BELL. The Brazilian arrangement was secured by gold, but that has been paid off; that is, that has been redeemed since December 31.

Senator TAFT. Well, since Congress has passed the Lease-Lend Act, I don't have the same objection to using the stabilization fund for loans too. Congress has approved the policy, so I cannot object to it; but I do want to point out, if you have power to make those loans you can really lend the whole stabilization fund to England or any other country in the world, so far as I can see, in that way. That is, you can fill it up with pounds sterling and have at the end of the war the pounds sterling. And then, don't you simply have the obligation of the British Government to redeem the pounds sterling? Is that not right? You have practically the authority to loan the entire amount of $2,000,000,000 to any foreign government, because we have approved the Chinese and Argentine agreements.

Mr. MORGENTHAU. May I just have a minute? I want to be sure that what I am saying is correct; just to check my memory.

Senator ADAMS. I don't understand the Argentine transaction——

Senator TAFT. No; what I am saying is, if we pass this bill knowing that has been done, we are, in effect, approving it.

Senator ADAMS. No; I think we are extending it with the powers the statute gives. The mere fact someone sits around the table and says they have no objection, I do not think that changes the statute. Of course, as the committee acquiesced in the Chinese loan, they did think it was in excess of the statute but because of the emergency we shut our eyes. But we did not become blind.

Senator TAFT. Well, I find whenever something is done and then Congress comes along afterwards knowing all about it and approves it, the court is likely to say we have done that. I don't see that I can object to your loan, but I want to know if you do not think we are in substance giving you the power to loan the whole stabilization fund to foreign governments.

Mr. MORGENTHAU. I want to just restate my position. I have just rechecked myself.

While I feel that I got the approval of this committee and the committee in the House to negotiate arrangements of this kind, I said before I would enter into an agreement with a country at war—you mentioned England—I would come up here to consult with Congress before I made such a commitment.

Senator TAFT. You mean that is what you said 2 years ago.

Mr. MORGENTHAU. I said it then and I repeat it now.

Senator TAFT. And that is why you came up last year to consult regarding the Chinese loan?

Mr. MORGENTHAU. That is right.

Senator TAFT. But you didn't regard that limitation as binding as to the Argentine loan. You thought you had that power?

Mr. MORGENTHAU. I felt that I had that—I mean, that that was my understanding with Congress.

Senator TAFT. I don't quite see how a committee of Congress can authorize a loan if it was not authorized in law, but I do think we authorize it if we renew this power, knowing what has been done. I will in substance say it is all right. I have no great objection now.

Senator DANAHER. Well, the fact was it was made to appear that the only transaction that was discussed was the Chinese situation. The Argentine was not gone into at all.

Mr. MORGENTHAU. Well, Senator Danaher, just to keep my record and my word clear, I came up here and discussed the Chinese one, the original promise was with regard to a country at war; and, certainly, by the wildest imagination you could not say the Argentine was at war.

Senator DANAHER. I do not think it is.

Mr. MORGENTHAU. No; but I hope you feel I kept faith with you and all the rest of the committee.

Senator DANAHER. Oh, I was simply commenting on the remark of my colleague.

Mr. MORGENTHAU. But you do feel when I came up here and got the vote of confidence of the committee on the Chinese, I certainly had the right to go ahead with the Argentine.

Senator DANAHER. Here is the way I did feel about it, since you ask me. That particular day I was present and we went into that Chinese situation at very considerable length; not only was the transaction explained but it was represented that there was a very marked degree of security flowing to it.

Mr. MORGENTHAU. That is right.

Senator DANAHER. And the amount of security and the type of it, coupled with the Secretary's statement that we could depend upon his getting all that he could get, which was substantially your language, to secure that Chinese transaction, certainly instilled in the minds of most of us, and certainly in my mind, that this transaction was one that may not strictly conform to the statute, but certainly under the circumstances could be justified.

Now, there was not anything said either by Mr. Hull or the Secretary of the Treasury with reference to the Argentine transaction at that time. The vote of confidence therefore dealt solely with what had been reported to us; and yet, by the middle of the afternoon of the very same day every newspaper of the United States, certainly those in Washington, carried full details of the Argentine transaction, which had for some reason or other not been related to us.

Now, it is explained this morning that it was not related to us because Argentina was not at war.

Mr. MORGENTHAU. That is right.

Senator DANAHER. I wonder now whether the Argentine matter proceeded on the same degree of security with the same degree of confidence to be reposed in it that we reposed in the Chinese transaction. I therefore am not able to give you a direct answer even now.

Mr. MORGENTHAU. Again I would like to go back just a minute. The statement that I made originally was I felt it incumbent upon me to come here with respect to a country at war, that while you could still technically and legally say that China was not at war, I felt I did not want to stand on technicalities.

There was no obligation on my part, I thought, to consult the committee in regard to Argentina. I felt I had that power. I was not withholding anything. I just did not feel I had any moral obligation to consult the committee in regard to stabilization fund operations with Argentina, Brazil, or any other South American country.

Senator DANAHER. Remember any comment I have now was elicited by the Secretary's question.

Mr. MORGENTHAU. I understand. And I value your opinion. This whole thing of coming up here and laying the cards on the table, in view of a statement made 2 years ago, is that I did not want to stand on the technicality that China was not at war. And that is why I came up here.

Senator ADAMS. May I state this: I think this is the premise, we are all trying to work it out for the good of the country. We may differ, but that is our purpose.

Now, I have never felt that your stabilization fund was available for loans to foreign governments. I would not agree with the Secretary that he has the right to make loans to the Argentine or any other foreign government. I felt the Chinese situation had become acute and perhaps justified a stretching, you might say, of the law, and that there was a currency matter involved.

We were told there that the Japanese were entering in the occupied area trying to drive out the Chinese currency, and also the unoccupied, and that the use of this fund would tend to stabilize the Chinese currency as against the Japanese efforts, and that we had a commercial interest in maintaining the Chinese currency against Japanese efforts.

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I think it was in rather an attenuated way brought within the scope of the stabilization fund, which is to stabilize the exchange rate of the dollar; but I have never thought there was a basic right to make loans to a foreign government; but the vote of confidence on my part I should repeat it, because I have implicit confidence in the Secretary of the Treasury and Secretary Hull; but even with them I reserve the right to differ as to their judgment as to the law.

Senator TAFT. The Secretary's opinion is very clear now that he has power to do it; and of course if he has power to do it with $50,000,000 to Argentine, he has power to do it with $2,000,000,000 to England.

I asked him his position a year ago and he would not state what his opinion was as to whether he had that power or not.

I asked him if it was not legally possible to loan $2,000,000,000 to England. He said, "Well, if I lost all sense of reason in the performance of my duty, I might do a lot of things."

I said, "In other words, it is legally possible?"

Secretary Morgenthau said, "Well, a lot of things are legally possible which you would not do under the rule of common sense."

He was unwilling to express an opinion as to whether he had that power. He subsequently decided that he had that power.

It is past history now and I only think that the committee ought to realize in renewing that loan that we are giving him that power.

We know he has done it. We are not limiting it in any way to prevent his doing it. I think we are merely accepting this, to renew that power.

Senator ADAMS. Mr. Secretary, I have just one added word.

My basic opposition to the devaluation law is that I just do not think it is an honest thing to do. I do not think the greatest Nation on the earth in every way can go out and by the operation either of its Congress or of its President seek to pay its debts in a lesser currency than the debts were contracted.

As a Member of Congress in which the power of fixing the value of currency is vested, I should oppose the exercise by Congress.

I think when the Secretary asks the question: "Shall I grant the power to pay the debts of these United States in a depreciated currency?"—as I see it, it shows we authorize what I think is an immoral, dishonest action by our great Government. Of course, regardless of commercial benefits, I am never going to vote to authorize to do anything which I think is not honest.

Of all the things which may be imagined, there is nothing I can imagine which would justify my Government in paying a dollar debt with an 85-cent dollar; consequently, I cannot go along on any authorization. I think the burden of proof is on those who ask Congress to delegate this authority.

Senator GLASS. Well, that is the position I took when there was not one-thousandth part of the reason for doing it that there is now.

Well, any further questions of the Secretary?

Senator MURDOCK. Mr. Chairman, I would like to have furnished for the record along with the statement of the currency in circulation, also the demand deposits; so that we get the relationship between the two.

Secretary Snyder January 17, 1947

A. N. Overby

History and Present Status of Exchange Stabilization Fund.

This memorandum sets forth certain information regarding the history and present status of the Exchange Stabilization Fund which you may find useful in preparation for your appearance before the Subcommittee of the House Committee on Appropriations.

I. History and Background

1. Origin

Two billion dollars of gold at the new valuation of $35 per fine ounce was appropriated by the Gold Reserve Act of 1934 as a stabilization fund. This gold comprised about 70 percent of the total profit arising from the revaluation of gold (from $20.67 per fine ounce to $35 per fine ounce).

2. Working Portion

Of the two billion, $200,000,000 was deposited for active use in April 1934, part in the General Fund of the Treasury and part in a special account of the Secretary of the Treasury in the Federal Reserve Bank of New York. This amount, used as a revolving fund, plus accumulated net earnings, has proved adequate for the Fund's operations to date. The $1.8 billion balance of the original $2.0 billion remains unused in the Gold Account of the Treasury (Daily Statement, top of page 1), but will shortly be used as directed by the Bretton Woods legislation, to pay part of the United States quota in the International Monetary Fund.

3. Purpose and Powers

The only statutory purpose of the U.S. fund is that of "stabilizing the exchange value of the dollar." To this end, the Secretary of the Treasury, with the approval of the President, "is authorized...to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose" stated.

4. Responsibility

The Gold Reserve Act provides that the fund shall be "under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decision shall be final and not be subject to review by any other officer of the United 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."

FUNCTIONS + POWERS

5. Operating Control

As an operating mechanism, policies are determined by top Treasury officials, with the special advice of the Division of Monetary Research. Once policies are determined, implemental operations are administered under the direction of the Division of Monetary Research, largely through the Federal Reserve Bank of New York as fiscal agent of the Treasury. All transactions are now carried out upon the authorization of the Fiscal Assistant Secretary.

6. Types of Uses

Besides various silver and miscellaneous operations, three main types of use of the fund in recent years have developed in practice:

a. Purchases and sales of gold for the purpose of settling international balances. These transactions are conducted with foreign treasuries and central banks at $35 per fine ounce, plus or minus 1/4 of 1 percent and regular mint charges. In effect, they keep the dollar at par with gold at $35 per fine ounce, and they maintain the "gold import point" and "gold export point" of the old gold standard, at which gold would flow into and out of the country. Sales of gold to assist foreign countries to build up their gold reserves, come under this same category.

Through the Fund's facilities, the responsible officials of the Treasury are kept in constant touch with developments in foreign exchange rates for the dollar throughout the world.

b. Stabilization agreements with foreign governments, making stated maximum amounts of the fund's dollars available to the foreign governments or central banks for definite periods of time as stabilization loans to assist them in maintaining the foreign exchange value of their currencies.

c. War-time purchases of certain foreign currencies notably Indian rupees, Egyptian pounds, Iranian rials, and Swiss francs. The fund then sold the foreign currencies to American agencies or individuals who had to make expenditures in those currencies. Because the three Eastern currencies were bought with gold through special agreements when gold was selling at a high premium in the internal markets, the currencies were acquired at much less than prevailing exchange rates.

II. Present Status

1. Size of Fund and Form of Assets

After carrying out the requirement to subscribe $1.8 billion of the fund's original assets to the International Monetary Fund, the United States Stabilization Fund will amount to about $290,000,000. Of this, $200,000,000 is the original appropriation, and the remaining $90,000,000 is accumulated net earnings. Some $10,000,000, however, is held as a reserve to cover a potential loss on the resale of certain foreign exchange.

The form of the assets is subject to frequent fluctuations, particularly between dollars and gold. On January 11, 1947, the assets were made up as follows:

Dollar deposits (in General Fund of Treasury and Federal Reserve Bank of New York)	$ 42,800,000
Gold (in Federal Reserve Bank of New York and New York Assay Office) and Treasury	220,200,000
U. S. Government securities	20,000,000
Due from Government of Cuba	5,000,000
Deposits abroad of foreign currencies — mostly Indian rupees and Swiss francs	3,300,000
Miscellaneous	300,000
Total	$293,600,000

Gold may be replenished or disposed of at will by buying it from or selling it to the General Fund of the Treasury in exchange for dollars, at $35 an ounce, flat.

2. Current Operations and Policies

Stabilization agreements are now in force with Brazil and Mexico, for $100,000,000 and $40,000,000 respectively, but neither is being used.

The fund is slowly selling off its small remaining balance of Indian rupees, chiefly to meet needs of the Foreign Service and War Shipping Administration. The once-large needs of the Army have ceased, and a substantial return of rupees by the Army is in prospect.

The fund continues to supply Swiss francs for government expenses. The fund replenishes its supply of francs periodically by purchases from the Swiss National Bank in exchange for dollars which may be converted into gold at the wish of the Swiss bank.

The fund makes purchases and sales of gold with foreign governments and central banks. During 1946, purchases totaled $407,300,000 and sales $179,500,000. Transactions occurred with 28 foreign countries.

3. Audit and Report to the President and Congress

All transactions of the Fund, whether for salaries, expenses or direct stabilization operations, are audited annually and reported as required by law to the President and both houses of Congress. These reports are treated as confidential and are not made public. The classified totals of expenditures, however, as well as balance sheets, are published quarterly and annually in the Treasury Bulletin, and the Annual Reports of the Secretary.

The following description of the method of the annual audit has been contained in the recent annual reports to the President and Congress:

"In view of the confidential nature of the transactions of the Fund, it was not deemed advisable to permit any outside auditors to come into the Treasury to review the records. It was decided, therefore, that the audit should be made by a committee composed of three Treasury officials, thoroughly conversant with Treasury fiscal operations and not in any way connected with the operations of the Fund, who have served in the Treasury for periods ranging from twenty-five to thirty years. Each year this committee, together with employees working under its immediate jurisdiction, has audited every transaction of the Fund, and the committee's reports and accompanying certifications have been submitted to the President and to the Congress as required by the Gold Reserve Act of 1934 as amended."

4. Authority for Expenditures

All payments of salaries, expenses and stabilization operations, are upon the authorization of the Secretary of the Treasury. The legislative authorization for such expenditures is contained in the Gold Reserve Act of 1934. Section 10(b) reads in part as follows:

"To enable the Secretary of the Treasury to carry out the provisions of this section there is hereby appropriated...a stabilization fund...under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decisions shall be final and not be subject to review by any other officer of the United 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....The proceeds of all sales and investments and all earnings and interest accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund."

5. Handling Authorizations for Expenditures

Although the Secretary of the Treasury and the President are required to approve of certain basic policies of the Exchange Stabilization Fund, the Secretary of the Treasury has delegated authority over many of the routine transactions. Currently, expenditures are approved by the Fiscal Assistant Secretary. All appointments of personnel are approved by the Administrative Assistant to the Secretary. With regard to personnel, the Personnel Division and the Administrative Assistant to the Secretary enforce policies which are believed to be at least as strict as those applying to other parts of the Treasury.

Vouchers for expenses chargeable to the Exchange Stabilization Fund are routed through the Division of Monetary Research before final signature by the Fiscal Assistant Secretary. Such vouchers are treated in the same way as vouchers to be charged to annual Treasury appropriations by Congress, and are accordingly acted upon by several different branches of the Treasury.

6. Personnel Now Paid From the Stabilization Fund

189 people are now paid from the Stabilization Fund as follows:

a. Division of Monetary Research - Washington	110
b. 8 Treasury Representatives and their staffs abroad	25
c. Office of the General Counsel	33
d. Office of the Secretary	12
e. Bureau of Accounts	9
	189

7. Current Earnings and Expenses

In the calendar year 1946, expenses of the fund were $980,500 and earnings $1,882,000.

8. Reasons for Use of Fund for Expenses

Under the procedure originally worked out by Secretary Morgenthau and Mr. White, the first Director of Monetary Research, activities connected with stabilization operations have been paid out of the Stabilization Fund rather than from annual appropriations of Congress. Expenses payable from the Stabilization Fund have grown rapidly in recent years because of the increased international financial activities discharged by the Treasury Department.

The two principal reasons for the use of the Fund rather than appropriations to pay salaries, expenses, etc. of personnel engaged in stabilization and international financial activities are:

a. The secret nature of the Fund's operations. Full public disclosure of the type and extent of the Fund's operations would presumably have to be made at Congressional hearings and Congressional debate if annual appropriations had to be depended upon.

b. The administrative inflexibility of appropriations as opposed to the use of the Fund to meet new and unexpected developments in the international financial field.

9. Reasons for Continuance of Exchange Stabilization Fund

There may be some people who will question the need for an Exchange Stabilization Fund now that the International Monetary Fund is in existence.

The International Monetary Fund and the International Bank for Reconstruction and Development were established to promote, in addition to their other purposes, exchange stability and orderly exchange arrangements among members. This purpose is, of course, related to the Exchange Stabilization Fund's objective of stabilizing the exchange valuation of the dollar. The Bretton Woods institutions, however, will not replace or remove the need for the Stabilization Fund. In spite of the assistance provided by the Fund and the Bank to all member countries, it may well be that individual cases will arise where a special agreement between the United States and a foreign country of the type now in existence with Mexico and Brazil would be desirable. These will be agreements which may involve the special interests of the United States which could not be served by the Fund or the Bank. The loans which would be incorporated in a stabilization agreement made by the United States Treasury would provide an emergency reserve of dollar exchange which would assure that the borrowing country would have additional foreign exchange up to a specified amount available if required in carrying out a policy of exchange stability with the dollar. This type of stabilization loan performs a useful function by giving a country a second line of defense beyond its own reserves of gold and foreign exchange.

Moreover, the Stabilization Fund is the agency through which the Treasury buys and sells gold without such transactions immediately becoming public. In some respects this aspect of its operations has always outweighed the stabilization agreements made with other countries. In addition to our usual buying and selling of gold in New York to foreign treasuries and central banks, it may be that at some time in the future we might wish to make gold sales abroad to maintain the value of the dollar in certain countries. These operations could best be carried out by the Stabilization Fund.

In addition, there are exchange transactions which we sometimes undertake on behalf of United States Government agencies and others which serve the best interests of the United States Government and of the public and are best handled through the Stabilization Fund.

It might be noted in this connection that almost every other important country in the world has an exchange stabilization fund.

Finally, it might be noted that the Exchange Stabilization Fund provides an instrument of great flexibility which permits us to meet unexpected but urgent needs in the international financial and monetary field.

cc: Messrs. Schmidt & Eddy.

The Exchange Stabilization Fund was made a permanent Fund by the Bretton Woods Agreements Act, approved July 31, 1945. Previously its life had been renewed by Congressional action every two years.

ANO

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 25, 1946

TO Mr. Coe

FROM Mr. Eddy gae

Subject: Condensed Review of Stabilization Fund

I. BACKGROUND

1. Origin

Two billion dollars of gold at the valuation of $35 per fine ounce was appropriated by the Gold Reserve Act of 1934 as a stabilization fund. This gold comprised about 70% of the total profit arising from the reduction of the weight of the old gold dollar.

2. Working portion

Of the two billion, $200,000,000 was deposited for active use in April, 1934, part in the General Fund of the Treasury and part in a special account in the Federal Reserve Bank of New York. This amount, used as a revolving fund, plus accumulated net earnings, has proved adequate for the Fund's operations to date. The $1.8 billion balance of the original $2.0 billion remains unused in the Gold Account of the Treasury (Daily Statement, top of page 1), but will shortly be used as directed by the Bretton Woods legislation, to pay part of the United States share in the International Monetary Fund.

3. Purpose and powers

The only statutory purpose of the U.S. fund is that of "stabilizing the exchange value of the dollar". To this end, the Secretary, with the approval of the President, "is authorized ... to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose" which was just stated.

4. Responsibility

The Gold Reserve Act provides that the fund shall be "under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decision shall be final and not be subject to review by any other officer of the United 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".

5. Operating control

As an operating mechanism, policies are determined by top Treasury officials, with the special advice of the Division of Monetary Research. Once policies are determined, implemental operations are administered under the direction of the Division of Monetary Research [and carried out by the Office of the Fiscal Assistant Secretary], largely through the Federal Reserve Bank of New York as fiscal agent of the Treasury. All transactions are now carried out upon the authorization of the Fiscal Assistant Secretary.

6. Types of use

Besides various miscellaneous operations, three main types of use of the fund in recent years have developed in practice:

A. Purchases and sales of gold for the purpose of settling international balances. These transactions are conducted with foreign treasuries and central banks at $35 per fine ounce, plus or minus 1/4 of 1% and regular mint charges. In effect, they keep the dollar at par with gold at $35 per fine ounce, and vice versa, and they maintain the "gold import point" and "gold export point" of the old gold standard, at which gold would flow into and out of the country. Sales of gold to assist foreign countries to build up their gold reserves[, as well as sales for legitimate industrial and artistic use at home or abroad,] come under this same category.

B. Stabilization agreements with foreign governments, making stated maximum amounts of the fund's dollars available to the foreign governments or central banks for definite periods of time as stabilization loans to assist them in maintaining the foreign exchange value of their currencies.

C. War-time purchases of certain foreign currencies, notably Indian rupees, Egyptian pounds, Iranian rials, and Swiss francs. [in exchange for gold, to prevent those currencies from rising against the dollar.] The fund then sold the foreign currencies to American agencies or individuals who had to make expenditures in those currencies. Because ~~the~~ three Eastern currencies ~~had been~~ were bought with gold through special agreements, [~~the currencies were obtainable in unusual amounts at undisturbed exchange rates. In some cases,~~] when gold was selling at a high premium in the internal markets ~~and, as a result,~~ the currencies were acquired at much less than prevailing exchange rates.

D. Continuous survey of dollar exchange rates. Through the facilities the responsible officials of the Treasury are kept in constant touch with developments in foreign exchange rates for the dollar throughout the world.

II. PRESENT STATUS

7. Size of fund and form of assets

After carrying out the requirement to subscribe $1.8 billion of the fund's original assets to the International Monetary Fund, the United States Stabilization Fund will be about $290,000,000. Of this, $200,000,000 is the original appropriation, and the remaining $90,000,000 is accumulated net earnings. Some ~~is still~~ $10,000,000, however, is held as a reserve to cover a potential loss on the resale of certain foreign exchange.

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The form of the assets is subject to frequent fluctuations, particularly between dollars and gold. On ~~February 11, 1946~~ January 11 1947 the assets were made up as follows:

Dollar deposits (in General Fund of Treasury and Federal Reserve Bank of New York)	43,800 $ ~~212,8~~00,000
Gold (in Federal Reserve Bank of New York, and New York Assay Office) ~~and Treasury)~~	220,900 ~~52,~~000,000
U. S. Government securities	20,000,000
Due from Government of Cuba	5,000,000
Deposits abroad of foreign currencies — mostly Indian rupees and Swiss francs	3,6 ~~5,6~~00,000
Miscellaneous ~~(Already paid 5,000,000 to monetary fund)~~	300,000
Total	293,6 $ ~~290,7~~00,000

Gold may be replenished or disposed of at will by buying it from or selling it to the General Fund of the Treasury in exchange for dollars, at $35 an ounce, flat.

8. Current operations and policies

Stabilization agreements are now in force with Brazil and Mexico, for $100,000,000 and $40,000,000 respectively, but neither is being used. [Rather than standing in need of support for their currencies, both countries have a strong balance of payments and have been acquiring some gold.] The four other stabilization agreements that have been made in the past, with China, Ecuador, Iceland, and Liberia, have all been liquidated and have expired.

The fund is slowly selling off its small remaining balance of Indian rupees, chiefly to meet needs of the Foreign Service and War Shipping Administration. The once-large needs of the Army have ~~dwindled.~~ ceased, and a substantial return of rupees by the Army is in prospect.

The fund continues to supply Swiss francs for [approved purposes, namely, humanitarian organizations,] government ~~expenditures, diplomatic~~ expenses ~~(of~~ [the U.S. and other countries), and living expenses of Americans living in Switzerland.] The fund replenishes its supply of francs periodically by purchases from the Swiss National Bank in exchange for dollars which may be converted into ~~earmarked~~ gold at the wish of the Swiss Bank.

The fund makes ~~routine~~ purchases and sales of gold ~~to~~ with foreign governments and central banks. During ~~the last quarter of~~ 1946, [France was the chief seller of gold, in the amount of $108,000,000, while nine Latin American countries, plus Portugal, Switzerland, and Turkey, purchased a total of $146,000,000.]

purchases totaled $407,300,000 and sales $179,500,000. Transactions occurred with 28 foreign countries.

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9. Audit and report to the President and Congress

The next required annual audit of the fund (made by three Treasury officials), and the report thereof to the President and Congress, will be due ~~very~~ shortly. The auditing committee's report for the fiscal year 1946 is ~~being bound today.~~ approaching completion.

10. Current earnings and expenses

In the calendar year 1946, expenses of the fund were ~~$683,000~~ $920,500 and earnings ~~$12,448,000 (plus an additional $13,000,000 now held in a contingency reserve).~~ $1,932,800.

(NOTE: This memorandum is in large part a summary review of a longer memorandum, "Book on the Stabilization Fund, December 31, 1945", prepared by Mrs. J. R. Sundelson).

Green Files

March 8, 1939

Secretary Morgenthau

Mr. White

Subject:

The following important statements made by you before the Senate and House committees in my opinion make it imperative to reexamine now the use and objectives of the Stabilization Fund.

(1) You clearly make the statement that it is your opinion that the 1.8 billion dollar portion of the Fund should be reserved for the purpose of reducing the outstanding debt.

(2) You further stated that you would not use the Stabilization Fund to acquire any foreign currency unless there were adequate specie collateral. In other words, you were not going to undertake any exchange risk.

(3) You stated that you would not support any foreign currency.

(4) You stated that you would not use the Fund for the purpose of making any loans to any country.

(5) You stated that you intended to issue a quarterly balance sheet summarizing the operations of the Stabilization Fund, thereby eliminating any uncertainty as to the type of operations engaged in.

(6) You stated that you invested in bonds because you wanted to earn a profit to meet the expenses, leaving the interpretation that the Fund is able to earn a large revenue to meet general government expenditures. If it is appropriate to buy bonds in order to meet the expenses of conducting the Stabilization Fund, why is it not appropriate to buy more bonds to meet more expenses of the Treasury or of the Government?

3/8/39 - Original to Secretary.

These six statements taken together have so restricted the operations of the Stabilization Fund as to make it extremely difficult to justify keeping the 1.8 billion portion of the Fund in gold. The uses have, by the above statements, been restricted to operations which cannot conceivably require more than $200 million cash assets. The only uses remaining for the Stabilization Fund are (1) to provide a cushion against large outflows of gold and (2) to provide a Fund which can be employed in open market operations to influence the domestic credit situation.

The first of these reasons can be dismissed because there has to be an almost impossible combination of circumstances present which would make the Fund useful in that connection. The following conditions would have to exist:

(1) Expansion of credit would have to become so great as to absorb all excess reserves.

(2) There would also have to occur a substantial outflow of gold.

(3) There would be no further powers available to reduce the required reserves.

(4) That even if gold did have to flow out and there were no excess reserves, a contraction of credit could still be avoided by the numerous monetary powers possessed by the Federal Reserve Board and the Treasury. Therefore the Stabilization Fund can hardly be said to constitute a protective cushion.

The second power of the Stabilization Fund, namely to conduct open market operations, would call for an exchange of gold for bills now. If the exchange of gold for bills in the Stabilization Fund by adding to the excess reserves increases the danger of inflation, then it is difficult to see how you will ever be in a position to utilize the gold. Certainly the time when the reserves can be most safely augmented is during the period of low business activity, not high business activity. If we cannot use the gold now, when can we use it? Certainly not when business improves.

The psychological importance of maintaining a $2 billion fund would not be interfered with (for example England has a 2.8 billion Stabilization Fund but that Fund can and does consist of partly gold and partly bills.

EDW:HG:mh 3/8/39

Nor would the Fund be any weaker by virtue of the fact that it consisted in part of bills rather than of gold because the gold would remain in the country and available for export in the same way as it is now available for export in the Stabilization Fund.

I believe the Treasury policy will become very vulnerable when somebody sooner or later carefully examines the testimony and raises the issue in the press or in Congress.

The Stabilization Fund was created by Congress for the purpose "of stabilizing the exchange value of the dollar". Congress included in those powers a broad range of activities, including:

(1) operations which involve an exchange risk and possibility of an exchange loss.

(2) the power to deal in gold, foreign exchange, and such other instruments of credit and securities as he may deem necessary to carry out the purposes of this section.

(3) not specifically, but by reasonable interpretation.

The appropriate use of the Stabilization Fund also involves the authority to buy and sell bills in order to influence the domestic purchasing power of the dollar. This interpretation rests on two grounds:

(1) The domestic purchasing power of the dollar definitely influences the foreign exchange value of the dollar.

(2) Stabilizing the purchasing power of the dollar at home is implicit under the phrase "stabilizing the exchange value of the dollar" which is the purpose of the creation of the Stabilization Fund.

When the bill was being considered before Congress an amendment was defeated which wished to confine the purpose of the bill to the stabilization of the foreign exchange value of the dollar, indicating that Congress was not limiting itself to the narrow field of foreign exchange.

Conclusion

Unless you wish to subsequently retract your testimony given under these committees, it would seem wise to begin employing that portion of the fund for the only purpose that is left for it - namely the financing of current deficits.

HDW:HG:mh 3/8/39

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Information Concerning Stabilization Funds of Foreign Countries

1. Date of establishment

England	April 25, 1932
France	October 1, 1936
Netherlands	September 30, 1936
Switzerland	September 30, 1936
Belgium	March 30, 1935

The above is not a complete list of foreign Stabilization Funds. Such funds have been established for example in the Argentine, Colombia, Czechoslovakia, Latvia, and Rumania. These funds were set up in March, 1935, April 1937, September 1936, October 1936, and November 1936, respectively at the time of the revaluation of gold reserves and were credited with a part or the whole of the resulting profits. These and various other institutions are of lesser significance in international monetary relations and have as a rule a more limited scope and purpose.

2. Nature of initial assets

The Stabilization Funds of Switzerland, Belgium and France were created out of the increment resulting from the devaluation of their currencies. The initial assets of these funds therefore consisted wholly of gold. In both England and Netherlands gold stocks were not revalued at the time the Funds were established and the Funds were empowered to issue Treasury bills.

3. Original amount of fund

England	175 million pounds (approx. $875 million)
France	10 billion francs (approx. $470 million)
Netherlands	300 million guilders (approx. $165 million)
Switzerland	539 million Swiss francs (approx. $125 million)
Belgium	1,125 million Belgian francs (approx. $38 million)

4. Increase in borrowing capacity of funds

The borrowing capacity of the British Fund was increased by 200 million pounds in April 1933 and by a further 200 million pounds in June 1937, making a dollar total of approximately $2,875,000,000. There apparently has been no change in the borrowing capacity of other Funds.

3/8/39 - Original to Mr. Friedman, for transmittal to Senator Wagner.

5. Administration of funds

(a) England - The Fund is under the control of the Treasury.

(b) France - The Fund is administered by the Bank of France for account and under the supervision of the public Treasury. The conditions of its operations are determined by the Governor of the Bank of France within the framework of general instructions furnished by the Minister of Finance.

(c) Netherlands - The Fund is managed by the Netherlands Bank in accordance with rules laid down by the Minister of Finance and under his supervision.

(d) Switzerland - The Fund is under the control of the Swiss National Bank.

(e) Belgium - The King was empowered by law to set up the Fund and to determine the functions and manner of its operation. The King acted after consultation with Cabinet and National Bank. The National Bank carried on the operations of Fund pursuant to the King's instructions.

6. Powers of the Fund

(a) England - The Treasury may cause any funds in the account to be invested in securities or in the purchase of gold in such manner as they think best adapted for checking undue fluctuations in the exchange value of sterling.

(b) France - The Fund has the function of regulating the relationship between the franc and foreign currencies until the gold content of the franc is finally fixed by decree of the Council of Ministers.

(c) Netherlands - The Fund was established for the purpose of influencing foreign exchange rates by buying and selling money transfers, bills, and similar paper payable abroad, and gold.

(d) Switzerland - Swiss National Bank which operates the Fund is required to maintain the value of the Swiss franc in terms of gold between 215 and 190 milligrammes of fine gold. The Fund was not established by specific Act of the Federal Assembly but pursuant to instructions given to the National Bank by the Federal Council. The Decree of the Federal Council providing for revaluation of the franc and the instructions directing the National Bank to set up the Stabilization Fund were issued pursuant to the Act of the Federal Assembly of January 31, 1936 which authorized the Federal Countil "to take any measures which it considers necessary for the maintenance of the national credit and which, in its opinion, cannot be postponed."

(e) Belgium - The Fund was established for the purpose of regulating the relationship between the belga and foreign currencies pending final fixing of the gold content of the belga.

7. Time limitations on funds

(a) England - At discretion of Treasury or not later than six months after Commons resolves Fund no longer necessary.

(b) France - None. (Possibly the final fixing of the gold content of the franc by decree would terminate the function of the Fund in regulating the relationship between the franc and foreign currencies.)

(c) Netherlands 0 None.

(d) Switzerland - None.

(e) Belgium - Gold content of belga was finally fixed on March 31, 1936 at which time Stabilization Fund was terminated.

8. Secrecy of Funds

(a) England - The Act setting up the Account provided that the Account shall in every year until it is wound up be examined by the Comptroller and Auditor-General, in such manner as he, in his discretion, thinks proper with a view to ascertaining whether the operations on and the transactions in connection with the Account have been in accordance with the provisions of the Act, and requires the Comptroller and Auditor General certify to the Commons whether in his opinion, having regard to the result of the examination, the operations on and the transactions in connection with the Account have or have not been in accordance with the provisions of the Act. The details of the operations of the Account have not been made public.

(b) France - Apparently no express provision in law regarding secrecy. The details of the operations of the Fund have not been disclosed. The only information made public has been general statements at various times in connection with budget discussions.

(c) Netherlands - The operations of the Fund are expressly exempted from provisions of Public Accountability Act. It is provided that as soon as the country's interests will permit, provision shall be made by law to determine the way in which the use made of the moneys of the Fund shall be accounted for and the date on which such account shall be rendered. The details of the operations of the Fund have not been made public.

(d) Switzerland - Apparently no legal provision. The details of the operations of the Fund have not been made public.

(e) Belgium - Apparently no legal provision. The details of the operations of the Fund have not been made public.

Information Concerning Power to Revalue Currency

(a) England - There appears to be no express statutory authority to alter the statutory gold content of the pound sterling but the obligation of the Bank of England to sell gold at the statutory price for gold has been suspended since September 1931.

(b) France - The Council of Ministers is authorized to fix ultimately the gold content of the franc by decree. No such decree has yet been issued. There is apparently no time limitation upon the exercise of the power.

(c) Switzerland - By decree of the Swiss Federal Council the Swiss National Bank has been directed (without apparent limitation as to time) to maintain the gold parity of the Swiss franc at a value ranging between 190 and 215 milligrammes of fine gold which corresponds to a mean devaluation of the franc of 30 percent from the old gold parity. The franc has been maintained within the specified limits.

(d) Netherlands - There appears to be no statutory authority to alter the statutory gold content of the Netherlands guilder but the obligation of the Netherlands Bank to pay its notes in gold has been suspended since September 1936.

(e) Belgium - The gold content of belga was finally fixed by decree in March 1936. Presumably there is no further authority to alter the gold content of the belga.

(f) Italy - The gold content of the lira can be reduced by a further 10 percent by royal decree upon recommendation of the Head of the Government, Prime Minister, Secretary of State, and of the Minister of Finance, after consultation with the Council of Ministers.

3/8/39

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APPENDICES

I. Legislative History

Section 10 of the Gold Reserve Act of 1934 provided for the establishment of the exchange stabilization fund "for the purpose of stabilizing the exchange value of the dollar". The sum of $2 billion was appropriated for the fund out of the increment resulting from the reduction in the weight of the gold dollar.

On March 9, 1934 the fund was set up on the books of the Treasury and on April 27, 1934, $2 billion in gold was transferred to the fund which, in turn, transferred $200 million to accounts with the Treasurer of the United States and the Federal Reserve Bank of New York to be used for the fund's immediate operations.

As originally provided, the fund was to have a life of two years from January 30, 1934, unless terminated before that date by the President. However, the President was authorized to extend the period for not more than one additional year. On January 10, 1936, the President issued a Proclamation extending the fund for one additional year from January 30, 1936. By renewals in 1937, 1939, 1941 and 1943, Congress extended the life of the fund to June 30, 1945.

The Bretton Woods Agreements Act, July 31, 1945, (Public Law 171 - 79th Congress) removes any termination date for the stabilization fund and provides for a permanent fund of $200 million of the original capital plus the net earnings that have accrued since the fund was established. It also provides that $1.8 billion of the original appropriation of the stabilization fund shall be applied to the United States subscription to the International Monetary Fund.

The legislation relating to the stabilization fund is attached as Appendix A.

II. Powers

The Gold Reserve Act of 1934 authorized the Secretary of the Treasury, with the approval of the President, to deal, for the account of the fund, in gold and foreign exchange and other instruments of credit and securities in order to carry out the purpose of stabilizing the exchange value of the dollar.

Through a series of letters and announcements (attached as Appendix B), approved by the President, the fund is authorized to carry on the following activities:

1. To purchase gold whether foreign or domestic, imported or earmarked, in the United States and abroad, at the rate of $35 per fine troy ounce less one-quarter of one percent and the usual mint charges.

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Gold Reserve ... stabilization fund "for the ... the ...

2. To sell gold in reasonable amounts to foreign governments, foreign central banks, and the Bank for International Settlements for the purpose of permitting foreign countries to build up adequate monetary reserves and for other purposes, at $35 per fine troy ounce plus one-quarter of one percent and the usual mint charges.

3. To purchase from or sell gold to the General Fund of the Treasury at the flat price of $35 per fine ounce.

4. To deal in foreign exchange.

III. Management

The management of the stabilization fund is vested in the Secretary of the Treasury, acting with the approval of the President. Section 10 of the Federal Reserve Act of 1934 states that the stabilization fund shall be "under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decision shall be final and not be subject to review by any other officer of the United 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..."

The Fund is audited annually by a committee of three Treasury officials, thoroughly conversant with the fiscal operations of the Treasury and not connected in any way with the operations of the fund. The Committee's report is submitted to the President and to Congress, as required by the Gold Reserve Act of 1934 as amended.

IV. Present Position of the Stabilization Fund

Capital Account

The capital account of the fund on December 31, 1945 was $2 billion and accumulated earnings were $78.0 million. In addition, the fund had a special reserve of $13.0 million for expenses and contingencies in connection with gold sales in the Middle East and India. A detailed balance sheet is given below.

After the payment of the $1.8 billion to the International Monetary Fund, provided for in the Bretton Woods Agreements Act, the fund will be left with resources of about $290 million.

	December 31, 1945	
Assets		
Cash:		
Treasurer U.S., gold	$1,800,000,000.00	
Treasurer U.S., checking account	1,733,067.18	
FRB of New York, special account	230,370,875.90	
Disbursing officers' balances and advance accounts	17,258.09	
Total cash		$2,032,121,201.17
Special accounts of Secretary of the Treasury in FRB of New York:		
Special account No. 1, gold		18,176,581.05
Due from foreign banks (foreign exchange):		
Swiss francs	53,667.78	
French francs	17.88	
Belgas	505.06	
Sterling	2,980.05	
Rupees	4,834,689.79	
Egyptian pound	-	
Foreign depositories	42,929.77	
Total due from foreign banks		5,147,306.16
Due from the Republic of Cuba		5,012,699.77
Investment in U.S. Govt. securities		30,448,723.13
Accrued interest receivable		115,812.32
Other accounts (deferred charges)		19.36
Commodity sales contract (deferred charges)		2,636.00
Total assets		$2,090,812,463.13

	December 31, 1945	
Liabilities and Capital		
Accounts payable:		
Vouchers payable	$ 188.28	
Employees payroll allotment acct., U.S. savings bonds	1,790.29	
Due on Cuban gold sale	199.83	
Withholding tax withheld from salaries of Federal employees, Treasury Dept.	374.00	
Civil Service retirement and disability Fund deductions	97.52	
Miscellaneous	900.00	
Total accounts payable		3,549.92
Reserves for expenses and contingencies (net)		13,001,708.23
Capital account		1,999,725,000.00
Earnings less administrative expenses		78,082,204.98
Total liabilities and capital		$2,090,812,463.13

Earnings and Expenses

The cumulative earnings of the exchange stabilization fund through December 31, 1945 amounted to approximately $81.7 million. These profits were earned largely through handling charges on gold and through exchange and other gold transactions. The cumulative administrative expenses of the fund through December 31, 1945 amounted to approximately $3.7 million, leaving cumulative net earnings of $78.0 million. An additional $13 million held as a reserve for expenses and contingencies in connection with gold sales in the Middle East and India will nearly all revert to profits when this account is closed.

The following is a cumulative statement of the earnings and expenses of the stabilization fund as of December 31, 1945.

Earnings of the Exchange Stabilization Fund from Inception to December 31, 1945.

Source	Amount	
Profits on French Franc Transactions	$ 335,105.98	
Profits on Foreign Exchange - Swiss Francs	743,766.04	
Profits on Guilder Transactions	10.00	
Profits on Gold Bullion	1,756,703.03	
Profits on handling charges on Gold	26,932,110.57	
Profits on Gold purchased from Vice Minister of Finance of Ethiopia	44.07	
Profits on sale of sterling	301,777.94	
Handling charges on Gold (Stabilization) - Accrued	12,500.00	
Profits on Silver Trading Transactions	97,591.12	
Profits on Other Gold & Exchange Transactions	40,000,000.00	
Profits on sale of Silver Bullion to Treasury	3,473,362.29	
Profits on Silver Bullion sold on the market	7,780.15	
Profits on investments	1,019,326.18	
Miscellaneous Profits	773.79	
Interest earned on Sterling Balance	8,860.15	
Interest earned on French Bank Balances	16,432.01	
Interest on Mexican Pesos	56,717.37	
Interest on Investments	4,940,882.90	
Interest earned on Chinese Yuan	1,975,317.07	
Interest earned on Brazilian Milreis	67,171.22	
Interest earned on Chinese Bank Accounts	23.30	
Total		$81,746,255.18
Administrative expenses of the Exchange Stabilization Fund from inception to December 31, 1945		3,664,050.20
Net earnings of the Exchange Stabilization Fund from inception to December 31, 1945		$78,082,204.98

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V. Past Activities of the Stabilization Fund

Stabilization Agreements

In carrying out its purpose of stabilizing exchange rates between the dollar and foreign currencies, the Treasury entered into stabilization agreements with the following countries:

Country	Commitment as of Final Renewal	Date of First Agreement	Final Expiration
Brazil	100,000,000	July 15, 1937	July 15, 1947
China	50,000,000	May 25, 1936	June 30, 1943
Ecuador	5,000,000	March 1, 1941	June 30, 1945
Iceland	2,000,000	May 1, 1942	June 30, 1944
Liberia	2,000,000	Sept. 26, 1942	June 30, 1944
Mexico	40,000,000	Jan. 6, 1936	June 30, 1949

Under these agreements, the United States agreed to make an amount of dollar exchange, equal to the commitments listed above, available to the government entering into the agreement or to its central bank. In every case, the Fund would take local currency, and in some cases other collateral, for the dollar exchange made available under the agreement. These stabilization agreements provided not only for stability of exchanges but also for periodic conferences to discuss monetary financial and economic problems of mutual interest. In the case of Liberia, the agreement was designed to facilitate the conversion of its currency system from one based on sterling to one based on dollars.

Tripartite Accord

As a further extension of the efforts of the United States to cooperate with other countries for international currency stabilization, the United States, on September 25, 1936, entered into a Tripartite Accord with the governments of France and Britain. The immediate purpose of the agreement was to prevent further exchange depreciation as a consequence of the contemplated devaluation of the franc. The three governments declared their intention to consult on exchange policy in order to avoid disturbances resulting from the proposed adjustment. The Accord also called for the expansion of international trade and the relaxation and ultimate abolition of the quota system and of exchange controls.

To implement this policy of exchange cooperation, the Secretary of the Treasury announced that the stabilization fund would henceforth sell gold to the exchange stabilization funds of those countries which agreed to reciprocate, and the British and French made similar arrangements. This arrangement was necessary because stabilization operations would result in the accumulation of foreign exchange by the stabilization funds and the governments desired to be able to convert this foreign exchange into gold upon agreed prices rather than to assume exchange risks.

On November 24, 1936, Belgium, the Netherlands, and Switzerland adhered to the principles of the Tripartite Accord and these countries were added to the list to which the United States would sell gold.

Gold Programs

In order to facilitate the use of gold in the settlement of international transactions and in order to help foreign countries build up their monetary reserves, the stabilization fund has, since 1934, sold gold for export to central banks and the treasuries of other countries. In recent years, most of our gold sales have been to the Latin American and neutral countries whose dollar balances were increased by United States war expenditures abroad.

During the war, the stabilization fund also participated with the United Kingdom Treasury in a program of gold sales in India and the Middle East, which was designed to assist those countries in their efforts to check inflation and at the same time to provide the United States, at a great saving in dollar costs, with rupees, Egyptian pounds and Iranian rials needed for military expenditures. The volume of gold sold under this program amounted to approximately $90 million.

Purchases of gold by the stabilization fund have been concentrated largely in the early years of the European war during which time Britain and the other nations were liquidating their gold and other assets in the United States in order to pay for needed supplies. The following table of gold purchases and sales by the stabilization fund demonstrates the way in which the stabilization fund gold operations have adjusted to changing economic conditions.

Stabilization Fund Purchases from
and Sales of Gold to Foreign Countries,
1934-1945

Years	Purchases	Sales
	(Millions of dollars)	
1934-38	1,282	762
1939-41	4,608	871
1942-45	468	3,435

Appendix C contains a breakdown of these transactions by countries.

Of special interest in connection with gold purchases by the fund is the gold purchase agreement with the USSR. As part of the Treasury's program of assisting our allies, the stabilization fund entered into a gold purchase agreement with the USSR which permitted that country to sell gold to the United States for dollars against future delivery of the gold. The quantity of gold purchased under these agreements amounted to approximately $63 million. The money was used by the USSR for purchases in this country.

VI. Present Activities

Stabilization Agreements

The status of the stabilization and gold agreements on December 31, 1945 was as follows:

1. Stabilization Agreements

Country	Dated	Expires	Commitment	Outstanding
Brazil	7-15-37	7-15-47	$100,000,000	None
Mexico	11- 1-41	6-30-49	$ 40,000,000	None

2. Gold Sale Agreement

Country	Dated	Expires	Commitment	Outstanding	Payment
Cuba	7-6-42	6-30-47	$ 5,000,000	$5,012,699.77	Due within 120 days from sale

The Cuban gold sales agreement is designed to permit the accumulation and maintenance of a gold reserve against Cuban currency, as required by Cuban law, and to enable the Cuban Treasury to carry out operations to stabilize the peso-dollar exchange rate. Under this agreement, the Cuban government has purchased approximately $180 million.

The amended Brazilian Stabilization Agreement of July 6, 1942 also provided for the sale of $300 million in gold to Brazil, of which some $276 million has been sold.

Gold Transactions

During the three months ending December 31, 1945, the stabilization fund sold approximately $146 million of gold to foreign countries, principally to be earmarked for their accounts with the Federal Reserve Bank of New York. Sales by countries were as follows:

Gold Sales to Foreign Countries

Country	Millions of dollars
Argentina	$ 42.89
Bolivia	1.00
Brazil	4.99
Chile	2.21
China	.28
Colombia	17.50
Cuba	15.00
Java	.06
Mexico	25.00
Paraguay	.02
Portugal	9.98
Switzerland	11.47
Turkey	4.99
Vatican	.50
Venezuela	10.00
Total	$145.89

The fund also sold approximately $25 million to the Treasury General Fund.

During the same period, the fund purchased approximately $119 million dollars of gold from foreign countries, as follows:

Gold Purchases from Foreign Countries

Country	Millions of Dollars
Belgium	$ 5.01
Costa Rica	4.00
Finland	1.78
France	108.04
Total	$118.83

In order to maintain its gold balance, the fund also purchased approximately $50 million of gold from the Treasury General Fund.

As a result of the above transactions, there was a net decrease of approximately $2 million in the stabilization fund's gold holdings by December 31, as shown in the following summary:

Summary of the Fund's Gold Transactions

Sales	Millions of Dollars	
To foreign countries	$145.89	
To the General Fund	24.58	
		$170.47
Purchases		
From foreign countries	$118.83	
From the General Fund	49.98	
		$168.81
Net decrease in the Fund's gold holdings		$ 1.66

Exchange Transactions

1. Swiss franc program

To alleviate the shortage of Swiss francs during the war, the stabilization fund arranged with the Swiss Government in May, 1942, to obtain each month a specified amount of Swiss francs. These francs were then sold to United States Government agencies, approved humanitarian groups, United States citizens residing in Switzerland (for limited living allowances), and foreign governments for their diplomatic requirements. The stabilization fund has also on occasion dealt in Swiss francs in the market in order to maintain the stability of the dollar-Swiss franc exchange rate. The Swiss have now abandoned the limitation on the amount of Swiss francs available monthly to the stabilization fund and have agreed to sell to the stabilization fund a sufficient quantity of Swiss francs to meet the above requirements.

In recent months certain related Swiss franc programs have been arranged, under which the United States Commercial Corporation and the United States Army have purchased Swiss francs in Switzerland, having the appropriate dollar values credited to the Swiss account in the United States.

Purchases of Swiss Francs

During the three months period ending December 31, 1945, the stabilization fund purchased approximately $5 million in Swiss francs from the central bank of Switzerland.

Sales of Swiss Francs

During the three months ending December 31, 1945, sales of Swiss francs amounted to $5.5 million, distributed as follows:

	Dollar Value of Swiss francs sold (thousands of dollars)
Humanitarian	4,819
Government Expenses	386
Diplomatic Expenses	169
Living Expenses	159
Total	5,533

Swiss Franc Position

On December 31, 1945, the Swiss franc position of the stabilization fund was as follows:

	Swiss Francs	Dollars
Balance in Swiss francs on Sept. 30	4,851	1,083
Purchases, from Sept. 30 to Dec. 31	21,464	5,003
	26,315	6,086
Sales from Sept. 30 to Dec. 31	23,724	5,533
Balance on December 31	2,591	553

Total profits on Swiss franc transactions, through December 31, 1945, amounted to $744,000.

Indian Rupee Transactions

As part of the Treasury's gold sale program, designed to provide the currencies of India, Egypt, and Iran needed for military expenditures, the stabilization fund sold about $90 million of gold in India and the Middle East. This gold was sold at a premium of about 60 percent.

All of the local currencies acquired from these gold sales have now been sold except about $4.8 million in Indian rupees, still held on December 31, 1945. These rupees are currently being sold to agencies of the United States Government for needed payments in India. Transactions of this type totalled 3 million rupees (approximately $900,000) in the quarter ending December 31, 1945.

Profits on rupee, rial, and Egyptian pound transactions amounted to $40 million as of December 31, 1945. An additional $13-1/2 million was held as a reserve. Only a small part of the reserve, it is now believed, will be needed for expenses. The rest will revert to profits.

VII. Relation of the Stabilization Fund to the International Monetary Fund and the International Bank for Reconstruction and Development

The International Monetary Fund and the International Bank for Reconstruction and Development have been established to promote, in addition to their other purposes, exchange stability and orderly exchange arrangements among members. This purpose is, of course, related to the stabilization fund's objective of stabilizing the exchange value of the dollar, and the Fund and Bank will assist the stabilization fund to achieve its goal.

The Bretton Woods institutions will not, however, replace or remove the need for the stabilization fund. It is expected that, in spite of the assistance provided by the Fund and Bank to all member countries, individual cases may arise where a special agreement between the United States and a foreign country of the type now in existence with Mexico, Brazil, and Cuba would be desirable. These will be agreements which involve the special interest of the United States. Furthermore, the special functions performed by the stabilization fund in relation to the sale and purchase of gold from foreign countries and the other exchange operations of the United States Government will continue to be important.

VIII. Relation of the Stabilization Fund to the Export-Import Bank

The lending activities of the Export-Import Bank and stabilization fund do not conflict with each other. Export-Import loans are specifically designed to aid in financing the exports and imports of the United States. They will generally be tied to the direct expenditures in the United States required for specifically authorized projects or general reconstruction activities.

On the other hand, the loans incorporated in the stabilization agreements made by the United States Treasury provide an emergency reserve of dollar exchange which assures the signatory country that additional foreign exchange up to a specified amount will be available if required in carrying out a policy of exchange stability with the dollar. This type of stabilization loan performs a useful function by giving a country a second line of defense beyond its own reserves of gold and foreign exchange. It is expected that loans of this kind may occasionally be needed to provide assistance to countries experiencing temporary difficulties in stabilizing their exchange rates.

APPENDIX A

Legislative authority for the Stabilization Fund

(1) Gold Reserve Act of 1934, January 30, 1934.

The stabilization fund was established by Section 10 of the Gold Reserve Act of 1934 (Public Law 87 - 73rd Congress), which states:

"Sec. 10. (a) For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section. An annual audit of such fund shall be made and a report thereof submitted to the President.

(b) To enable the Secretary of the Treasury to carry out the provisions of this section, there is hereby appropriated, out of the receipts which are directed to be covered into the Treasury under section 7 hereof, the sum of $2,000,000,000, which sum when available shall be deposited with the Treasurer of the United States in a stabilization fund (hereinafter called the "fund") under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decisions shall be final and not be subject to review by any other officer of the United 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 portions 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 into the fund and shall be available for the purposes of the fund.

(c) All the powers conferred by this section shall expire two years after the date of enactment of this Act, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated; but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency".

(2) Extensions of the Stabilization Fund

Extended until June 30, 1939 - Public Law 1 - 75th Congress, June 23, 1937.

Extended until June 30, 1941 - Public Law 165 - 76th Congress, July 6, 1939. The Act also required that the annual report to the President provided for in the Gold Reserve Act of 1934 should also be made to Congress.

Extended until June 30, 1943 - Public Law 42 - 78th Congress, ~~April 29, 1943.~~ June 30, 1941.

Extended until June 30, 1945 - Public/Law 42 - 78th Congress, April 29, 1943. The Act also provided that "such fund shall not be used in any manner whereby direct control and custody thereof pass from the President and from the Secretary of the Treasury".

(3) Bretton Woods Agreements Act

The Bretton Woods Agreements Act, July 31, 1945 (Public Law 171 - 79th Congress) removes the termination date for the stabilization fund provided for in the last extension and applies $1.8 billion of the capital of the stabilization fund to the United States subscription to the International Monetary Fund. The legislation thus provides for a permanent fund of $200 million plus reserves and earnings.

Section 7 of the Bretton Woods Agreements Act reads as follows:

> "Sec. 7. (a) Subsection (c) of section 10 of the Gold Reserve Act of 1934, as amended, (U.S.C., title 31, sec. 822a), is amended to read as follows:
>
> > '(c). The Secretary of the Treasury is directed to use $1,800,000,000 of the fund established in this section to pay part of the subscription of the United States to the International Monetary Fund; and any repayment thereof shall be covered into the Treasury as a miscellaneous receipt'."

APPENDIX C

Stabilization Fund Gold Transactions
1934-1945
Sales of Gold to Foreign Countries
(millions of dollars)

Country	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945
Afghanistan	-	-	-	-	-	-	2.5	1.9	4.6	-	6.0	16.0
Argentina	-	-	-	-	6.0	61.8	23.4	80.9	99.8	219.5	159.6	224.9
Belgium	-	-	-	30.5	-	3.0	8.6	-	-	-	-	-
Bolivia	-	-	-	-	-	-	-	3.0	2.1	2.2	1.0	4.0
Brazil	-	-	-	-	-	11.2	1.3	17.0	20.0	131.7	69.8	25.0
China	-	-	-	30.0	-	-	-	-	-	20.0	25.0	185.3
Chile	-	-	-	-	-	-	-	-	4.6	18.5	29.0	5.2
Colombia	-	-	-	-	2.1	-	-	-	-	14.7	15.1	17.5
Costa Rica	-	-	-	-	-	-	-	-	-	5.0	4.0	-
Cuba	-	-	-	-	-	-	-	-	15.0	30.0	65.0	85.0
Ecuador	-	-	-	-	-	-	-	-	4.2	8.3	3.3	-
France	-	117.0	6.2	66.9	51.6	155.4	-	-	-	-	-	-
Guatemala	-	-	-	-	1.0	1.0	1.4	1.6	8.1	5.1	10.2	-
Haiti	-	-	-	-	-	-	-	0.8	0.2	-	1.0	.4
Iran	-	-	-	-	-	-	-	-	-	4.5	6.0	1.0
Ireland	-	-	-	-	-	-	-	-	-	2.3	-	-
Lithuania	-	-	-	-	-	-	2.2	-	-	-	-	-
Mexico	-	-	-	-	9.9	-	12.0	-	-	111.0	-	25.0
Netherlands	-	-	3.3	83.5	17.2	-	-	-	-	-	-	-
Neth.East Indies	-	-	-	-	-	-	39.0	100.5	-	-	1.0	.1
Norway	-	-	-	-	-	-	-	-	-	-	20.0	-
Peru	-	-	-	-	-	-	1.0	-	2.5	5.0	4.0	-
Paraguay	-	-	-	-	-	-	-	-	-	0.5	0.5	.0 (16,484)
Poland	-	-	-	-	-	-	-	-	-	-	0.1	-
Portugal	-	-	-	-	-	2.0	16.9	18.0	29.9	10.9	62.8	47.9

Sales of Gold to Foreign Countries (cont.)
(millions of dollars)

Country	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945
Rumania	-	-	-	-	-	11.5	15.0	-	-	-	-	-
Salvador	-	-	-	-	-	-	-	-	3.0	1.0	2.1	-
Saudi Arabia	-	-	-	-	-	-	-	-	-	-	1.0	-
Surinam	-	-	-	-	-	-	-	-	1.1	-	-	-
Sweden	-	-	-	-	20.0	-	-	25.0	74.8	10.0	-	-
Switzerland	-	-	-	107.8	20.5	-	-	192.1	154.6	38.9	78.8	86.8
Switzerland-BIS	-	-	-	-	-	-	-	-	6.4	2.7	-	-
Thailand	-	-	-	-	-	9.0	-	-	-	-	-	-
Turkey	-	-	-	-	-	3.7	-	-	23.0	39.9	59.8	10.0
USSR	-	-	-	-	-	2.3	-	-	-	-	-	-
United Kingdom	24.1	8.2	4.1	138.8	13.3	.7	-	-	-	50.0	600.3	-
Uruguay	-	-	-	-	-	1.8	20.8	17.7	-	31.4	35.9	37.9
Vatican City	-	-	-	-	-	-	-	-	5.2	1.5	1.7	2.2
Venezuela	-	-	-	-	-	-	-	-	26.5	21.5	41.0	85.2
Yugoslavia	-	-	-	-	-	-	-	5.0	-	-	-	-
Total	24.1	125.2	13.6	457.5	141.6	263.4	144.1	463.5	485.6	785.9	1,304.0	859.4

Stab. Fund-U.S. Hearings

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[Public Law 42—78th Congress]

[Chapter 76—1st Session]

[S. 991]

AN ACT

To extend the time within which the powers relating to the stabilization fund may be exercised.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (b) of section 10 of the Gold Reserve Act of 1934, approved January 30, 1934, as amended, is amended by inserting after the second sentence thereof the following new sentence: "Such fund shall not be used in any manner whereby direct control and custody thereof pass from the President and the Secretary of the Treasury."

Sec. 2. Subsection (c) of section 10 of the Gold Reserve Act of 1934, approved January 30, 1934, as amended, is amended to read as follows:

"(c) All the powers conferred by this section shall expire June 30, 1945, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated."

Approved April 29, 1943.

210492

Stab Fund

April 23, 1943

Mr. White

Mr. Gunter

Subject: Recent developments in connection with stabilization agreements, gold, silver and foreign exchange.

Stabilization Agreements

1. Liberian Agreement: By the end of March the Stabilization Fund had acquired 78,100 pounds in British coins valued at $312,400. These coins are being purchased at the rate of $4 per pound sterling. The British Treasury has agreed to purchase the coins at $4.035 delivered in London. Arrangements are being made for the shipment of these coins to London.

2. Proposed agreement with Iran: The proposed financial agreement under which Iran would supply our rial needs against dollars and we would supply gold to Iran is still in the stage of negotiation.

Gold

1. Gold sales and purchases: Since the beginning of the year gold sales have amounted to $250 million. The Stabilization Fund has only made one gold purchase since the first of the year. In March approximately $4 million in gold was acquired from the Netherlands Government.

2. Gold sales to Cuba: Under the gold sale agreement with Cuba two sales of $5 million each have been made since the first of the year.

3. Export of gold coins to Mexico: Approximately $8.7 million in gold coins which were on earmark for the account of the Bank of Mexico have been exported to Mexico. The reported purpose of this shipment is to meet the increased demand by the public for gold coins.

4. Proposed shipment of gold in small bars to Iran: Dr. Millspaugh, Financial Adviser of the Iranian Government, has proposed that gold in the form of small bars be exported to Iran to be sold on the open market as an anti-inflationary measure.

Division of Monetary Research

5. Restriction on the industrial use of gold: The War Production Board has imposed restrictions on the industrial use of gold. Beginning July 1, 1943 the reduction will be 50 percent, except that small producers are exempt from the general production restrictions. The purpose of this restriction is not to conserve gold, but to make production facilities available for war purposes.

Silver

1. W.P.B. conservation order on domestic silver: Because of a tightening in the silver market the W.P.B. has revised its silver conservation order to cover domestic, as well as foreign silver, and has raised the minimum preference ratings to A-1-a. The order curtails the use of domestic silver in the manufacture of non-essential articles by 50 percent. Small manufacturers, however, are excluded from the conservation order.

2. Lend-Leasing of silver: The Lend-Lease Administration has approached its appropriation committees and the Senate Special Silver Committee for approval of the lend-leasing of Treasury silver to Great Britain. Australia and the Netherlands also need silver for coinage purposes that cannot be supplied by the silver market.

Foreign Exchange

1. Stabilization Fund transactions in Swiss francs: Since the first of the year the Stabilization Fund has acquired $1,926,000 of Swiss francs and has sold about $1,100,000 of Swiss francs to the State Department, the Army and the Vatican.

2. New York market: The New York foreign exchange market on the whole has continued quiet and steady. The only rates subject to significant movements have been the free Swiss franc, the Canadian dollar and the Argentine peso.

The free Swiss franc was selling at slightly less than 32 cents at the end of 1942 but recently has been fairly steady at about 28 cents. The free Canadian dollar has continued strong approaching the official rate. This rate may decrease in the near future as a result of the Treasury's decision to conduct its transactions at the official rate.

The free Argentine peso has been moving up gradually since the first of the year. At the end of 1942 it was quoted at 23.57 cents. A strong upward movement carried it to 25 cents on April 16. The Central Bank of Argentina has also increased its buying rate for dollars derived from "non-regular" imports from 23.70 to 25.18 cents.

JWG/grs
4/23/43

U.S. Stab. Fund Hearings - 1943

April 23, 1943

To: The Administrative Assistant to the Secretary.

From: Legislative Section, Office of the General Counsel.

The following item appeared on page s 3734-35 of the Congressional Record for April 22, 1943 is called to your attention for appropriate action.

Bureau or Division Affected: ~~Office of the Secretary~~ Monetary Research

Nature of Item:

The Senate considered and concurred in the House amendment to S. 991, to extend the time within which the powers relating to the stabilization fund may be exercised. Senator Wagner explained that the purpose of the amendment was to prevent the transfer of the stabilization fund to an international bank without approval of Congress. Senator Danaher interpreted this to mean that Congress "will be advised in due course of the nature and scope of any international fund; that legislation to effectuate an international fund will be required; and that nothing in the extension of the stabilization fund program, as contained in the House bill, shall be deemed to authorize any other action than the Gold Reserve Act of 1934 provided for". (3734) Senator Wagner referred to Secretary Morgenthau's appearance before the joint meeting of the Committee on Foreign Relations and the Committee on Banking and Currency and statement that he would not so use the fund; in reply Senator Taft added that Secretary Morgenthau stated that he had been advised by some lawyer that he could, without further legislation, set up the international stabilization fund but that he did not intend to do so without coming back to Congress. Senator Vandenberg emphasized that the Secretary of the Treasury categorically asserted to the joint meeting of the committees that he would not proceed with the establishment of an international program without coming back to Congress, adding that "it is immensely to the credit of the Secretary of the Treasury that he takes this unique position among his own administration colleagues". (3735)

216495

US Stab Fund
Hearings 1943

78TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 374

EXTENDING THE TIME WITHIN WHICH THE POWERS RELATING TO THE STABILIZATION FUND MAY BE EXERCISED

APRIL 21, 1943.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. SOMERS of New York, from the Committee on Coinage, Weights, and Measures, submitted the following

REPORT

[To accompany S. 991]

The Committee on Coinage, Weights, and Measures, to whom was referred the bill (S. 991) to extend the time within which the powers relating to the stabilization fund may be exercised, having considered the same, report favorably thereon and recommend that the bill do pass with the following amendment:

Strike out all after the enacting clause and insert the following:

That subsection (b) of section 10 of the Gold Reserve Act of 1934, approved January 30, 1934, as amended, is amended by inserting after the second sentence thereof the following new sentence: "Such fund shall not be used in any manner whereby direct control and custody thereof passed from the President and the Secretary of the Treasury."

SEC. 2. Subsection (c) of section 10 of the Gold Reserve Act of 1934, approved January 30, 1934, as amended, is amended to read as follows:

"(c) All the powers conferred by this section shall expire June 30, 1945, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated."

The purpose of this bill is to extend until June 30, 1945, the powers established by section 10 of the Gold Reserve Act of 1934, dealing with the stabilization fund. These powers have been previously extended for 2-year periods by the act of January 23, 1937 (50 Stat. 4), the act of July 6, 1939 (53 Stat. 998), and the act of June 30, 1941 (55 Stat. 395).

The Secretary of the Treasury appeared before your committee and recommended the prompt passage of the bill. In testifying, the Secretary referred to the emergency conditions making necessary the prior extensions of the powers with respect to the stabilization fund, and pointed out that the necessity for the further extension of these powers is greater today than ever before.

Your committee agrees with the views of the Secretary of the Treasury and believes that the operations of the stabilization fund will help assure currency stability and help avoid competitive currency depreciation not only during the war but in the critical period following the war. Your committee also believes that it is desirable to give promptly full assurance that the United States will be prepared to continue its assistance in maintaining the stability of the exchange rates of foreign currencies with the American dollar.

The portion of the committee amendment which adds a new sentence to subsection (b) of section 10 of the Gold Reserve Act of 1934 will carry out the view expressed by the Secretary of the Treasury that the stabilization fund should not be included in any international fund without the approval of the Congress.

It is strongly recommended that the bill, with the committee amendment, be passed as soon as possible.

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is shown enclosed in black brackets; new matter is printed in italics, existing law in which no change is proposed is shown in roman):

Subsection (b), section 10, Gold Reserve Act of 1934:

To enable the Secretary of the Treasury to carry out the provisions of this section there is hereby appropriated, out of the receipts which are directed to be covered into the Treasury under section 7 hereof, the sum of $2,000,000,000, which sum when available shall be deposited with the Treasurer of the United States in a stabilization fund (hereinafter called the "fund") under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decisions shall be final and not subject to review by any other officer of the United 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 portions 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. *Such fund shall not be used in any manner whereby direct control and custody thereof passes from the President and the Secretary of the Treasury.* The proceeds of all sales and investments and all earnings and interests accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund.

Subsection (c), section 10, Gold Reserve Act of 1934:

All the powers conferred by this section shall expire [June 30, 1943] *June 30, 1945*, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated.

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216497

Times Herald
WASHINGTON, D. C.
APR 20 19..

The New York Times.
APR 20 1943

TREASURY DROPS POWER TO DEVALUE

Morgenthau Tells House Group He Yields to Senate Action on the Dollar

GOLD RULE STILL STANDS

Questioning Brings Out Second Law Which Could Be Used to Cut Gold Price

WASHINGTON, April 19 (AP)—Secretary of the Treasury Morgenthau urged the House Coinage Committee today to approve a two-year extension of the $2,000,000,000 stabilization fund, but did not ask for renewal of the President's powers to devalue the dollar.

The Senate last week approved continuation of the stabilization fund but declined to continue the dollar devaluation powers beyond June 30 when the present law expires.

"I believe that a two-year extension of the power to devalue the dollar yould be helpful," Mr. Morgenthau told the House committee, "but in view of the action taken by the Senate last Friday, I am heer before your committee only to ask for the extension of the stabilization fund."

Testifying before the Senate Banking Committee on Friday Mr. Morgenthau had urged continuation of the Presidential powers to devalue the dollar, contending that "we must frankly face the danger of competitive currency depreciation in the post war period."

He said that while it is not possible now to foresee the pattern of post-war monetary developments "this we do know: that if we are to avoid competitive depreciation of currency after the war, it would be helpful to be armed with this power as a warning that we shall not permit the international economic position of this country to be undermined by competitive currency depreciation."

Representative Andresen of Minnesota asked Mr. Morgenthau whether there was any indication that the Treasury might take steps to devalue the dollar further before the authority expires June 30.

"I feel certain," he replied, "that no further devaluation will be undertaken before June 30, unless I first come before the proper committees of Congress to consult with them before doing so."

Mr. Andreson asked whether there was any other authority whereby the Treasury might devalue the dollar. Mr. Morgenthau replied that under the Gold Reserve Act of 1870, reaffirmed in 1934, "something similar but not quite the same" could be achieved by changing the price of gold."

"However," the Secretray emphasized, "I have nothing in mind at present to cause me to recommend to the President that he change the price of gold."

"Can you make use of the Thomas amendment to issue three billions in greenbacks," Mr. Andresen inquired.

After conferring with his aides Mr. Morgenthau replied:

"Yes, but I cannot see any immediate need for its use."

"If that is so, don't you believe it a good idea that the Treasury suggest that authority be repealed," Mr. Anderson continued.

"We never ask for repeal, but if Congress saw fit to take the initiative in such repeal we would have no objection," Mr. Morgenthau said.

Representative White of Idaho said he understood there had been a break in United States currency in Argentina and other South American countries.

Mr. Morgenthau testified there had been no depreciation of United States dollars there "in accredited channels."

"That is looted currency," he said, "from Axis controlled quarters. We have depressed that currency all possible. We don't want it to have any value because it is of military importance to the Axis and deleterious to our country's war effort. That has nothing to do with stabilization and we are proud that we have been able to depress this currency."

216498