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Europe Overall - Currency

No. 577

Bern, December 10, 1947

Dear Mr. Southard:

I was informed by Mr. Abba P. Schwartz, Reparations Director of the Preparatory Commission for the International Refugee Organization in Geneva, that he was confronted with the problem of converting currencies of various countries which were found in German concentration camps among the valuables looted by the Nazis from victims of persecution.

I examined the list of currencies submitted by Mr. Schwartz and I find that the currencies of many of the countries listed have been replaced by new issues and that some of them are worthless.

In compliance with my request, the Research Division of the Bank for International Settlements compiled from data in its files a list of European countries in which currency conversions took place, showing the date and the principal features of such conversions. I am enclosing this information as of possible usefulness to the Treasury.

Very truly yours,

Walter W. Ostrow,
U. S. Treasury Representative.

Mr. Frank A. Southard, Director,
Office of International Finance,
U. S. Treasury Department,
Washington 25, D. C.

Enclosure:
Information on Exchange of Banknotes.

WWO:fls

EUR/2/00

Exchange of Banknotes COPY

Country	Date	Rate of Conversion
CORSICA	1943 October	Exchange of notes of the Bank of France against notes of the Central Treasury of the French Committee of National Liberation.
BELGIUM	1944 October 6th	Exchange of old notes into new notes: BF 2,000 was allowed for each member of a household; 40% was temporarily tied up, while 60% was blocked.
FRANCE	1945 June 2nd	All old notes of FF 50 and over ceased to be legal tender, being called in through the banks, post-offices etc. In exchange the owners immediately received new notes up to FF 6,000, plus FF 3,000 for each dependent, and they were to receive any remaining balance after June 16th, 1945. This transaction was combined with an exchange or stamping of short-term treasury paper (Bons).
DENMARK	1945 July 21st	All notes in circulation were declared invalid, at first each person was to receive DKr. 100 of new notes, or in exceptional cases up to DKr. 500, while any amount exceeding these limits was to be kept in a banking account temporarily blocked. Further the owners had to declare all bank deposits exceeding DKr. 500 and detailed declaration of property exceeding DKr. 10,000 was required.
NORWAY	1945 Sept. 6th	From 9th September 1945 all the notes in circulation (except denominations of NKr 1 and 2) ceased to be legal tender. The notes had to be presented, and for 60% of the amount the owner was credited on a current banking account, while the remaining 40% was credited on a "State Account" which could be drawn upon only with a permit from the Department of Finance. Furthermore, bank accounts and securities were to be registered by the owners and other assets were to be declared.
NETHER-LANDS	1945 Sept. 13th	On June 9th, 1945 all 100 guilder notes ceased to be legal tender and on September 13th it was announced that all Dutch banknotes in circulation would become invalid and all bank accounts would be blocked from 26th September 1945, only 10 guilder per person being allowed in the week up to 3rd October 1945.

cont./

Incl. # 1 To Ltr. # 577 From [signature]

COUNTRY	DATE	
CZECHO-SLOVAKIA	1945 October 21st	It was announced that all currency then in circulation would be withdrawn and replaced by a new currency. Thus all means of payment of German or Hungarian origin as well as the Czech and Slovak crown notes (except those of 1 crown) were to be surrendered to the Treasury. In exchange, each person was to receive Kcs 500 in new notes immediately; the balance had to be placed on deposit with a bank which the owner of notes could choose.
AUSTRIA	1945 Nov. 30th	Reichsmark notes and AM-Schilling notes in the value of 100RM and over were withdrawn and exchanged against new Schilling notes up to an amount of 150 Schillings per person, the remainder being credited to an account.
FINLAND	1945 Dec. 28th	Banknotes of the denomination of FM 5,000, 1,000 and 500 lost half their nominal value as legal tender on January 1st, 1946. One half of the cut notes was to be surrendered to the State as a compulsory loan of half the original value of the note, the loan to be repaid at 2% in 1949. The left halves were legal tender at half of the nominal value of the notes until February 16th. They could be exchanged for new notes at the banks till the end of February. Also all notes of a lower denomination were exchanged for notes of a new type by March 16th 1946, the old-type notes losing their value as legal tender on February 28th. In this connection securities were to be stamped.
TURKEY	1946 April 17th	The Turkish Central Bank accounced on this date the exchange of banknotes of LT 500 and LT 1,000 with Arabic imprint.
"	1946 April 27th	The Turkish central Bank announced that LT 100 notes printed in Germany were to be withdrawn. These latter notes issued in 1942 ceased to be legal on 27th April 1946. Both types are being exchanged against new notes at the ratio of 1:1.

cont./

COUNTRY	DATE	RATE OF CONVERSION
HUNGARY	1946 August 1st	Pengo banknotes and Tax-pengo certificates were withdrawn and exchanged against Forint notes at the rate of 200,000,000 (400,000 quadrillion pengos) tax-pengos = 1 Forint.
BULGARIA	1947 March 7th	Withdrawal of all banknotes above Leva 100 as well as 3% Treasury bonds. On March 12th, these notes ceased to be legal tender. On March 12th, new banknotes were put in circulation. All banknotes were exchanged against new ones at the rate of 1:1 and all sums above Leva 2,000 were temporarily blocked. Leva notes 20,50 and 100 continue to be legal tender.
SAAR TERRITORY	1947 June 16th	The conversion of RM into Saarmarks took place on the basis of 1:1 up to an amount of M 300 per head of family and M 100 for every member of a family. Employers could exchange an additional M 250 for every employee. All amounts presented for exchange in excess of these cash quotas were credited on blocked account.
ALBANIA	1947 July 7th	Between 11th and 20th July 1947 all banknotes and coins issued by the former Albanian National Bank denominated in Francs and Leks were exchanged against new banknotes and coins denominated in Leks and issued by the Albanian State Bank on the basis of Alb.Fr. 9 = 1 Lek.
ROUMANIA	1947 August 15th	The new Roumanian currency will be exchanged at the rate of new Leu 1 = old Lei 20,000. Holdings of old currency in excess of Lei 30 million will be blocked but not confiscated. Persons with bank deposits of 1938 or earlier may exchange these deposits in full at the rate of 1:1. In the six days ending 20th August 1947 workers were able to exchange up to Lei 3,000 and farmers up to Lei 5,000.
SAAR TERRITORY	1947 Nov. 16th (Journal Officiel)	Exchange of Saarmarks for French francs at the rate of 1:20 commenced on 20th November 1947. Deposits at credit institutions and savings banks will be temporarily blocked as to 40% of the account exceeding FF 8,000, except in the case of deposits held by industrial, commercial enterprises and juridical persons of public law standing.

COUNTRY	DATE	
AUSTRIA	1947 Dec. 10th	A complete removal of blocked accounts and a reduction by 2/3 in the nominal value of the Schilling is decreed. The depreciation of the Schilling is to take place by way of an exchange of banknotes. Every person will be entitled to exchange banknotes at par up to an amount of Schilling 150. For amounts exceeding this sum the exchange will take place at the rate of : old Schilling 3 = new Schilling 1. The exchange provisions applied to banknotes of the Austrian National Bank, notes of the Allied military authorities and old German divisional coins.

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NEUTRALITY AND THIRD-FORCE TENDENCIES IN WESTERN EUROPE

CIA/RR 36-50

Published 19 December 1950

CENTRAL INTELLIGENCE AGENCY

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NEUTRALITY AND THIRD-FORCE TENDENCIES IN WESTERN EUROPE

SUMMARY

Recent events in the Far East, the development of the ECA and MDAP programs, and various other factors, have brought into focus the position of West European governments toward contributing to West European defense. A wide variety of minority groups, however, in Western Europe (the NATO countries plus Western Germany) espouse the concepts of (a) neutrality, which involves outright dissociation from the East-West conflict and non-participation in any war unless directly attacked; or of (b) Third-Force, which looks to the restoration of European independence in order to exert influence in the East-West conflict and reduce the preponderance of the US in European affairs. The exact strength or degree of importance of neutralist sentiment is difficult to measure because it is diffused throughout the populations and stems largely from war-weariness, defeatism, fear of the USSR, and distrust of the constancy of US policy and support. The Third-Force concept, on the other hand, has received more explicit formulation and has been espoused by influential groups and individuals within certain West European government and official circles.

Neutralist sentiment is likely to remain strong, and will increase if there is serious economic dislocation in Western Europe and if the military position of the US, especially in the Far East, is weakened. The governments of Western Europe will tend to respond to popular demands for an independent (but not neutral) policy as their needs for US economic and military support decrease. Neither the growth of neutrality nor of Third-Force sentiment will, however, outweigh the factors that induce West European governments to support the achievement of US objectives in Western Europe during 1950–53.

Note: The intelligence organizations of the Departments of the Army, the Navy, and the Air Force have concurred in this report; for a dissent of the Intelligence Organization of the Department of State, see Enclosure. This report contains information available to CIA as of 13 November 1950.

NEUTRALITY AND THIRD-FORCE TENDENCIES IN WESTERN EUROPE

1. Definition of the Problem.

In the East-West conflict, it is important to determine the extent to which the countries of Western Europe are likely, during the approximate period 1950–53, to pursue policies independent of those of the US and the USSR in order to dissociate themselves from the East-West struggle, and to estimate the effects of this on US security. The security program of the US is based to a substantial degree upon the assistance of a concerted Western European defense effort. At the present time, this assistance is sought by the US through military, political, and economic agreements for joint action in a strengthened defense. West European acceptance and implementation of these agreements will, therefore, affect the progress of the US defense program.

In weighing the threat to such adherence which is posed by West European desires for a neutral position, or at least a position of more independence from the US, it is necessary to eliminate prevailing confusion by defining the two different concepts of (a) neutrality and (b) Third-Force, and by according them separate treatment. The neutrality concept involves outright dissociation from the East-West conflict and aloofness from the diplomatic quarrels and issues which divide the two great powers. A majority of the neutralists would favor resistance only if their countries were directly attacked. "Third-Force" or "independence" sentiment, as it applies to the West European countries, favors their freedom of action, so far as is possible, from US policies, and often reflects apprehension of US encroachment on European interests. Its adherents maintain that these countries, while not standing aloof from the East-West conflict or lessening their determination to oppose Soviet aggression, should nevertheless pursue national or regional policies even though they may conflict with US objectives, or should perhaps become a link between the conflicting US and Soviet points of view.

2. The Neutralist Position.

a. Summary.

Neutralist sentiment in Western Europe has many variations, ranging from the sincere views of individuals advocating armed neutrality along Swiss and Swedish lines to the attitudes of Communists who exploit the neutralist line to their own advantage. It is impossible to measure the influence of this vague and unorganized popular sentiment. The influence of the Third-Force concept, also difficult to assess, is largely espoused by governmental circles rather than by popular groups in Western Europe.

b. Composition and Strength of Support.

Articulate support of neutrality is found in a wide variety of groups in Western Germany, France, Italy, and Denmark. There is little or no overt neutrality in Great Britain, Norway, or the Benelux countries. In Western Germany, the leading champions of neutrality are groups of former diplomats, militarists, intellectuals, and representatives of special interests. In France, neutralist sentiment is represented by such divergent elements as left-wing intellectuals like Jean-Paul Sartre and Claude Bourdet, whose periodical, *L'Observateur,* is the chief vehicle of anti-American neutrality in Western Europe, and such outstanding fellow-travelers as Pierre Cot. The anti-US policy sometimes followed by *Le Monde,* one of the most influential of the independent Paris dailies, represents a mixed class of readers, both conservative businessmen and intellectual liberals. Organized political parties in Italy which have come out for neutrality include the pro-Communist Nenni Socialists, as well as the conservative neo-Fascist Italian Social Movement, the Monarchists, and the remnants of the *Uomo Qualunque* movement. In Denmark, Social Democratic leaders have often expressed their regret that a neutral Scandinavian alliance did not materialize, and minor elements within the party, as well as the Radical Liberals, generally still harbor neutralist feeling.

In Germany, opposition to remilitarization can in part be ascribed to neutralist sentiment, arising mainly out of war-weariness and the wish not to be involved in an East-West war. The relative lack of influence of the neutrality groups and their failure to find sympathy in the governments of the NATO nations should not obscure the fact that their ideas have some basis in the thinking of the masses of the people, who support that policy which offers to them the greatest assurance of peace and security.

c. Factors Contributing to Neutralist Sentiment.

The various factors contributing to neutralist sentiment in the NATO countries are psychological as well as political, economic, and military. There are, in addition, many factors peculiar to the individual countries.

Political. Western European neutrality sentiment stems from a conviction that the East-West conflict is primarily between two rival imperialist powers, the US and the USSR, and should not be permitted to spread to the West European nations. Another argument is that the Soviet Union does not want a war, but requires peace for its proper economic and social development. In addition, the neutralists have seized upon the recent shift of international activity to the Far East to warn against West European involvement in that area. Finally, these groups attempt to minimize the extent of interests common to the US and to the West European nations and the ideological ties that exist between the two areas.

Economic. West European neutralists deplore the maintenance of the US-West European alignment in its present form as confirming the economic as well as the political division of the European continent and its permanent economic subordination to the US. They further stress the dangers of West European attachment to what they consider a powerful and privileged economy, and emphasize that withdrawal from the East-West conflict and assumption of a neutral position would facilitate the resumption of East-West trade, restore the balance in the European economy, and relieve Marshall Plan countries of much of their dependence on the dollar area.

Military. The military reasons for neutralist sentiment in the NATO countries stem from: (1) the assumption that the Western European countries, particularly under the current NATO arrangements, could not be successfully defended in the face of possible attack by Soviet forces in overwhelming numbers; (2) the belief that atomic attack, inevitable in such a war because the USSR now possesses an atomic capability, would mean the complete destruction of Western Europe; and (3) inability of West European governments to make adequate preparations for the defense of Western Europe against Soviet attack.

Because of the strong feeling that Western Europe cannot be defended, in view of the lack of any military force capable of resisting Soviet ground and air forces, West Europeans can derive little comfort from the thought of Allied naval superiority and strategic air strength in relation to possibilities of Soviet attack.

Psychological. Much of the neutralist psychology, especially in France and Italy, arises from war-weariness and defeatism growing out of World War II. Many of the French, for example, are inclined to question the efficacy of any military struggle since, in their view, there is little distinction between the effects of victory and defeat. French and Germans alike dread the thought of having their homelands once again become battlegrounds, particularly in a war waged with atomic bombs.

Communist Influence. In their struggle against the maintenance of the US-Western Europe alignment, the Communist parties of Western Europe, through their anti-Marshall Plan propaganda, their campaigns against the MDAP, and especially their "peace movement," have exploited genuine neutralist sentiment in Western Europe. The peace campaign, built around the Stockholm appeal, has had some success in winning support from non-Communist elements, particularly in France and Italy, and to a lesser degree in spreading the notion that the USSR is essentially dedicated to peace.

Local Factors. In addition to these overall factors, there are local problems which contribute to the existence of neutralist sentiment in the NATO countries. In France and Italy, where national Communist parties are powerful politically and dominate the trade unions, the neutralists argue that neutrality is the sole means of achieving internal unity supported by all political groups. In Italy the restrictive features of the peace treaty have contributed to neutralist sentiment, while in Western Germany neutrality is sometimes advanced as the sole means of securing the unity of East and West Germany. This latter view is also espoused by elements in the Evangelical Church, including Pastor Niemoeller, and has also played a part in the tensions in the West German Cabinet. In Denmark, and to some degree in Norway, the profound feeling for Scandinavian unity is a factor in promoting neutrality sentiment.

3. Third-Force Thinking.

Third-Force thinking in West European countries differs from the neutrality concept in that it does not reject participation in the East-West conflict, but rather demands participation on terms of equality. The Third Force envisages independent policy formulation for each country, or for Western Europe as a whole. Thus it rejects a completely neutral attitude, but encourages policies independent of and sometimes in direct opposition to those of the US. It is based largely on the pursuit of national or regional interests which do not always conform to those of the US, and on a general concern over US predominance. It consists of a desire to regain West European freedom of action in world affairs by creating in Western Europe conditions for exerting considerable influence in the East-West conflict, or at least of adopting an independent foreign affairs role. An example is the UK's more or less consistent policy of remaining aloof from current schemes for European integration. In addition, West German Chancellor Adenauer has called for the creation of a powerful united Western Europe (including Western Germany) which could develop into a Third Force in the East-West conflict, or as a "counterweight in favor of peace." In the eyes of its various advocates, the Third-Force concept may vary from a distinctly pro-Western orientation (Adenauer's version) to a position permitting close trade relations and more cooperation with the East. Under extreme nationalist leaders, in Western Germany in particular, the latter position would represent a serious obstacle to US foreign policy.

The more important implications of these tendencies toward independence of US policies, however, lie in the various schemes of West European integration. Emphasis has changed somewhat from the Third Force as an organization which would stand between the US and the USSR and act as a mediator to the more recent version, supported by continental European Socialists in particular, which conceives of the Third Force as a continental grouping firmly integrated into the Atlantic community and capable of wielding an influence comparable to that of the US and the UK. Effective development of the Schuman Plan establishing a coal-steel pool for a single market in Western Europe would create a powerful economic and political basis for such a movement. Under such circumstances, the Third Force might become a continental combination capable of exploiting the East-West conflict, rather than supporting, in every instance, the policies of the US.

The national concepts of independent action, which have found support in the UK and in the Scandinavian members of the NATO, and the Third-Force principles held in other continental countries included in the NATO, are favored by the following factors: (1) the traditional national and European independence of action that has survived the defeatism of war; (2) the obvious differences in economic, cultural, and material interests which distinguish Europe from the US; (3) the progress toward West European economic recovery which has lessened, even if it has not closed, the gap between European and US economic power; and (4) the growing belief, supported by the shift in the military developments in the Far East, that the US has increasing need of the political, economic, and military alliance of the European powers.

4. Probable Future Development of Neutrality and Third-Force Sentiment.

a. Political Factors.

The intensification of the East-West conflict marked by a deteriorating East Asian situation is likely to have considerable bearing on the development of West European neutrality or Third-Force sentiment in the period 1950–53. The fact of open conflict between the US and a Soviet satellite, with the attendant strains on world peace mechanisms, has heightened European alarm and desire to escape involvement in a third world war. Increasing involvement of the US in the Far East will increase European fears of US inability to defend West Europe against Soviet aggression. Sentiment for independent action on the part of the West European countries may on the contrary increase. As their individual and collective military capabilities gain a greater degree of economic stability, they will seek to adopt policies more independent of the US.

b. Economic Factors.

The rearmament program will call for a substantial economic contribution. Diversion of any considerable portion of the West European productive capacity to defense objectives will place a heavy burden upon the economy. The amount of such diversion is not certain because, except in Germany, there remains a considerable military industrial capacity presently unused. Sacrifices will also be demanded of the people in the form of higher taxes and lower living standards, and West Europeans will be very reluctant to make such sacrifices as long as a substantial number of them can be persuaded to hope that it is still possible to stay out of a war between the US and the USSR, or until it is generally accepted that the military establishment thus created will guarantee their security.

Rearmament is also likely to generate a serious inflation unless the West European governments are prepared to restore or exert more drastic controls over prices and allocation and distribution of materials than is at present the case. Prices have already begun to rise sharply in many Western European nations, partly as a result of the disturbance in Korea. Serious labor trouble is in prospect as the workers demand wage increases to meet the advancing costs of living. If granted, the increases will accelerate the wage-price inflationary spiral unless at the same time productivity is raised substantially; if not granted, widespread strikes are likely to cripple the rearmament effort. The net effect of such developments will be to stimulate neutrality or Third-Force sentiment, especially among the industrial workers and the middle-income groups, who are strongly opposed to losing the precarious gains achieved under postwar reconstruction programs, and who are already doubtful of the possibility or wisdom of trying to strengthen Western Europe militarily to resist the Soviet threat. Such sentiment will be actively encouraged and exploited by Soviet propaganda designed to frighten Western Europeans away from participation in alleged US plans for an attack on the USSR.

The economic cost to Western Europe of an adequate rearmament program will raise strong opposition in many circles not yet in sympathy with neutrality or Third-Force groups. US willingness to help finance the program or provide the equipment will tend to counteract this opposition, but a demand for extensive European self-help will increase popular resistance to the pursuit of US objectives and will diminish the willingness of the governments to make commitments within the program. Neutrality sentiment can be expected to flourish and make converts in any period of economic hardship induced by large-scale preparations for defense in Western Europe, and US defense efforts will be successful only in proportion to the degree of economic stability maintained in Western Europe over the next few years.

c. Military Factors.

A considerable amount of neutrality and Third-Force sentiment will probably develop unless decisive preparations are made at once to defend Western Europe against possible Soviet aggression. The recent US announcement of its willingness to despatch additional troops to Western Europe will be effective in reducing such sentiment only if reinforcement is undertaken on a scale sufficient to convince West Europeans that there is some chance of repelling a Soviet attack across the Elbe. Neutralist thinking will be intensified by any further talk in the US about a "preventive war," which will tend to frighten West Europeans. NATO military superiority rests not so much on ground or naval forces in being, as upon the implied threat of strategic air forces in being with their capability of atomic bombing of Soviet cities. Despite their appreciation of the Western air power potential, West Europeans are more likely to be influenced by ground forces in being. Thus the physical threat of Red Army divisions, coupled with the insufficiency of Allied ground forces in Europe to oppose them, is likely to be a considerable force in promoting neutralist sentiment.

5. Probable Developments in Rearmament.

During the period 1950–53, the West European governments will be under constant US pressure to supplement US military contributions to the defense of Western Europe. At the same time, these governments are likely to keep their contributions to a minimum. The UK, the only West European country immediately capable of contributing heavily, along with US forces, to West European defense, will probably continue to proceed as cautiously as possible. The French also will be slow to increase their participation, especially in view of their commitments in the Far East. Italian contributions will be limited by Peace Treaty restrictions and by a weak will to resist, and West German contributions are likely to be delayed by Allied conflicts of interest. The contributions by the Benelux countries will be negligible.

In the strengthening of the naval forces of the NATO countries, the US and the UK will have to provide, during the period under consideration, the necessary leadership and support. Upon the other countries, therefore, will devolve a clearly subsidiary role. This factor will further reduce the opportunity for a neutral or independence policy for these nations. At the same time, West Europeans are likely to derive little comfort from Allied naval superiority, because of the feeling that naval forces will not play the decisive role in a future European war.

6. Neutrality and Third-Force Versus Rearmament.

Although West European neutrality and Third-Force sentiment warrants realistic appraisal and corrective propaganda, it is unlikely to offer a major impediment to the achievement of US objectives. This will tend to be the case, even though a popular preference for neutrality is likely to remain strong and although the governments of Western Europe will probably seek a greater independence in their national policies to the extent that their dependence upon US military and economic support declines. During the period 1950–53 the decisions of the West European governments will continue to be swayed by the necessity of this support, despite popular pressures to the contrary. This general conclusion is supported by a variety of considerations (discussed below).

a. Political Factors.

The NATO governments will, partly as a result of the Korean war, probably become much more involved in the NATO defense and rearmament activity, to a point where it will be exceedingly difficult for them to adopt a neutral or independent policy. Although few West European governments share fully the US views of the immediacy and extent of the Soviet threat, they will agree to cooperate with the US in defense measures, though this cooperation is likely to be increasingly cautious. As previously observed, neutralist sentiment, so far as it is politically organized, is relatively uninfluential and lacks the capability to dictate the decisions of the NATO governments. It should be recalled, moreover, that most West European neutralists are not opposed to rearmament *per se,* nor are they generally opposed to the US or to the continued receipt of US economic aid. The current development of some Third-Force thinking seems to be in the direction of a continental group firmly integrated into the Atlantic community, though not necessarily committed to all the policies of the US. While the Korean situation may raise doubts concerning the possibility of achieving a satisfactory solution, it will not affect West European active support of US-sponsored plans.

b. Economic Factors.

According to present plans, West European nations will receive considerably less economic aid from the US during the period 1950–53 as a result of the termination of ECA. Although ECA assistance has accomplished much in rehabilitating the war-shattered economy of Western Europe and restoring a large measure of prosperity to the people and stability to the governments, it has not enabled the West European nations to reach a point at which freedom from US economic influence will be possible in the foreseeable future, nor has it made substantial improvements in the social structure. Neither will it be possible for any of these nations to pursue a truly independent economic policy as long as there is continued dependence on US assistance in the matter of common defense against the threat of Soviet aggression. Once committed to a long-range rearmament program, the implementation of which will require US leadership and coordination, the European nations will continue to be subject to US policy decisions in the economic field.

c. Military Factors.

For the military defense of their area, the West European countries will remain during the period 1950–53 largely dependent on US support, particularly in the field of strategic air power and atomic warfare. For this reason, they will be unable to attain an independent bargaining position that could seriously threaten US efforts in Western Europe to contain Soviet aggression. Although fear of military developments or lack of progress toward an adequate defensive position may encourage neutrality sentiment among the peoples of Western Europe, it is unlikely by 1953 to influence their governments to a point where the achievement of US objectives would be seriously hampered. Limitations on the scope of West European rearmament are probable, though not all of these limitations will stem from neutralist sentiment in the nations involved.

ENCLOSURE

DISSENT OF THE INTELLIGENCE ORGANIZATION DEPARTMENT OF STATE

The Intelligence Organization of the Department of State concurs in the major conclusions of subject report. We disagree, however, with certain specific statements because they are either incorrect, or so imprecisely dated as to permit a wholly unsupportable interpretation. Specifically, the following points are objected to:

1. Further military involvement of the United States in the Far East may encourage neutralist and Third Force sentiment in Europe, but if as the paper states, the "military position of the US, especially in the Far East, is weakened" this could have the opposite effect by making possible more military attention to Europe.

2. The discussion of the relation of rising prices to labor unrest is too rigid and poses what would appear to be equally dangerous alternatives. We admit that the impact of rearmament on living standards very likely will stimulate some labor unrest, but the existing governments are sufficiently strong and flexible to prevent this from developing into "widespread strikes" which "are likely to cripple the rearmament effort."

3. In view of Italy's present economic and financial resources, and considering the cost of modern armament, we cannot agree that the Peace Treaty is a major hindrance under present conditions to the Italian defense effort.

The paper also fails to balance the effect of neutralist thinking on the defense effort of Western Europe with a reference to the counterweight provided by the strength and growth of the forces in favor of rearmament.

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SCIENTIFIC INTELLIGENCE REPORT

SUMMARY OF MAJOR ATOMIC ENERGY ACTIVITIES IN WESTERN EUROPE

CIA/SI 101-51
5 JANUARY 1951

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SCIENTIFIC INTELLIGENCE REPORT

SUMMARY OF MAJOR ATOMIC ENERGY ACTIVITIES IN WESTERN EUROPE

A. France

B. "INTER-EUROPEAN" Atomic Energy Cooperation

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D. Sweden

CIA/SI 101-51

5 January 1951

This report has been reviewed by the members of the Joint Atomic Energy Intelligence Committee which is composed of representatives of the Departments of State, Army, Navy, and Air Force, the Atomic Energy Commission, and the Central Intelligence Agency. This report is based on information available up to 31 December 1950.

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SUMMARY OF MAJOR ATOMIC ENERGY ACTIVITIES IN WESTERN EUROPE

A. France

1. The development and application of atomic energy in France is, by government decree, entirely under the control of the Commissariat a l'Energie Atomique (CEA) an organization set up in October 1945 with the advice and under the direction of Frederic Joliot-Curie. The organization and functions of the CEA are, in general, similar to that of the U. S. Atomic Energy Commission. The Commissariat is responsible directly to the Prime Minister who has the power to appoint and remove its members, a power exercised on 28 April 1950 to oust Joliot from the post of High Commissioner.

2. The removal of Joliot, with the planned removal of other known Communists, was the most significant development in the French Atomic Energy situation in 1950. However, despite Joliot's dismissal, numerous Communists and fellow-travellers, employed while Joliot-Curie was in control, continue to function as employees of the Commissariat. In addition to the known Communists, it may be reasonably assumed that there are a number of unknown Communists who are in fact Soviet agents. It will be very difficult to find and get rid of all of these people. It is expected that Mme. Irene Joliot-Curie, believed to be a more rabid Communist than her husband, though she is not a card carrying member, will be relieved of her duties with the CEA when her term as a commissioner expires in January 1951. Jean Thibaud, Pierre Auger, Louis LePrince-Ringuet, Francis Perrin and Maurice de Broglie have all been mentioned as possible successors to Joliot, with the last named filling most nearly all the requirements deemed necessary for the post, that is, a recognized nuclear scientist working for the Commissariat, the possession of a personality that does not clash with those of the heads of various other scientific agencies, and political reliability. However, de Broglie's age is a factor against him. A reported solution to the problem has been that the French Government may create a new ministerial post to coordinate the activities of the Commissariat and the Centre National de la Recherche Scientifique (CNRS), the CEA becoming only a part of a larger organization covering the whole scientific field, with Gaston Dupouy, currently director of the CNRS, as the ~~the~~ director of the new organization. Apparently, it was decided to make no further move until January 1951, when the terms of all the Commissioners will have expired.

3. The principal installations of the CEA are at three locations: Fort de Chatillon, the site of the pile ZOE; Le Bouchet, the chemical plant; and Christ-du-Saclay, the site of the new pile which is currently under construction.

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a. The pile ZOE (for zero, oxyde, eau) is a uranium-oxide, heavy-water moderated, low energy research tool. It operates at approximately 5 kw and is cooled by an external air blast around the water tank. Also located at Chatillon are supplemental laboratories carrying on research in connection with the pile program, such as laboratories for physics, chemistry, electronics and instrumentation as well as a factory manufacturing instruments necessary to the program, e.g. vacuum gauges, mass spectrometers, etc. About 400-600 people work here under the direction of Dr. Lew Kowarski who is also Director General of the CEA.

b. The Commissariat's chemical plant for the reduction of uranium ore and extraction of plutonium, located at Le Bouchet, consists of four sections: (1) a chemical purification and reduction plant where U_3O_8 is reduced to UO_2 pellets for ZOE and to metal billets for the new pile at Saclay with a capacity of 100 kg of UO_2 per working day; (2) a uranium ore treatment plant with a capacity of one ton of ore containing 10% U_3O_8 per day; (3) a uranium ore treatment plant which is being installed and will have a capacity of 10 tons of ore containing 1% U_3O_8 per day; and (4) a plutonium extraction plant. Plutonium production at Le Bouchet is only on a laboratory scale, as the present stock, in the form of purified salts, is estimated to be only about 25 milligrams. No attempt is being made at present to separate other radioactive fission products; however, all solutions are being reserved for further processing. Radioactive isotopes, prepared by irradiation in the pile, are being processed.

c. Christ-du-Saclay, the site of the new CEA installations, is the first to be built expressly for the Commissariat. A pressure Van de Graaff generator of 4 megavolts is planned for this site; the 30-inch cyclotron of the College de France, originally scheduled to be installed here, will probably not be moved since Joliot considers its disposition his personal perogative. The foundation for a 60-inch cyclotron has been finished, and the cyclotron should be completed and in operation in 1952. The first reactor to be built at Saclay will be a uranium metal, heavy water pile, rated at 1000 kw and cooled by argon free nitrogen. It was originally intended to use a graphite moderator, but the French have not been able to make graphite sufficiently pure for this purpose. This pile is expected to be completed in less than a year. The French have sufficient heavy water on hand and on order from Norway so that it will not be necessary to use the heavy water from ZOE as originally planned. The uranium metal billets for the pile are being produced at Le Bouchet and converted into metal rods by Alais, Froges et Camargue at their Chambery plant. The French are thinking vaguely of an additional pile at Saclay, a graphite reactor, but it will be several years before this can be accomplished. Ultimately, the laboratories at Chatillon will be dismantled and all activities transferred to Saclay as facilities become available.

4. Known French uranium sources are meager but are probably adequate to support a limited research program. Uranium prospecting is continuing in Metropolitan France with additional teams being sent to Algeria, French West Africa and Madagascar. According to a reliable source, the following is considered to be a reasonable and reliable estimate of the present French uranium supply:

In the pile ZOE	3.5 - 5 tons	of uranium oxide (UO_2)
Purified Oxide Stock	6 tons	(being converted to metal at Le Bouchet)
High-grade Ore	15 tons	(has had pretreatment and is ready for treatment at Le Bouchet).

5. Alais, Froges et Camargue, one of the largest chemical concerns in France, was commissioned by the CEA early in 1947 to develop beryllium metal. The CEA was vitally interested in this metal since by using a beryllium moderator, the CEA could cut uranium requirements by one half, and thus conserve the meager supply. It was reported in May 1948 that the company was producing one ton of beryllium per month in the form of thin-walled tubes at their Salindres plant. It has very recently been learned that the CEA is no longer interested in this metal and that another firm, Gignoux and Company of Lyon, also commissioned by the CEA, had undertaken expensive experimental work in developing pure beryllium oxide and metal, but was now attempting to sell their product to the U. K. and the U. S. The capacity of their pilot plant is now 50 kilos a month, but the firm hopes by installing additional facilities to produce one ton a month. The present price for the chemically pure beryllium is $51 per kilo which could be considerably reduced in large-scale production operations. The chief source of the beryllium ore is Madagascar. The only technical difficulty the company is encountering seems to be the forming of the tubes.

6. In late May 1950 France was reported to be negotiating a contract with India whereby France would supply the know-how and necessary raw materials, including 30 tons of uranium, for a 5,000 to 10,000 kw beryllium-moderated pile to be built in New Delhi. The latest developments reported on these negotiations are that the French Foreign Office called in CEA officials and told them not to proceed with any further discussions with India.

7. The French are still actively pushing plans for a joint Western European cooperative program in the field of atomic energy. Their enthusiasm for this international program is most probably motivated by a nationalistic desire to retain Continental Western European leadership in the atomic energy field, but is also no doubt largely governed by economic factors - the French are very short of money, and by establishing the international group at Saclay, they could carry out their own research with the help of funds contributed by the other participants.

B. "INTER-EUROPEAN" Atomic Energy Cooperation

1. In the absence of possible collaboration with either the Anglo-Saxon countries or the U.S.S.R., France has hoped since the end of World War II to be able to establish an inter-European atomic energy center staffed and operated by the small Western European countries, namely, Belgium, France, Sweden, Italy, Norway, the Netherlands, and Switzerland. The creation of such a joint enterprise would permit the pooling of financial resources, and scientific and technical knowledge, as well as the necessary raw materials and equipment producing facilities possessed by the respective countries; that is, Belgium would make available its uranium ore, the Netherlands its electronics industry, Sweden its heavy industry, Switzerland its precision industry, Norway its heavy water, and France its scientific leadership. France is prepared to offer the facilities at Saclay for this cooperative atomic energy center.

2. This idea has been championed by the French again and again whenever the opportunity presented itself. For example, at the inaugural meeting of the European Cultural Conference in Lausanne on 8 December 1949 and later at Strasbourg on 13 December 1949, the French members of the Commission for Scientific Cooperation appealed for the urgent study of the possibility of creating a European Atomic Energy Institute to be located in France supported by funds from member states and enlisting the services of the best European technicians. Since this appeal was believed to be backed by the Communists in the French AEC, it did not meet with very much success.

3. These efforts having failed, the French are now looking toward UNESCO and their UNESCO representative, Pierre Auger, to bring about a Western European Atomic Energy Institute. At a very recent meeting in Geneva, the Commission for Scientific Cooperation, now composed of representatives of Belgium, France, Italy, Norway, the Netherlands and Switzerland, considered the establishment of a European Atomic Research Center for strictly scientific research and adopted resolutions to accomplish the following: (1) establishment of a fund for the construction of a European Atomic Research Laboratory; national contributions to be based on the UN formula; the construction of a bevatron to begin in 1951 and requiring about 3 years to finish; (2) the selection of a central location, near an important city with adequate technical facilities, and near a frontier so extra-territoriality could be guaranteed by the Council of Europe; and (3) establishment of a study office to prepare plans and programs under direction of Raoul Dautry of the French AEC and Pierre Auger of UNESCO. Western Germany will also be included in this program if the Council of Europe will grant approval to the plan which was submitted by Francis Perrin of the French AEC.

4. To date, there have been no concrete results of this movement, other than the adoption of the latest proposal to study the situation.

C. Norway--Netherlands

1. Norway and the Netherlands, the two countries that have made the greatest strides in the field of atomic energy in Western Europe, outside of France and the U. K., have practically completed arrangements to collaborate in the development of a low-power (100 kw) heavy-water moderated, uranium metal pile. The present contract, while acceptable to the Norwegian Foreign Office, may not yet have been signed because of Dutch insistence on certain legal technicalities affecting patent rights if and whenever the joint program should be dissolved. The agreement is between the Norges Teknisk-Naturvitenskapelige Forskningsrad (NTNF, Norwegian Technical Scientific Research Council) and the Dutch Stichting voor Fundamenteel Onderzoek der Materie (FOM, Foundation for Fundamental Research of Matter) both Government supported, non-commercial, coordinating organizations that promote research in nuclear physics in their respective countries, and in spite of apparent differences, the program is moving ahead.

2. The present contract specifies that:

a. The Netherlands will supply the uranium, not to exceed six tons; (this uranium is part of a ten-ton stockpile acquired in 1939 and carefully hidden during the intervening years);

b. Norway will supply the site (Kjeller);

c. Norway will supply the heavy water (7 tons).

A six man Joint Committee (JC) is to be set up with six deputy members, three members of the JC and three deputies appointed by each country, to organize the research work and to get the reactor in operation as quickly as possible. The Managing Director will be a Norwegian, probably Dr. Gunnar Randers, the present head of the Norwegian program. Collaboration with other smaller Western European nations is contemplated and hoped for; the most likely candidate at present is Switzerland. The proposed pile is only a research tool, and though not specified directly in the contract, its ultimate purpose is the development of commercial power production. This emphasis is necessary if financial support from the governments and commercial firms is to be obtained.

3. Construction work on the pile at Kjeller was completed by Christmas of 1950. This included a concrete building, a concrete block guarding against radiation, and an underground section for heavy water storage. The analyzing laboratory is already in use, and important parts of the research equipment are completed and being installed. The required seven tons of heavy water for the pile were delivered by Norsk Hydro in March 1950. Graphite, to be used as the pile reflector, was to be sent from France in February 1950, but at the present time only half of this order has been received. The U_3O_8, which the Dutch have already delivered, is being refined by the British, with American concurrence, into uranium metal. The purity of the metal will be adequate for use in a heavy water pile, although not as high as that used in the U. S. project. Randers has stated that he expects the pile will be in operation early in 1951.

D. Sweden

1. In December 1945 the Swedish Government appointed the Atomic Committee to work as a coordinating and directing agency for Swedish activity in the field of atomic energy. The original task of this Committee, which was purely investigatory, was completed by March 1946 when the Committee was given the responsibility for conducting more basic research. In order to carry out the practical part of Sweden's atomic energy program, the construction of an atomic pile and the procurement of material for it, a semi-governmental joint stock company, the A. B. Atomenergi (the Atomic Energy Company), was formed in October 1947. This company, jointly sponsored by the State and private industry has at the present time a share capital of 3.5 million kroner, of which 2 million was subscribed by the State and 1.5 million by private industry. According to its charter, the share capital of this company is to be not less than 3 million and not more than 9 million kroner. In addition to its share capital, this company had received up to 1 July 1950 an aggregate of 4.5 million kroner as special appropriations. After the establishment of A. B. Atomenergi, the Committee assumed the role of a research council, with the principal task of supporting basic research in nuclear physics and allocating funds to institutes for the purchase of equipment and for the hiring and training of technical personnel. According to the official report of the Swedish Atomic Committee, the Swedish Government has appropriated a total of 12.2 million kroner for atomic energy research from 1945 to the present, including its contributions to the Atomic Committee and its subscription to the shares of A. B. Atomenergi. Of the amount appropriated, only 6 million kroner had been spent up to mid-1950.

2. Of the Scandinavian countries Sweden has the greatest potential capability for nuclear research, but has not made the rapid progress that might have been expected. The reactor which Sweden would like to have is still in the blue-print stage, and it is now estimated that it will be several years before it is completed. Several of the factors that have been responsible for this rather slow progress are: (a) the problem of uranium production; (b) the lack of electronic equipment; (c) the dearth of qualified scientists; and (d) the limitation of funds.

a. Undoubtedly Sweden's chief problem has been the production of uranium. The Swedes are concentrating on the production of uranium from the low-grade domestic ore. The uranium for the Swedish atomic energy program is obtained almost exclusively from kolm at the oil shale plant of Kvarntorp. The kolm is separated from the shale by hand picking. A pilot plant for uranium extraction has been set up at Vinterviken, a suburb of Stockholm, but the output of uranium oxide obtained was stated to amount to only about 10 kg of U_3O_8 per day in December 1949. The plant is intended to reach a maximum capacity of 10 to 12 tons of uranium a year.

b. The design of instruments has required a major portion of the effort up to this time, but it is felt that Sweden possesses, or will in the near future, enough equipment to handle the major requirements of her modest atomic energy program.

c. The dearth of qualified scientists, which Sweden is now feeling keenly, is the result of a restrictive educational system which permits only the cream of the crop to enter the institutes of technology. Plans have been approved to increase facilities so that a capacity of 4,500 students can be obtained by 1953.

d. The limitation of funds has made it necessary to use the existing, widely scattered research centers, rather than concentrate facilities and personnel to the best advantage. Jealousies among heads of various independent research centers, now believed to be straightening itself out, also aggravated the situation.

3. Sweden is primarily interested in pile development as a source of power since the country is without adequate domestic sources of fuel, particularly coal. Her oil shale reserves, though large, are being reserved for emergencies in order that under a wartime blockade Sweden would not be entirely without fuel. The heavy water, uranium metal experimental pile, to be built in the Stockholm area, is tentatively scheduled for completion by January 1954. The heavy water, which is on order from Norway, should be delivered by the summer of 1951. However, Norway, out of nationalistic pride, did not start to fill Sweden's order for heavy water until the Norwegians were assured that their own pile program would be operating before the Swedes. Reflector graphite has been produced in some quantity by a Swedish firm and is currently undergoing laboratory tests for purity.

4. There has been some experimental research on the separation of uranium isotopes on a laboratory scale and on barrier materials for isotope separation by diffusion at the Royal Institute of Technology in Stockholm. This research is being carried on to produce useful amounts of stable isotopes for tracer work rather than in the interest of producing fissionable material for atomic weapons.

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to certain bilateral clearing account currencies, the discrepancy between the dollar rate and the dollar cross-rates of the Western European transferable currencies is not wide enough to give the latter a significant exchange rate advantage. Therefore, much of Western Europe's trade with the Middle East area is now virtually equivalent to dollar area trade. Moreover, the principal soft currency country of the Middle East - Egypt - now apparently views German marks, multilateral lire, and nonblocked (Special No. 1 Account) sterling as "hard" currencies equivalent to US dollars and convertible Swiss francs.1/ Another noteworthy recent development in the Middle East has been the termination by Iran of its bilateral commercial agreements and, as a result, elimination of most of the currency discrimination in that country's trade.

It was observed in the introduction that one meaningful definition of a "dollar problem" relates to the possible inability of a country, which might be in overall balance, to settle a bilateral deficit to the dollar area by conversion of surpluses with third areas. Although this situation undoubtedly obtained after the war, the subsequent development, when viewed in conjunction with the existence of the EPU mechanism and of free exchange market in several "scheduled territories" of the sterling area (Kuwait, Hong Kong) indicates that many Free World currencies are now convertible for non-residents at a price. Because of the official support given to transferable sterling in the free market and the strong position of the mark, among other reasons, this price is not very high now. Consequently, this type of "dollar problem" no longer need exist to a significant degree for any Western European country.

6. The World Oil Complex. Some of the more significant of Europe's multilateral transactions affecting its gold and dollar balance are in the oil sector. For numerous reasons the patterns of settlements are not distinguishable in the balance of payments data of either the US or of individual European countries. One reason is that a large part of the operations of US and British-Dutch oil companies involves the "off-shore merchanting" of crude oil, petroleum products, and tanker services between third areas. To get even a partly realistic picture of the structure of world oil payments, it would be necessary to record all the overseas operations of US controlled oil companies as though the oil passed in transit through the US (instead of more or less directly from producing to refining to consuming country) and to treat similarly the oil produced and sold by British-Dutch firms as though it physically transited the UK.2/

1/ Under present regulations regarding payment for cotton exports.

2/ This method was followed in a study by Mr. Cornelius Dwyer (of the National Bureau of Economic Research, of "The Oil Trade in the International Balance of Payments in 1951", summarized in Journal of the American Statistical Association (September 1956), p. 508.

However, even with this sort of presentation, there are not sufficient published data on which to base estimation of an oil balance of payments by currencies permitting an evaluation--for example--of the respective dollar cost components of US company and UK-Dutch company oil sold in various areas. Finally, a Western European dollar balance of payments on oil account, such as the ECE has attempted to draw up2/, would not be particularly meaningful since it would conceal the very fundamental differences between the positions of the oil-trading countries (the UK and the Netherlands) and the continental oil-consuming countries.

When purchases of oil from US company sources outside the US are viewed as imports from the dollar area, there is a tendency to overstate the true net dollar expenditure on the oil sector unless full account is taken of a number of partially offsetting receipts that are often difficult to identify in the balance of payments: e.g., purchases of supplies and equipment or other local currency expenditures by the oil companies. The percentage net dollar component in the cost of oil consumed by Europe has undoubtedly been greatly reduced since 1950-1951 as a result of agreements between the companies and the respective governments, by the shifts in Europe's major source of supply from the Western to the Eastern Hemisphere, by the construction of refineries in Europe, by the emergence of the US as a net oil importer, and by continued reinvestment abroad of a large proportion of US earnings from oil investments. The dollar component that still remains, while perhaps large in total because of rapidly rising oil consumption, is believed to be quite moderate in comparison with the dollar cost of marginal supplies of other fuels. The temporary disequilibration of Europe's dollar balance of payments at the time of the Abadan and Suez oil crises has emphasized by contrast the relatively satisfactory _modus vivendi_ that has evolved in more normal recent years in the multilateral oil payments sector.

Here again, the increasing competitiveness of European exports has been an important factor in the process of adjustment to structural changes. This has been reflected in Europe's demonstrated ability to improve its relative share in the rpaidly growing Middle East and Caribbean markets created by oil company expenditures.

7. _Hoarding and "Dishoarding" of Gold_. In the preceding discussion of Europe's settlements with other areas, official gold transactions have been rather arbitrarily assimilated to multilateral transfers of dollars. However, it should be clear that Europe's monetization of gold from producing countries, such as South Africa, is hardly a multilateral settlement in the strict sense of the term since from South Africa's point of view gold

2/ _Economic Survey of Europe Since the War_, 1953, p. 92.

is less a form of monetary reserves than a mineral commodity export for sale on the free London market. Moreover, Russian gold sales in European free markets, which reportedly totaled some $150 million in 1956, may not be strictly comparable to normal multilateral gold transactions. The fact that most official gold transactions now apparently pass through the free bullion markets, where they are inextricably mixed in with transactions on private account for hoarding and industrial purposes, makes it difficult to interpret consistently the balance-of-payments significance of gold movements.

There are believed to be gold hoards in France and other Western European countries equivalent to three or four years of the world's current gold production. The existence of these hoards is of great potential significance to Europe's gold and dollar position. To the extent that further net European hoarding may take place, this would mean continued diversion of new gold that would otherwise either flow into official reserves in Europe or, like other exports, finance additional imports from other parts of the world. Besides the diversion effect, there is also a more direct effect on European official monetary reserves when counter speculative sales of gold are made on the free markets by central banks or exchange stabilization funds. At other times, however, intervention by the authorities to stabilize free-market prices may tend to build up official reserves by net purchases of gold at a moderate premium over the official parity. Although the past year and a half has apparently brought a revival of net European gold hoarding,1/ trends of recent years have indicated some loss of gold's prestige as an antiinflationary hedge in Europe. Therefore, it is not to be excluded that this potential source of liquidity may become effectively available to the world's monetary system sooner than is customarily anticipated. Even if European "dishoarding" were offset by increased hoarding demand in other parts of the world, the net movement to other countries, whether by legal or extralegal channels, would still be a source of financing for Europe since it would presumably have a real counterpart. Net hoarding or "dishoarding" of gold, as a subtraction from or addition to other means of external finance, has usually been a function of relative confidence in national currencies. Like relative competitiveness in world markets for goods, it is strongly correlated with domestic financial policies.

1/ Samuel Montagu and Co., Annual Bullion Review--1956, estimates that world hoarding demand in 1956 absorbed 10 million ounces ($350 million), of which France took 4 million ($140 million), the Middle East 3 million ($105 million), and the Far East 2.25 million ($80 million).

fluctuations, for example as a result of slackening of demand for exports, development of unfavorable terms of trade, or exceptional import requirements. Reserve requirements may also grow, as the framework of protective devices (tariffs, quantitative restrictions, exchange controls) is progressively dissolved. And still further increases in primary or secondary reserves may be required to facilitate progress toward the longer-run objectives of full trade and payments liberalization and currency convertibility. On the other hand, any noticeable progress towards alleviating stresses in international payments and structural imbalances may reduce the incentive for accumulating reserves.

D. Summary Conclusion

After declining steadily from 1947 to 1953 (except for 1951), Western European expenditures in the US rose sharply in recent years; exclusive of changes in gold and dollar holdings, the rise was 15 percent in 1954, and 19 percent in 1955, and again in 1956. In the first half of 1957 the rise was so abrupt as to cause a drain on reserves and revive fears of a "dollar shortage".

Nevertheless — and with due regard for the hazards of prediction when so many independent variables are involved — there are a number of factors that suggest that the average rate of growth in Western European demand for dollars over the next decade may well be slower than in recent years, and slower than the growth in total dollar supply. The bulk of the recent spurt in demand (over 90 percent from 1954 through 1956) has been accounted for by merchandise imports from the US. Although these imports were stimulated by inflation and by relaxation of trade restrictions, there were major pressures that were temporary, including last year's cold weather and bad harvests, and the Suez affair; it is significant that imports from the US levelled off in the second quarter of 1957. Future increases in demand for dollar coal, wheat, cotton and oil are likely to be moderate except during emergency periods. Antiinflationary measures are being intensified. Moreover, slower increases in labor supply and in productivity will probably moderate the pace of economic growth and hence dollar demand, although unfortunately also lessening Europe's dollar earning possibilities. Also the shift away from the US as a supplier is likely to be accentuated with a continued increase in availabilities in Western Europe and elsewhere, and as European producers become more competitive in production and marketing techniques. Although outlays for servicing US investments and for travel will grow, there is a good prospect that transport costs will decline. Thus on balance Western Europe may be in a position to resume replenishing reserves in the years ahead.

VII. EUROPE'S ABILITY TO EARN GOLD AND DOLLARS FROM THIRD AREAS

A. The Role of Western Europe's Multilateral Gold and Dollar Settlements

The net gains or losses of gold reserves and dollar holdings by Western Europe arise (a) from transactions with the US and (b) from other transactions, i.e. (1) gold and dollar transactions with third areas and international institutions, including but not limited to multilateral settlements reflected in the US balance of payments with Europe (an unknown amount), and (2) hoarding and dishoarding of gold within Europe. The difference between the net change in Europe's estimated gold reserves and dollar holdings and its general bilateral balance of payments with the US, as reported in US statistics (excluding "errors and omissions"), gives a rough measure of net changes arising from transactions other than with the US.

Measured in this way, as in Table 23 above, the role of "other transactions" in explaining net changes in Europe's gold reserves and dollar holdings seems very small ($1.1 billion for the period 1950-1956) in comparison with the changes in reserves "explained" directly by the bilateral balance of payments with the US ($7.8 billion over the seven-year period). To be sure, if one looks at the last four years--1953-1956--the "other transactions" are considerably larger ($1.8 billion) in proportion to Europe's bilateral gains from the US ($4.3 billion), but even so they could be largely or entirely "explained" by acquisition of newly-mined gold from the overseas sterling area.

There happens to have been a surprisingly close net bilateral balance in recent years between the US and each of the major areas distinguished in the US balance of payments. Undoubtedly, postwar discriminatory policies have led to an increase in the proportion of the trade of individual countries throughout the world that is bilaterally balanced and have also reduced the scope of multilateral settlements in the transactions between broad currency areas. 1/ Nevertheless, numerous significant patterns of effective gold and dollar multilateralism can still be traced, especially if Western Europe is considered separately from the overseas EPU areas.

The principal types of transactions contributing to the difference between the change in Europe's gold reserves and dollar holdings and its net bilateral transactions with the US can be listed as follows:

1/ Cf. MacDougall, The World Dollar Problem, p. 370, Table 55; UN, World Economic Survey 1956, p. 36; and testimony of Herbert V. Woolley on world payments patterns in US House of Representatives Subcommittee of the Committee on Ways and Means, Hearings; Administration and Operation of Customs and Tariff Laws and the Trade Agreements Program, p. 579.

1. Transactions with the rest of the dollar area:
   (a) Canada,
   (b) Dollar countries of Latin American and the Philippines;
2. Transactions with international agencies;
3. Multilateral US aid expenditures;
4. Transactions of the overseas sterling area and other overseas European monetary areas, including the acquisition by Europe of newly-produced gold from these areas;
5. Transactions between Europe and other non-dollar areas producing:
   (a) Settlement of bilateral clearing balances with gold and dollars or with "switch" transactions;
   (b) Multilateral effect of transferability arrangements;
6. The world oil complex and similar merchanting trade;
7. Hoarding and dis-hoarding of gold.

The above classification, chosen for expository purposes, is obviously not strictly consistent and involves some overlapping. (The oil sector, particularly, cuts across the other sectors of the multilateral balance of payments, but it deserves separate consideration because of special financial factors affecting the recepts and expenditures of the oil companies.) In any case, it is not feasible to attempt a statistical reconciliation of all these heterogeneous multilateral patterns with the reported US-European balance of payments, on the one hand, and the net change in reported European gold reserves and dollar holdings, on the other hand. Indeed, the very difficulty of such a task testifies to the progress already made toward effective multilateral convertibility, since it is no longer possible to draw a clear-cut distinction between gold and dollar transactions and transactions involving other currencies.

Table 23, line 4, indicates that the net balance of transactions other than with the US resulted in a large net loss of reserves by Europe for the three years 1947-1949. This, of course, reflected the fact that Europe's immediate postwar dollar shortage represented a payments imbalance not only toward the US, but also toward Canada, Latin America, the Middle East, and other countries. The magnitude of this accounting imbalance also reflected, however, the availability of gold and dollars to finance the deficit, first from reserve holdings, later from ECA funds made available for off-shore procurement of oil and other commodities. In 1950, accompanying the outbreak of the Korean War, there was a temporary gold and dollar surplus for Europe on third-area transactions attributable mainly to the high US demand for raw materials from the sterling area. In 1951 and 1952 the balance was again negative, but from 1953 on, Europe has been a net gainer of gold and dollars from the third areas.

The appearance of this generally well-sustained improvement is, of course, the resultant of a complex of factors: monetary, structural, institutional, political, and military, or entirely fortuitous. One structural change, for example, that operated in favor of Europe, during the postwar decade, was the rapid expansion of Middle East oil production, which, in conjunction with changes in the structure of the world oil trade, tended to decrease the marginal dollar cost of Europe's rapidly increasing energy requirements. However, perhaps the most important of the favorable factors was the restoration of the competitive strength of the European products offered in world markets. Replacement of war damage and the coming to fruition of investment projects undertaken in the reconstruction period were necessary preconditions, but would not in themselves have been sufficient without achievement of a better international balance of effective demand. In some European countries, characterized by partially "suppressed" inflation, this meant reduction of the existing over-liquidity by disinflationary credit or budget policy or by currency reform. In others, which had suffered inflation of the "open" variety, it involved mainly correction of price and cost disparities relative to the US, sometimes by exchange rate adjustment, but more often by keeping the subsequent growth of current home demand from exceeding the pace of productive expansion.

The monetary factors affecting competitiveness can be measured by comparison of index numbers[1/], but for present purposes it is enough to point out that the best index of competitiveness is the increasingly vigorous effective showing made by European goods in third markets despite--or, to some degree, because of--the decompartmentalization of currency areas. The fact that European countries have not come out badly in this competition in the recent years of increasing freedom for trade and payments suggests that they need have little fear of further progress toward a multilateral system as long as creation of excess domestic purchasing power is kept sufficiently in check.

B. Patterns and Mechanisms of Multilateral Settlement Affecting Europe's Gold and Dollar Position.

1. The Dollar Area (Other than the US)

a. Canada. Transactions with other dollar-area countries obviously have the most direct, indeed, virtually a one-to-one impact on Europe's dollar position. This is particularly true as regards Canadian dollar transactions. To be sure, Europe's merchandise trade with Canada normally yields a considerable dollar deficit, but despite the geographic and other structural factors which have always tended to orient most of Canada's import trade toward the US, even when Europe was the major source of foreign investment in Canada, very great opportunities exist for Europe to compete more effectively in this market. To refer to "Europe's" ability to compete is, of course, to use a misleading figure of speech. What is meant is the competitiveness of individuall European countries: mainly the UK and Germany, but also Belgium, France, the Netherlands, Switzerland, and Italy. The UK's exports to Canada have had ups and downs, but have recently shown a new burst of strength (up 26 percnt from 1955 to more than half a billion dollars in 1956 and still rising). West German exports to Canada quadrupled from 1952 to $86 million in 1956 and are still rising.

1/ R. Triffin, Europe and the Money Muddle, pp. 77-79.

It is worth noting that the share of trade with Canada and Central America, both in the dollar area, has increased since the prewar period. The proportion of imports from Canada remained stable at about 8 percent of the total. Exports to Canada rose from $155 million in 1938 to $770 million in 1956 or from 3.7 percent of total exports to 5.1 percent. Imports from Central America rose from about 2 percent to about 3 percent of the total, while exports rose from $78 million in 1938 to $448 million in 1956, or from 1.9 percent of total exports to 3.0 percent.

Exports to South America have recently been a significant exception to the generally strong upward trend in Western European exports. The aggregate value fell in both 1955 and 1956.

On a payments basis (imports f.o.b. compared with exports f.o.b.), European trade with the world other than the US is much more favorable than the raw trade data discussed above would indicate. Merchandise trade, on a payments basis, has been relatively close to balance. Imputed balances for 1953, 1954, and 1955 were approximately -$200 million, +$200 million, and +$300 million.1/

2. Invisibles.

In recent years average net European earnings from invisible transactions with the rest of the world (excluding the US) have averaged over $1 billion annually. Their relative importance, however, is much less than in the prewar period. In 1938, net invisible earnings in the rest of the world, including the US, sufficed to pay for 27 percent of European commodity imports. 1953 invisible earnings (including US military expenditures in Europe) paid for only 7.5 percent of European commodity imports and 1955 earnings only 8.7 percent of 1955 imports. Table 19 shows the European invisible balance with countries other than the US.

Table 19. Imputed Balances of OEEC Countries Service Transactions with Rest of the World, Excluding US1/

(Millions of dollars)

	1953	1954	1955
Transport	+357	+526	+335
Travel	+248	+349	+398
Investment Income	+564	+557	+526
Military	-1,150	-883	-650
Miscellaneous and private transfers	+788	+877	+646
Total	+807	+1,426	+1,255

1/ The method used was to subtract the US-European balance shown in the US balance of payments from the European balance with the world as reported by OEEC. This procudure is subject to a number of defects. It is believed, however, that it properly indicates general orders of magnitude.

Europe has acquired gold and dollar reserves through transactions other than with the US in most recent years. The following table shows the extent of such acquisitions.

Table 20. Gold Reserves and Dollar Holdings Acquired by Europe through Transactions other than with the US

(Million of dollars) 1/

1950	1951	1952	1953	1954	1955	1956
+534	-811	-434	+710	+511	+185	+419

G. European Gold Reserves and Dollar Holdings

1. Significance of Changes in Reserves.

Reserve changes are frequently indicative of the changes in a country's general payments position and at low levels reserve losses tend to force governments to take more or less drastic defensive measures. Nevertheless, the significance of a given change in reserves depends in large part upon the circumstances causing the change, and cannot necessarily be derived from the direction and extent of the change itself. A decline in reserves, for example, might either represent an uncontrollable capital flight or a governmental policy decision that the trading position is so sound that fewer reserves are needed. An adequate explanation of the significance of a change thus depends upon a detailed analysis of the entire nexus of foreign transactions recorded in the balance of payments, with attention to government policies and other factors shaping the pattern of transactions.

The ability and willingness of a country to accumulate and maintain reserves depends on a number of factors. Among the more important are:

a. The real or imagined need for reserves. This is related to the level of trade and other foreign transactions, the probability of temporary disparities in the development of payments and receipts, the availability of "secondary reserves", the vulnerability of the currency to capital flight, legislation or public attitudes concerning the amount of "cover" needed for the domestic currency, and the factor of prestige.

b. The cost of maintaining reserves. This involves the benefit foregone by holding rather than spending the reserves. Other things being equal, the tendency to hold reserves in the form of interest-bearing short-term balances in the US combined with the recent increases in interest rates here have reduced the economic cost of maintaining reserves.

1/ The data include effects of hoarding and dishoarding in Europe. See Table 23 for derivation.

c. Unplanned developments. Increases or decreases in reserves result from the entire complex of foreign transactions. In the US, which has over half the world's gold supply, the level of reserves is a relatively high proportion of imports and no specific governmental action to prevent or encourage changes in the level of reserves has been undertaken. In many other countries, commercial and domestic economic policy decisions are influenced if not determined by the state of the reserves. Many foreign transactions defy governmental control, however. Not all capital flight can be prevented. Import and export levels and the direction of trade can be manipulated only with difficulty and often with undesirable side effects. As witness to the importance of forces not readily susceptible to governmental control are the recent outflow of UK reserves and the large increase in German reserves. Both of these events occured despite some governmental actions designed to prevent them.

It is also important to stress the arbitrariness of any definition of reserves. Liquidity is a relative quality. The gradation in liquidity between gold, governmental holdings of short-term assets in the US, privately held short-term assets in the US, holdings of US medium and long-term government bonds and notes, and public and private holdings of the many other varieties of assets held in the US is gradual, with categories overlapping. The same is true for investments held in countries other than the US. Assets not normally considered as reserves can often be easily liquidated and used as reserves. During the Suez crisis, for instance, the UK was able to supplement official reserves by selling US securities. Furthermore, inventories of import goods can, at least to an extent, perform the function of exchange reserves.

2. The Development of European Reserves.1/

During the immediate postwar years Europe was forced to spend an important part of its gold reserves and dollar holdings to pay for essential imports. Reserves held by the UK and the continental countries fell from $10.6 billion in 1945 to $7.6 billion by the end of 1947. Extensive foreign aid and increased European earnings in world markets permitted Europe to purchase imports adequate to support economic recovery while maintaining reserves in 1948 and 1949. In 1950, the Korean boom resulted in a $2.6 billion accretion to reserves, primarily in the UK. After a minor decline in 1951, a sustained net accumulation of reserves began in 1952, which persisted through 1956. After a minor decline early in 1957, the rise resumed and the end of June level was a new high. During the years 1952-1956, reserves rose from $10.1 billion to $17.0 billion.2/

1/ Table 21, attached, shows European gold and dollar reserves, 1937 and 1949-1956.

2/ See footnote a) of Table 21 for description of holdings. Figures cited here include holdings of US government bonds and notes.

The annual addition to reserves were $77 billion in 1952; $2.3 billion in 1953; $1.7 billion in 1954; $1.0 billion in 1955; and $1.1 billion in 1956.1/ The 1956 result was possible because of net drawings from the IMF of approximately $500 million. During the period 1952-1955, net repayments of over $400 million were made.

3. Reserves in Relation to Trade.

European gold and dollar reserves in relation to trade with the rest of the world are well below the prewar ratio. European reserves in relation to imports of the EPU area from the rest of the world2/ were 92 percent in 1955 as against 165 percent in 1937. The 1955 percentage was nevertheless well above the early postwar period. The following table shows this development.

Table 22. European Gold Reserves and Dollar Holdings in Relation to Imports

(Millions of dollars)

	Imports of EPU Area from the Rest of the World	End of Year Gold and Dollar Reserves	Reserves as a Percentage of Imports
1937	6,779	11,200	165
1948	14,864	7,800	52
1949	13,831	7,958	58
1950	11,121	10,234	92
1951	16,004	9,801	61
1952	14,886	10,518	71
1953	13,240	12,897	97
1954	14,155	14,570	97
1955	16,784	15,517	92

This decline in the reserve-trade ratio is not solely a European experience. US reserves in relation to imports declined from 592 percent in 1938 to 178 in 1955.

1/ For later developments see Section 3.
2/ There is considerable latitude in the choice of magnitudes to be compared in assessing the adequacy of reserves. Reserves as a ratio to imports of the EPU area from the rest of the world is one index. It is deficient, however, in that it ignores the need for reserves for intra-area transactions, the need for reserves in relation to invisible imports, and the existence of separate reserves held by independent sterling area countries. Another possible measure, reserves as a percentage of total imports of OEEC countries combined, fell to 31 percent in 1948 from 80 percent in 1937. It subsequently recovered to 43 percent in 1954. In 1955 it was 40 percent and in 1956, 39 percent

The decline in the reserve-trade ratio appears particularly steep because of the relatively high ratios that prevailed during the 1930's because of the low levels of trade, particularly on a value basis resulting from low levels of economic activity, depressed commodity prices and autarchic trade practices. Thus, reserves as a ratio to trade in 1938 were generally well above the levels of 1928. During the postwar period, there has been a tremendous expansion of trade, especially in value terms. The price of gold has remained constant and the net additions to the total supply of monetary gold have been gradual. The value of total world trade approximately quadrupled from 1938 to 1956 while gold reserves of Western countries and institutions rose 50 percent.

World gold production, which has been increasing moderately during recent years, has allowed gradual but steady additions to world official gold reserves. At the end of 1956, monetary non-Soviet gold holdings amounted to $37.6 billion, of which $22 billion was held by the United States. From 1951-1956, gold production (excluding USSR and satellites) aggregated $5.4 billion. In addition, the USSR sold $365 million of gold in the western world. Not all of these amounts were added to official reserves. $1.1 billion of the total was used industrially, and an estimated $2.1 billion went into private hoards, leaving a balance of $2.5 billion, which was added to official reserves. This represented an increase of approximately 7 percent over gold reserves of $35.2 billion at the beginning of the period. The rest of the world also acquired $750 million of gold from the US during this period. As a consequence, Europe was able to increase its official gold holdings by $2.7 billion and the rest of the world (excluding the USSR) by $800 million.

Several factors have tended to reduce the strain on international liquidity resulting from the failure of gold supplies to increase as fast as trade. One has been the creation of secondary international reserves--such as IMF drawing rights, EPU credit provisions, etc.--which are available to supplement nationally held primary reserves. The role played by Britain's December 1956 IMF drawing and standby arrangement totalling $1.3 billion testifies to the importance of these secondary reserves. A second factor tending to improve international liquidity has been the adoption by many western nations of what has been termed the "dollar exchange standard", i.e., the use of short-term dollar assets as reserves, and a rapid accumulation of such assets. A third postwar development, which has somewhat reduced the need for large international reserves, has been the increase in international economic cooperation. Competitive devaluation has not been a problem during the postwar period, and national balance of payments difficulties have become a cause of international concern and consultation in such organizations as the IMF and the EPU.

4. Distribution of European Reserves.

European gold and dollar reserves are poorly distributed and have tended to become increasingly more so during recent years. The maldistribution is clearly seen if reserves are related to imports. At the end of 1956, German reserves were equivalent to the value of seven and a half months imports while French reserves were only two and a half months and the Netherlands three and a half months.

Changes during 1956 intensified the maldistribution. During 1956, Germany acquired over 80 percent of the total increment to European gold and dollar holdings, while France lost heavily. The UK ended the year with approximately the same reserves as at the end of 1955; but the level was maintained only with the aid of the $562 million drawn from the International Monetary Fund and the liquidation of certain foreign investments. For the entire period from the end of 1951 to the end of 1956, Germany accumulated over $3.0 billion of reserves while UK reserves actually declined slightly. During the same period, French reserves rose $600 million, Italian $635 million, Swiss $550 million, and Dutch $500 million.

5. Source of Increased Reserves.

During the years 1949-1956, European reserves rose $8.9 billion. $7.8 billion were gained directly from the US as a consequence of US payments to Europe for imports, investment, aid, etc., in excess of US receipts from Europe. The tendency for Europe to increase its reserves at the expense of the US prevailed throughout the period since 1947.1/

H. The Elimination of Discrimination against Dollar Goods and the Freeing of Trade and Payments in Europe

Ten years ago Europe was conducting its trade on the basis of network of bilateral agreements. Most currencies were inconvertible and most countries imposed a variety of restrictions on any imports that they did not consider essential.

The rapid recovery of the European economy after 1957 created increasingly favorable conditions for the elimination of trade restrictions. Multilateralism was encouraged by the OEEC, created in 1948. A series of improvements has been gradually introduced during the past decade. Currencies are now close to convertibility, there has been impressive progress in sweeping away the maze of administrative import controls and many tariffs have been reduced.

On the trade side, fastest progress was made in eliminating intra-European quantitative restrictions. As members of the GATT, the European countries had agreed to the basic principle that quantitative restrictions must be eliminated as soon as they are no longer justifiable for balance of payments reasons. In 1949 the OEEC countries agreed to a progressive lifting of quantitative restrictions on imports from other members. The

1/ Table 23, attached, shows source of changes in European gold reserves and dollar holdings.

initial objective was the freeing of at least 50 percent of trade on private account. The target was subsequently extended in stages. Progress, while gradual, was reasonably steady. Although there have been numberous foreign exchange crises in the various member countries with a resulting retrogression in liberalization, these retrogressions have been temporary. The decision of the UK to meet the sudden crisis of confidence in sterling that occurred in late 1956 in ways other than by intensifying trade or exchange restrictions played an important part in sustaining the general momentum in Europe and elsewhere toward continued liberalization of trade and payments.

The present goal is for each country to attain 90 percent liberalization by the end of 1957, with at least 75 percent liberalization in each of the three commodity categories. By April 1957 an average liberalization percentage of 89 percent had been attained.

There has also been progress in freeing capital transactions and invisible transactions. For invisibles, which make up nearly one quarter of total current transactions between OEEC countries, a special liberalization code was adopted in 1950. All invisible transactions relating to merchandise trade (e.g., insurance, maritime freights, etc.) are now free of restrictions.

For most countries, the process of liberalizing imports of dollar goods began later (Switzerland is an exception. It liberalized most dollar imports a number of years ago). In 1953 and 1954 important progress was made, particularly by the Benelux countries, Greece, Iceland, Italy, the Federal Republic of Germany, and the United Kingdom. On the average, by September 30, 1954, 44 percent of private imports (1953 base) from the US and Canada had been freed of quantitative restrictions. Subsequently, OEEC countries issued additional lists of commodities eligible for import from the dollar area without limitation, and by the end of 1955 the average percentage of dollar liberalization had been raised to 54 percent and by May 1, 1957, to 61 percent.

The liberalization percentages apply only to private imports. Liberalized imports as a percent of all imports, including state-traded items, is accordingly somewhat lower. The May 1, 1957 figure on this basis was 54 percent.

Greatest progress has been achieved in liberalizing imports of food, feedstuffs, and crude materials, (OEEC Categories I and II) and least in manufactured products (OEEC Category III). As of May 1, 1957, the dollar liberalization percentages for food and feedingstuffs was 73 percent, for crude materials 67 percent, and for manufactured products 42 percent. Since state trading primarily affects agricultural products, this percentage suffers the greatest reduction (from 73 percent to 53 percent) if all imports rather than only private imports are considered. It seems likely that commodities considered to be of relatively high essentiality and which were previously admitted under generous quotas have been selected for liberalization. The scope for additional dollar imports of such goods was probably more limited than for certain types of consumer goods that remain under quantitative restrictions (QR's).

Table 24 shows dollar liberalization percentages by country and by commodity category as of May 1, 1957.

Table 24. Dollar Liberalization by Country and Commodity Category[a]

Country	Food and Feedstuffs	Crude Materials	Manufactured Products	Total
Austria	4	38	87	40
Benelux	88	80	90	86
Denmark	77	46	41	55
France	---	9	14	11[b]
Germany	81	95	83	90[c]
Iceland[d]	86	67	15	33
Greece	100	100	95	99
Ireland	7	43	4	15
Italy	29	46	33	39[e]
Norway	98	95	61	84
Portugal	92	21	26	53
Sweden	71	69	63	68
Switzerland	97	100	98	99
Turkey	---	---	---	---
United Kingdom	73	76	8	59
Value of total freed imports ($ million)	823.6	955.2	495.2	2,273.9
Percentage of freed imports as compared:				
a) with private imports of member countries as a whole	73	69	42	61
b) with total imports of member countries as a whole	53	66	41	54

a Source: OEEC, Liberalization of Europe's Dollar Trade, Second Report.
b As of June 30, 1957, this percentage had been reduced to 0.
c As of June 30, 1957, this percentage had been increased to 91.
d The percentages do not take account of the new measures of February 1957.
e As of June 30, 1957, this percentage had been increased to 71.

The statistics undoubtedly indicate progress. Their significance is subject to considerable limitations, however. Most important is the underweighting of commodities the import of which was restricted in the base year. (Commodities completely excluded in the base year would have no weighting whatsoever, so that even "100 percent liberalization" would be consistent with retention of quotas severely limiting imports.) The percentages tend to overestimate progress in liberalization to the extent that liberalization primarily affects commodities previously imported relatively freely. The percentages also fail to reflect changes in the degree of liberality or severity employed in administering quota control on goods not liberalized. Enlargements or curtailments of quotas are not reflected in the liberalization percentages. Globalization of quotas formerly permitting only soft currency imports also have no effect. Moreover, the percentages fail to reflect changes in the degree of liberality with which state-trading agencies make decisions concerning levels of imports and sources of supply. These factors probably have the effect of understating progress actually achieved. The IMF has concluded1/ that a lessening of dollar discrimination occurred in 1956 through increased liberalization in the administrative application of trade and exchange controls.

European tariff barriers to imports have also been reduced. The European countries have participated in the GATT negotiations which have reduced or bound against increase thousands of tariff items. Specific duties have been reduced in significance as the result of rising prices. The role of Imperial Preference in the British commercial policy has been declining in recent years, and many margins of preference have been reduced. In February 1956, the Council of the OEEC, while recognizing the importance of continuing the campaign against quantitative restrictions, affirmed the necessity of concentrating on the elimination of high tariffs, restrictive state trading, and artificial aid to exports. Signature of the European Economic Community Treaty and negotiations directed towards a European Free Trade Area herald further reductions, at least in intra-European tariffs.

The near approach to convertibility of currencies which has been achieved in Europe has played a major role in the freeing of European trade and the lessening of discrimination against dollar goods. In the early postwar years exchange restrictions represented a formidable hindrance to trade. European countries felt obliged to use these controls to ensure that their foreign exchange would be used only for the imports they regarded as essential. Furthermore, in some cases monetary controls were used for protectionist purposes. After years of wartime controls (not to mention the special protectionist measures applied during the depression), business had become unused to competition from abroad and was often needlessly afraid of it.

Two intra-European payments agreements in the late 1940's began a process leading to the creation of the EPU in 1950. This arrangement provided for the interconvertibility of European currencies, with final settlements partly in gold and dollars and partly in credits. The settlement provisions have been gradually hardened, and, since August 1955, 75 percent of balances are normally settled in gold or dollars.

1/ Eighth Annual Report—Exchange Restrictions.

Actions by individual countries in liberalizing exchange controls have played the major role in the Europe-wide approach to convertibility. In the years 1948-1950 foreign exchange markets with flexible rates—within prescribed limits—were reintroduced in Belgium, France, and Italy. In 1951, the UK, notwithstanding a deterioration in its gold and foreign exchange reserves, made a move in the same direction as part of a new monetary policy designed to bring about a return to convertibility. In 1952 the Netherlands and Sweden opened foreign exchange markets and in 1953 Germany did the same. As of May 1953, spot arbitrage operations subject to certain safeguards were permitted between London, Paris, Amsterdam, Brussels, Frankfurt, Copenhagen, Stockholm, and Zurich. Other centers were subsequently added. In October 1953, the arbitrage scheme was extended to forward transactions. It should be emphasized that the European arbitrage scheme is a closed system, as there is no direct link with the dollar area. Nevertheless, the system facilitates intra-European convertibility and establishes the necessary technical preconditions for eventual full convertibility.

A substantial unification of nonresident accounts and thus of exchange rates has also been achieved. In March 1954, the British Exchange Control was considerably simplified by the enlargement of the Transferable Account Area to include virtually all countries outside the sterling and dollar areas. Residents of these countries were enabled to use sterling automatically for making payments to one another in all types of transactions, whether current or capital and at any rate of exchange. For the first time, individuals were allowed to hold transferable sterling accounts. In addition, the restriction limiting the use of transferable sterling to current transactions was lifted.

In February 1955, in a major step towards convertibility, the UK Exchange Equalization Account began intervening in the unofficial markets for transferable sterling. The Equalization Account has supported the rate for transferable sterling and prevented, when necessary, the discount on transferable account sterling from exceeding 1 percent or so of official rates. This, together with the European arbitrage system, has made it generally feasible for nonresident holders of a number of European currencies to convert them into dollars at a fairly slight discount.

Germany, Italy, Belgium, Sweden, and the Netherlands have also widened the transferability of their currencies. Germany has also taken many measures to free its currency. Accounts formerly blocked in Germany (Sperrmark accounts) were unblocked in September 1954. Holders have been allowed to repatriate at official rates of exchange. In May 1956, Germany decided to remove altogether the obligation to surrender foreign exchange and to permit residents to make investments abroad.

During the postwar years there was hardly a West European country that did not resort to export promotion schemes in one form or another. Particularly important was the practice granting so-called retention quotas.

Such practices, which in effect resulted in multiple exchange rates and led to distortions in the pattern of trade, have by now been largely eliminated.

Special agreements with Brazil and Argentina, resulting in the formation of the so-called Hague and Paris clubs, have allowed these countries to settle balances with most European countries multilaterally. Previously, Brazilian or Argentine surpluses with one European country could not ordinarily be used for settlements with another.

It is evident, therefore, that in recent years there has been a considerable relaxation of the restrictions on the use of West European currency balances held by nonresidents. In this connection, the countries generally still made a distinction between the dollar area and the rest of the world. These differences are becoming increasingly blurred, however. A near approach to de facto convertibility has been attained.

As it is possible to convert current account balances in the currencies of ten other EPU Members into sterling at rates that cannot fluctuate more than 3/4 percent from par, holders of these other currencies can convert them into dollars indirectly via transferable sterling at rates within 2 percent of par. Thus, the barriers between the dollar area and the rest of the world have in fact been lowered to a point where they can be surmounted fairly painlessly.

Obstacles to the conversion of balances on capital account are less readily overcome. Sterling, DM, and Belgian balances on capital account may be sold by one nonresident to another. In Germany, the capital account balances may be withdrawn in limited amounts by dollar area residents.

How significant are remaining administrative and quantitative barriers to imports from the dollar area, and what would be the effect of their removal? The answer would undoubtedly differ sharply from country to country. For some countries with currencies that are not overvalued and that have minimal controls at the present time, the effect would probably be slight.

Studies of the effects of the dollar liberlization that has already been achieved are inconclusive. For consumer goods, in some cases liberalization has been followed immediately by relatively substantial increases in imports, while in other cases an increase has followed only after a long delay. In some of these cases the import level has subsequently declined. In others, liberalization appears hardly to have affected the level of imports. Nevertheless, it can be said that no special problem appears to have been created by the measures taken so far. As far as raw materials and basic products are concerned (where the increase in imports of freed products has been concentrated), liberalization must be considered to be a less important cause of the expansion in imports that has occurred than the increased economic activity in Europe and the tightness of supplies outside the dollar area. As regards food products, the situation is complicated by the effects of state trading in a number of countries, bilateral agreements with third countries, and the US surplus agricultural product disposal program. The general conclusion for all types of imports is that so far no apparent hardship has been caused to the domestic economies of OEEC countries as a result of liberalization, and that a positive benefit to them has occurred.

III. TRENDS IN THE EUROPEAN BALANCE OF PAYMENTS WITH THE US DURING 1956 AND 1957

A. The US Balance of Payments with the World

1956 and the first half of 1957 were characterized by an unusually rapid expansion of US exports to the entire world and a general widening of the US trade surplus.1/ Total US exports in 1956 rose over $3 billion from the 1955 level--an increase of 21 percent as against an 11 percent import rise. The trend continued during the first half of 1957, exports rising 22 percent over the first half of 1956 and imports 3 percent. It is to be stressed, however, that despite the minimal increase in the value of US imports, the total supply of dollars provided the rest of the world has risen very rapidly - 18 percent from 1955 to 1956, and 13 percent from the first half of 1956 to the first half of 1957. Direct private investment has risen particularly fast. The total outflow grew from $679 million in 1955 to $1,839 million in 1956. The rate during the first half of 1957 was again higher--$1,254 million for the six months. In view of this increase in the supply of dollars furnished the world, the deterioration in the world's payments position must be attributed to the extraordinary expansion in demand for dollar products rather than failure of the outflow of dollars from the US to grow.

The increase in imports from the US brought to an end the steady net adquisition of gold from the US and the steady net acquisition of dollar holdings in the US that the rest of the world had been gaining through transactions here. Net acquisitions averaging $433 million per quarter during the first three quarters of 1956 were followed by gold shipments to the US and liquidation of dollar holdings of $302 million and $520 million during the last quarter of 1956 and the first quarter of 1957. (New foreign long-term investment in the US has not suffered. It aggregated $282 million during the first half of 1956 and $288 million during the first half of 1957.) Total gold reserves of foreign countries and international institutions, somewhat bolstered by additions of newly mined gold, fell somewhat less--$625 million during the same two quarters.

Data for the second quarter of 1957 indicate improvement in the rest of the world's payments position with the US. US imports rose as fast as exports. US direct investment abroad was particularly high, as were US government payments. As a consequence, foreign nations gained $71 million of gold and dollar holdings from the US, as well as adding over $100 million to their stock of long-term investment in the US. Total gold reserves and dollar holdings of foreign countries and

1/ Table 25 attached, shows US international transactions with all areas, 1956 and the first half of 1957, quarterly.

international institutions increased $160 million. It is important to note that an important part of US foreign investment during the quarter consisted of payments of about $300 million to Venezuala for oil explanation rights. Seasonally adjusted figures indicate net quarterly payments by the US to the rest of the world averaging $350 million during the first three quarters of 1956. In the fourth quarter, there was a $70 million receipts surplus which rose to $530 million in the first quarter of 1957. During the second quarter of 1957, net receipts dropped sharply to about $100 million. Without the payment to Venezuela mentioned above, however, foreign countries would have lost about $400 million after allowing for seasonal factors.1/

It seems likely that the deterioration in the world's trade position can at least in part be explained by circumstances of a temporary nature. The Suez crisis placed a heavy but temporary strain on Europe's balance with the US. This has been estimated at approximated $400 million for the period from October 1956 through June 1957. The US, which is normally a net importer of oil, suddenly became a net exporter. Coal exports also expanded, as did shipping receipts. Exports of cotton for reconstitution of inventories and of US farm products under PL480 have also grown rapidly.

Total exports under the PL480 program, which are additional to normal US marketing, rose from $405 million in 1954-1955 to $999 million in 1955-1956 and $1,530 million in 1956-1957. PL480 marketings in 1956-1957 represented 57 percent of total US wheat exports, 43 percent corn exports, 81 percent of rice exports, 30 percent of cotton exports and 47 percent of cotton seed and soybean oil exports. These exports result in a worsening of the rest of the world's trade balance, but in reality alleviate the payments positions of recipient countries since no dollar payments are involved.

B. The European Balance of Payments with the US

Europe has maintained its balance of payments with the US in better condition than the world as a whole has. US regional balance of payments data indicate that Japan and some Latin American countries have been far more affected. During 1956, Europe's exports to the US rose 23 percent, as against the 11 percent increase achieved by the world as a whole. Europe's imports from the US rose 24 percent, only slightly above the 21 percent world average. During the first half of 1957, however, European exports to the US rose only 7 percent above the first half of 1956 while imports rose 32 percent.2/ This development was closely linked to the Suez crisis. Table 27 shows the extraordinary manner in which European imports from the US increased during the period of the Suez Crisis, and indicates that more normal

1/ Survey of Current Business, September 1957. p. 15

2/ Table 26, attached, shows US international transactions with Western Europe, 1956 and first half of 1957 by quarters.

growth rates are now operative.1/

Table 27. Increase in European Trade with the US
(Percentages show changes from same month of previous year.)

	US Exports to Europe		US Imports from Europe	
January 1956	+ 15		+ 47	
February 1956	- 4		+ 25	
March 1956	+ 6		+ 4	
April 1956	+ 18		+ 21	
May 1956	+ 36	Unweighted Average + 18	+ 25	Unweighted Average + 21
June 1956	+ 37		+ 17	
July 1956	+ 2		+ 30	
August 1956	+ 28		+ 15	
September 1956	+ 36		+ 9	
October 1956	+ 18		+ 28	
November 1956	+ 14		+ 13	
December 1956	+ 78		+ 20	
January 1957	+ 46	Unweighted Average + 60	+ 13	Unweighted Average + 13
February 1957	+ 43		- 4	
March 1957	+ 74		+ 22	
April 1957	+ 35		+ 30	
May 1957	+ 14		+ 11	
June 1957	+ 8	Unweighted Average + 13	+ 6	Unweighted Average + 11
July 1957	+ 26		+ 14	
August 1957	+ 7		- 2	
September 1957	- 11		+ 8	

SOURCE: US Department of Commerce.

Europe in particular benefited from the increase in US private direct investment abroad, receiving $450 million from this source in 1956 as against $129 million in 1955 and $50 million in 1954. During the first half of 1957, the total was $161 million.

For 1956 as a whole, Europe increased gold reserves and dollars holdings by $1.1 billion. The gain was concentrated almost exclusively during the first nine months of the year.2/ Reserves, which had reached a level of $16,951 million at the end of the third quarter, rose by only $10 million during the fourth quarter. This was despite a drawing of $562 million by the UK from the IMF. Without this mobilization of secondary reserves, a fourth quarter decline of $552 million would have occurred.

1/ Table 28, attached, shows US trade with Europe on a monthly basis from January 1955 through June 1957.

2/ Table 29, attached, shows European gold reserves and dollar holdings quarterly from June 1956.

During the first quarter of 1957, European reserves declined by $195 million despite IMF drawings of $100 million by France and $127.5 million by India (which at least temporarily served to swell the UK balance). During the second quarter an increase of approximately $350 million was achieved. European long-term investment in the US has continued throughout the period. During 1956 and the first half of 1957 it aggregated $646 million.

The weakness in reserves had not been general. During the period from the end of September 1956 to the end of March 1957, Germany gained $520 million of gold and dollar reserves, Austria $26 million, Denmark $12 million, Greece $28 million, Norway $12 million, Portugal $9 million, and Sweden $27 million. Weakness has been apparent primarily in the UK and French accounts. The pressure on UK reserves was caused by speculation against the pound during the European oil crisis following the closure of the Suez Canal. The pressure was not caused by weakness in the current account. The IMF, in approving the British drawing and standby arrangement in December, concluded that the trading position of the UK had been and continued to be sound. The pressure reflected a decline in confidence causing remittances of sterling to be delayed and payments through sterling to be accelerated. Since sterling serves as a means of payments for half the world's commercial transactions, it is a currency particularly susceptible to these influences.

UK reserves were also reduced by purchases by UK residents of dollar securities. While purchases were limited to within the sterling area, many of the securities were currently being imported into the sterling area for dollars, and thus weakened the UK reserve position. This practice is estimated to have cost the reserves some $200 million in the first half of 1957 before the UK authorities tightened exchange control regulations to halt it. The measures taken by the UK temporarily halted the hemorrhage of reserves, but there was no tendency for the capital that was withdrawn to return. A second wave of speculation against the pound which reached its peak in August-September 1957 has subsequently been halted and reserves have risen.

The French loss of reserves began earlier--in the second quarter of 1956--and was caused by a number of factors, including the boom in industrial activity, extraordinary food import requirements due to the preceding severe winter and poor harvest, expenditures in Algeria, and costs associated with the Suez affair and the oil crisis. As a consequence of these conditions French imports rose $865 million in 1956 while exports, which in 1955 rose $617 million, fell $256 million in 1956. In 1956 France had an import surplus of $1,012 million as against an import surplus of $110 million in 1955. Less than $200 million of this deterioration was in trade with the US. The deterioration in France's balance of payments not only continued in the first half of 1957 but gathered momentum. Gold reserves and dollar holdings fell nearly $1 billion during 1956 and the first half of 1957. In addition, the French Stabilization Fund lost other foreign exchange estimated unofficially at $200-300 million. This was despite a $262.5 million credit from the IMF and an increase in debts to the EPU from

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$139.7 to $356.8. The recent measures taken by the French Government are intended to end the drain of reserves.

C. Conclusion

Recent revival of talk of a general "dollar shortage" resulting from the renewal in 1956-1957 of a US balance of payments surplus with the world is misleading. A few important countries have lost substantial amounts of gold and dollars, but these losses are largely to be accounted for by temporary factors. At the same time, some countries, notably Germany and Venezuela, achieved substantial gains, including in some cases sizeable gains from other foreign countries. The problems of those countries that have been losing foreign exchange are clearly general problems in their own economies rather than dollar problems.

IV. FACTORS LIMITING EUROPEAN EXPORTS TO THE US[1]

It should go without saying that one necessary factor for the sale of European exports in the US is competitive pricing. Obviously, if European goods are not competitive, they will not sell. The contrary proposition, however, is not necessarily true. It generally takes a good deal more than price advantage to sell significant quantities of imports in the large and difficult US market.

Even if European goods were competitively priced in a free market sense, certain government policies in Europe and the US work to limit sales of such goods in the US market. In addition, differences in scale, in commercial practices, and in entrepreneurial outlook tend to limit European exports.

Given the variety and strength of these limiting factors, the most significant single fact is that European exports to the US have reached almost twice the 1938 level in volume and that since 1947 they have quadrupled in value. Exports are the largest single source of European dollar supply, and further increases of European exports to the US are a virtual prerequisite for achievement of an easier European dollar balance.

To the extent that European governmental policies have perpetuated soft markets at home and preferential markets overseas, exports to the US of even competitively priced goods have been limited. Why should a European exporter expend extra effort to sell in the US market, when equal or greater yields are obtainable in established markets?

Antiinflationary measures taken by some European countries in recent years, as in the UK, have doubtlessly contributed to the successful efforts in expanding sales in the US. When purchases of consumers' goods in the UK were curtailed through higher purchase taxes and stricter controls on installment buying a considerable incentive was provided to British manufacturers to seek greater overseas markets. Furthermore import restrictions

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1/ The principle legal factors attributable to US policies, have been described in Liberalization of Europes Dollar Trade, OEEC, June, 1957, pp41-48. The present amplified discussion of these factors is intended for convenience of reference and as responsive to the terms of reference for a study of this background of the "dollar problem" as originally formulated by the Economic Committee of the OEEC. The somewhat discouraging tone of this section is due in part, at least, to the stress in the OEEC terms of reference to "limiting" factors rather than the progress so far made.

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Intelligence Report

No. 7616

26

EUROPE'S DOLLAR BALANCE

EUR/3/00

DEPARTMENT OF STATE

Office of Intelligence Research and Analysis

Prepared by
Division of Research and Analysis for Western Europe
and
Division of Functional Intelligence
December 11, 1957

In the preparation of this paper, INR has benefitted from the comments of interested offices within the Department of Treasury, the Department of Commerce, the Federal Reserve Board, the International Co-operation Administration and the Bureaus of European Affairs and Economic Affairs within the Department of State. Responsibility for the paper is, however, entirely INR's and these other offices do not necessarily agree with all parts of it.

THIS IS AN INTELLIGENCE REPORT AND NOT A STATEMENT OF DEPARTMENTAL POLICY

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Working Group
Gold & Dollar Assets in t.
U.S. of ERP Countries"

Globe-Wernicke Cincinnati
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January 19, 1948

My dear Senator (Vandenberg):

Mr. Wilcox of your office has requested the Department of State to provide information about French gold and dollar hoardings, French assets in the United States, and appropriate ways of assisting the French Government to obtain control of these assets so that it may be able to use them to finance part of the Recovery Program.

Attached is a preliminary report (not heretofore published) on all E.R.P. countries' gold and short-term dollar resources as of October 31, 1947. Enclosed also are copies of two related papers that were submitted recently by the National Advisory Council to the Senate Finance Committee. The first of these papers states the holdings of gold and of short-term dollar assets by all foreign countries as of June 30, 1947, and also discusses the factors that determine the amount of such reserves that a country needs to hold /NAC Document 547/. The second is a tabulation that shows also the long-term dollar assets of E.R.P. countries and their nationals as of June 30, 1947 /NAC Document 559/.

The marshalling of gold and dollar assets by countries participating in the European Recovery Program presents problems which have been under serious consideration by the Department of State and the other agencies represented in the National Advisory Council. The great obstacle to effective marshalling measures in France is the fact that the owners of substantial amounts of these assets have successfully concealed their ownership from the French Government. A considerable part of the concealed assets consists of deposits and securities and other long-term investments which could readily by located by the U. S. Government on the basis of a set of reports on all foreign-owned assets in this country which the U. S. Treasury collected in 1941. The French-owned assets on which data are available to the U. S. Government were estimated as of June 30, 1947 to include $225 million of securities, $240 million of other long-term assets, and $210 million of bank deposits and other short-term assets. Of these totals, possibly $100 to $150 million consist of assets which are of types that could be readily mobilized and which belong to French citizens but are unknown to the French Government. In addition, however, an unknown amount of the assets in Swiss names are believed to be actually French-owned.

Such assets were blocked during the war by the U. S. Government. Originally the main purpose of blocking them was to prevent the Nazis from obtaining control and using them. After the war, machinery was set up whereby a Frenchman desiring to have U. S. assets in his name unfrozen had to obtain a certification from the French Government as to his ownership of these assets and as to the absence of any enemy interest in them. Pre-war French assets which are being concealed from the French Government have therefore remained blocked by the U. S. Government. Assets in Swiss names have similarly been blocked. In this latter case, unfreezing would require certification by the governments both of Switzerland and of any other country (e.g. France) whose nationals were named in the Swiss certification as having an interest. Thus, where assets in Swiss names belong in fact to French owners who are intent upon concealing them from the French Government, the assets have remained frozen, but the problem of mobilizing such assets is complicated by the fact that their French ownership may be unknown to both the French and United States Governments.

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Various measures have been under study by agencies of the Executive branch to determine a basis which would be satisfactory, in view of all the complicated circumstances of law and business practice involved, under which the U. S. Government might turn over its lists of holders to their governments or might proceed in other ways to require that the assets be made available to the governments concerned. Such studies are still in progress, but it is hoped that some reasonably satisfactory conclusion will be reached very soon. Any solution to be adopted for the handling of French assets in the U. S. will probably be applicable also to the assets of other E.R.P. recipient countries. As Secretary Snyder stated before the Senate Committee on Foreign Relations on January 14, he will be glad to appear again as soon as a program is ready for presentation.

The amount of gold hoarded by French nationals is believed to be substantial, notwithstanding the fact that the holding of gold has been illegal under French law for several years. There are, of course, no reliable statistics on the subject. Some writers have expressed the belief that the amount of such hoarded gold is equivalent to $3 billion or more, but no convincing evidence to support such beliefs has come into the possession of this Government. These beliefs are not supported by calculations based on known gold production, amounts that have gone into monetary reserves, and amounts that have gone into industrial and other consumption. Such calculations, however, are also unreliable for such reasons as the uncertainty that exists regarding the amounts of gold moving from or into the hoards of India and the Middle East.

The problem of making the hoarded gold (whatever its amount) available to the French economy, presents a difficult problem. The solution seems clearly to depend upon the restoration of stability and of confidence that such stability will persist in France for a long time, rather than upon the use of force or legal sanctions. Monetary and financial stabilization is therefore a first prerequisite. For the next several years, however, a considerable reluctance to dishoard will certainly persist, due to political uncertainties and due also to the impossibility of any guarantee that the country will receive whatever amount of external assistance it may need to finance its import requirements throughout the recovery process. In the absence of assurances on both these subjects, there could hardly be the degree of confidence in France's economic future that would appeal to the mentality of a gold hoarder. It would seem unwise, therefore, to count on any substantial dishoarding of gold to contribute to the financing of the E.R.P. during the next two years or more.

There is also some hoarding of U. S. currency in France. The amount is unknown; it may perhaps be of the order of $100 million. In general, the problem of making these dollars available to the French economy is the same as the problem of hoarded gold. Theoretically, there is also the possibility of bringing such dollar currency out of hoards by this country's undertaking a conversion program that would make this old currency worthless or nonnegotiable after a certain date. However, because of the length of time needed to prepare a new currency in the quantity that would now be needed, and the great administrative difficulties and costs that such a program would involve, it seems probable that any contribution that such a program could make to the financing of the E.R.P. would be outweighed by the various practical obstacles.

If you or your Committee want further information on any of the above matters, I hope you will communicate further with this office and we shall be glad to provide any possible assistance.

Very truly yours,

January 19, 1948.

Preliminary Report on ERP Countries' Gold and Dollar Balances, End of October 1947

At the end of October 1947, the gold and short-term dollar resources of the countries proposing to participate in the European Recovery Program totaled about $8.1 billion. Of this total, Switzerland, Portugal and Turkey held about $2.4 billion, the United Kingdom about $2.6 billion, and the remaining countries about $3.1 billion. The appended table gives the available preliminary figures for individual countries. 1/

Most of these resources constituted reserves needed by their holders to finance the current flow of international trade or to back their currencies. The holdings of the United Kingdom also constituted, in a sense, the reserves of the other sterling area countries to which the United Kingdom is indebted. About $1.5 billion of the holdings of Switzerland, Portugal and Turkey, however, constituted reserves which might be judged to be above the holders' minimum needs.

At the end of June the total holdings of all the participating countries had been about $8.7 billion. The loss by this group of countries during the four months from June 30 to October 31 was about $570 million. Of this loss, over $200 million was borne by France and over $100 million each by the United Kingdom and Sweden. The reserves of many European countries are below the levels that prudence would require them to keep.

Partial data for the period since October 31 indicate that gold holdings of the participating countries had a further net decline of about $220 million during November and December. The major part of this loss represented sales by the United Kingdom. No adjustment has been made in the figures for the proposed loan of $325 million from South Africa to the United Kingdom, which has not yet been completed.

Approximately $320 million of gold was held at the end of October 1947 by the Tripartite Commission for the Restitution of Monetary Gold. In the attached table this is reported as German holdings. During November the Commission transferred $104 million of gold to the French Government and $40 million to the Netherlands. It also set aside $30 million of gold for transfer to Austria and $4 million for transfer to Italy. The Commission has not yet determined the distribution of its remaining gold or of such additional gold as it may obtain through negotitations now in progress.

For a discussion of factors that determine the amount of gold and dollars that a country needs, reference is made to the enclosed copy of a report on Foreign Countries' Gold and Short-Term Dollar Resources as of June 30, 1947, which was recently submitted by the National Advisory Council to the Senate Committee on Finances.

1/ These figures cover all official gold stocks (using available estimates where figures are not officially published) and both official and private dollar balances as reported by bankers in the U. S. to Federal authorities; the figures do not, however, include gold and U. S. dollar notes that may be privately hoarded in foreign countries. No deduction has been made for foreign countries' gold and dollar liabilities.

Gold and Short-term Dollar Resources of Foreign Countries Participating in European Recovery Program as of October 31, 1947

(In millions of dollars)

Country	Gold 1/	Dollar Balances 2/ Official	Private	Total
Austria	10	2	3	15
Belgium & Luxembourg 3/	615	27	150	792
Denmark	32	15	34	81
Eire	11	3	18	32
France 3/	510	125	172	807
Germany	320	46	29	395
Greece	20	30	19	69
Iceland	1	1	3	5
Italy	60	46	105	211
Netherlands 3/	215	50	138	403
Norway	75	25	51	151
Portugal & dependencies	335	19	31	385
Sweden	101	13	74	188
Switzerland	1,389	49	356	1,794
Turkey	169	7	33	209
United Kingdom 3/	2,190	40	369	2,600
TOTAL	6,050	498	1,585	8,135

Note: Most of the above figures are preliminary and are subject to correction.

1/ Official gold holdings; for countries whose holdings have not been published available estimateshave been used.

2/ Deposits and other short-term dollar resources, as reported by banks and bankers in the United States to the Federal Reserve Banks and the U. S. Treasury. "Official" balances are those belonging to foreign governments, their agencies, and central banks, while "private" balances are the remainder held by commercial banks, business firms, individuals and others.

3/ Figures for these countries include dependencies that are included in their International Monetary Fund quotas; they do not include French Indo-China, Netherlands Indies, nor any British dominions.

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Gold and Dollar [illegible]
of Foreign Countries
(Amounts in millions of dollars)

	Minimum Monetary Reserves a/	Minimum Trade Working Balances b/	Total Monetary and Trade Requirements	Actual Holdings of Gold and Dollars as of 3/31/47	Residual Surplus	Residual Deficit	~~Residual Surplus~~	~~Residual Deficit~~	Gold Contribution to International Monetary Fund	Quota in Internat[ional] Monetary
British Commonwealth (and other sterling area countries)										
United Kingdom	1809	1359	3168	2619		549			210.4	1300
Other countries covered by United Kingdom quota in International Monetary Funds	190	330	520	62		458				
Australia	179	138	317	130		187				200
New Zealand	85	23	108	33		75				
India	1014	154	1168	315		853			27.5	400
Eire	41	33	74	29		45				
Egypt	257	47	304	73		231			5.5	45
Iraq	39	10	49	3		46				8
Iceland	10	11	21	15		6			.3	1
Total	3624	2105	5729	3279		2450				
Canada and Newfoundland	423	522	945	1091	146				75.0	300
Union of South Africa	206	252	458	847	389				25.0	100
Total British Commonwealth	4253	2879	7132	5217	535	2450				
Net Deficit						-1915				

a/ Twenty-five percent of note circulation and demand liabilities of banks of issue.

b/ Twenty-five percent of imports of goods and services from foreign countries.

Gold and Dollar Resources and Requirements
of Foreign Countries
(Amounts in millions of dollars)

	Minimum Monetary Reserves a/	Minimum Trade Working Balances b/	Total Monetary and Trade Requirements	Actual Holdings of Gold and Dollars as of 3/31/47	Residual Surplus	Residual Deficit	~~Residual Surplus~~	~~Residual Deficit~~	Gold Contribution to International Monetary Fund	Quota in International Monetary
Europe:										
Belgium-Luxembourg & Belgian Congo	467	346	813	857	44				56.6	235
France & colonies	2156	683	2839	1080		1759			79.5	525
Netherlands & Neth.West Indies	350	238	588	546		42			68.7	275
Austria	220	50	270	10		260				
Czechoslovakia	275	82	357	37		320			1.4	125
Denmark	176	160	336	94		242			5.5	68
Finland	45	54	99	31		68				
Greece	42	65	107	59		48				40
Hungary	36	9	45	42		3				
Italy	440	250	690	278		412				180
Norway	161	200	361	180		181			12.5	50
Poland	84	112	196	77		119				125
Portugal	164	77	241	453	212					
Spain	581	224	805	130		675				
Sweden	185	290	475	430		45				
Switzerland	300	282	582	1818	1236					
Yugoslavia			91	91						60
Germany			269	269						
Rumania			281	281						
USSR			2558	2558						
Other Europe			187	187						
Total Europe	5682	3122	12190	9508	1492	4174				
Net Deficit						-2682				

a/ Twenty-five percent of note circulation and demand liabilities of banks of issue.

b/ Twenty-five percent of imports of goods and services from foreign countries.

Gold and Dollar Resources and Requirements of Foreign Countries
(Amounts in millions of dollars)

	Minimum Monetary Reserves a/	Minimum Trade Working Balances b/	Total Monetary and Trade Requirements	Actual Holdings of Gold and Dollars as of 3/31/47	Residual Surplus	Residual Deficit	Residual Surplus	Residual Deficit	Gold Contribution to International Monetary Fund	Quota in International Monetary Fund
Asia:										
Iran	97	42	139	141	2				6.3	25
Netherlands Indies	66	34	100	315	215					
Philippine Islands	96	90	186	449	263				3.8	15
Siam	50	12	62	50		12				
Syria and Lebanon	38	30	68	15		53			.2 c/	11
Turkey	102	39	141	289	148				10.8	43
China			438	438						550
Japan			225	225						
Other Asia			48	48						
Total Asia	449	247	1407	1970	628	65				
Net Surplus					563					
Latin America:										
Argentina	398	189	587	1055	468					
Bolivia	11	13	24	35	11					10
Brazil	275	268	543	482		61				150
Chile	37	73	110	104		6			8.9	50
Colombia	35	66	101	178	77				12.5	50
Costa Rica	5	10	15	11		4			.3	5
Cuba	85	104	189	385	196				12.5	50
Dominican Republic	d/	8	8	22	14					5
Ecuador	13	9	22	37	15				1.3	5
Guatemala	14	10	24	55	31				1.3	5
Haiti	2	7	9	17	8					
Honduras	d/	6	6	4		2				2.5
Mexico	138	174	312	288		24			22.5	90
Nicaragua	3	5	8	8					.5	2
Panama	d/	14	14	73	59					.5
Paraguay	4	6	10	5		5			.5	2
Peru	44	44	88	54		34			3.2	25
Salvador	7	6	13	35	22				.6	2.5
Uruguay	40	41	81	214	133					15
Venezuela	54	69	123	282	159				3.8	15
Unidentified				53	53					
Total Latin America	1165	1122	2287	3397	1246	136				
Net Surplus					1110					
Other countries			33	33					e/	6 e/
Grand Total	11549	7370	23049	20125	3901	6825				
Net Deficit						-2924				

a/ Twenty-five percent of note circulation and demand liabilities of banks of issue.
b/ Twenty-five percent of imports of goods and services from foreign countries
c/ Gold contribution by Syria.

... Foreign Countries

(Amounts in millions of dollars)

	Minimum Monetary Reserves a/	Minimum Trade Working Balances b/	Total Monetary and Trade Requirements	Actual Holdings of Gold and Dollars as of 3/31/47	Residual Surplus	Residual Deficit	Residual Surplus	Residual Deficit	Gold Contribution to International Monetary Fund	Quota in International Monetary Fund
	97	42	139	141	2				6.3	25
ands Indies	66	34	100	315	215				[illegible]	
ine Islands	96	90	186	449	263				3.8	15
	50	12	62	50		12				
d Lebanon	38	30	68	15		53			.2 c/	11
	102	39	141	289	148				10.8	43
			438	438						550
			225	225						
ia			48	48						
Asia	449	247	1407	1970	628	65				
rplus					563					
ica:										
a	398	189	587	1055	468					
	11	13	24	35	11					10
	275	268	543	482		61				150
	37	73	110	104		6			8.9	50
	35	66	101	178	77				12.5	50
ca	5	10	15	11		4			.3	5
	85	104	189	385	196				12.5	50
n Republic	d/	8	8	22	14					5
	13	9	22	37	15				1.3	5
	14	10	24	55	31				1.3	5
	2	7	9	17	8					
	d/	6	6	4		2				2.5
	138	174	312	288		24			22.5	90
	3	5	8	8					.5	2
	d/	14	14	73	59					.5
	4	6	10	5		5			.5	2
	44	44	88	54		34			3.2	25
	7	6	13	35	22				.6	2.5
	40	41	81	214	133					15
	54	69	123	282	159				3.8	15
ied				53	53					
atin America	1165	1122	2287	3397	1246	136				
plus					1110					
ntries			33	33					e/	6 e/
otal	11549	7370	23049	20125	3901	6825				
icit						-2924				

Twenty-five percent of note circulation and demand liabilities of banks of issue.

Twenty-five percent of imports of goods and services from foreign countries.

c/ Gold contribution by Syria.

d/ United States dollar used as monetary standard.

e/ Ethiopia paid gold contribution: $14000.

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United States Cash Trade Balance 1/ by Areas and Countries
(Millions of Dollars)

	Annual Average 1936-38	1946 Total	Annual Rate 1947 2/
Total All Countries	477.7	3,132.5	8,603.4
Canada	180.9	557.1	1,057.5
Other Northern North America	2.1	- 0.2	34.2
Latin America	- 28.7	389.9	1,891.6
Argentina	- 2.5	- 1.2	348.9
Brazil	- 47.9	- 94.5	278.5
Chile	- 12.2	- 6.9	26.4
Cuba	- 48.4	- 90.9	- 16.3
Mexico	20.0	272.0	403.8
Other Latin America	51.6	291.4	850.3
Europe	532.5	1,896.2	4,395.7
Belgium	15.4	193.6	410.9
France	77.7	448.8	868.9
Germany	32.9	76.6	149.2
Italy	21.5	78.2	237.9
Netherlands	36.3	175.8	385.0
Sweden	6.7	159.1	390.1
Switzerland	- 14.2	9.8	111.2
United Kingdom	325.4	581.1	1,049.2
U.S.S.R.	23.4	- 37.3	42.3
Other Europe	4.2	207.5	656.6
Asia	- 249.7	247.7	623.7
British Malaya	- 186.8	- 113.5	- 327.8
China	- 31.3	209.1	107.3
India	- 40.2	- 66.9	178.2
Japan	76.6	- 8.0	- 5.8
Netherlands Indies	- 62.5	37.6	97.7
Philippine Islands	- 30.0	254.8	284.2
Turkey	- 4.0	- 31.7	9.4
Other Asia	8.5	- 33.7	289.7
Africa	62.1	158.4	520.2
Union of South Africa	64.2	78.8	331.6
Other British Africa	- 17.0	- 26.0	- 50.8
French Africa	2.9	108.6	131.2
Other Africa	12.0	- 1.0	106.2
Oceania	50.5	- 70.6	69.5
Australia	41.9	- 65.6	29.1
Other Oceania	8.6	- 5.0	40.4

1/ Total U.S. exports, less UNRRA and Lend-Lease exports, less general imports
2/ Based on January-May, multiplied by 2.4

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TABLE I

United States Cash Exports1/, by Areas and Countries
(Millions of dollars)

	Annual Average 1936-38	1946 Total	Annual Rate 1947 2/	1947 as a percentage of 1936-38
Total All Countries	2,966.6	8,073.1	14,358.7	484
Canada	453.7	1,439.3	2,060.3	454
Other Northern North America	8.4	32.8	60.7	723
Latin America	564.6	2,216.7	4,210.8	772
Argentina	79.3	193.1	526.9	664
Brazil	59.9	393.5	729.3	1,218
Chile	21.4	77.0	131.3	614
Cuba	78.7	272.1	488.3	620
Mexico	82.5	506.7	666.7	808
Other Latin America	222.6	816.3	1,668.3	749
Europe	1,242.8	2,652.4	5,139.9	414
Belgium	77.0	236.0	466.1	605
France	142.6	911.6	918.8	644
Germany	111.8	77.8	153.6	137
Italy	64.7	146.9	382.3	591
Netherlands	81.2	198.7	406.2	500
Sweden	57.3	206.2	449.5	784
Switzerland	9.3	108.3	195.5	2,102
United Kingdom	499.2	737.5	1,246.1	250
U.S.S.R.	48.7	63.3	94.6	194
Other Europe	151.0	366.1	827.2	548
Asia	498.5	1,155.3	1,803.2	362
British Malaya	7.6	13.3	54.2	713
China	43.7	301.8	243.9	558
India	34.7	170.7	422.8	1,218
Japan	244.2	101.9	29.0	12
Netherlands Indies	22.1	71.4	132.1	598
Philippine Islands	77.3	294.5	455.6	589
Turkey	11.5	36.6	88.6	770
Other Asia	57.4	165.1	377.0	657
Africa	128.2	461.9	809.4	631
Union of South Africa	76.3	227.4	416.3	546
Other British Africa	13.0	31.2	78.5	604
French Africa	12.8	125.0	152.6	1,192
Other Africa	26.1	80.3	162.0	621
Oceania	90.6	112.7	274.4	303
Australia	67.0	79.9	198.5	296
Other Oceania	23.6	32.8	75.9	322

1/ Total exports of domestic and foreign merchandise, less UNRRA and Lend-Lease exports, for which see Table 4.
2/ Based on January-[illegible] exports, multiplied by 3.4

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TABLE 2

United States General Imports, by Areas and Countries
(Millions of dollars)

	Annual Average 1936-38	1946 Total	Annual Rate 1947 1/	1947 as a percentage of 1936-38
Total All Countries	2,488.9	4,934.6	5,759.3	231
Canada	344.8	882.2	1,002.8	291
Other Northern North America	6.3	33.0	26.5	421
Latin America	573.1	1,424.8	2,319.2	405
Argentina	81.8	194.3	178.0	218
Brazil	106.9	408.0	450.8	422
Chile	33.6	83.9	104.9	312
Cuba	127.1	323.0	504.6	397
Mexico	52.7	232.7	262.9	499
Other Latin America	171.0	584.9	818.8	478
Europe	720.3	736.2	766.2	106
Belgium	58.6	77.4	55.2	94
France	64.9	62.8	55.5	86
Germany	78.9	3.2	4.4	6
Italy	43.2	68.7	44.4	103
Netherlands	44.9	22.9	21.2	47
Sweden	50.6	47.1	59.4	117
Switzerland	23.5	98.5	84.3	359
United Kingdom	173.8	156.4	196.9	113
U.S.S.R.	25.1	100.6	52.3	208
Other Europe	146.3	158.6	170.6	116
Asia	748.2	907.6	1,163.4	156
British Malaya	174.4	126.3	381.2	219
China	75.0	92.7	136.6	182
India	74.9	237.6	244.6	327
Japan	167.6	109.9	34.8	21
Netherlands Indies	84.6	32.8	34.4	41
Philippine Islands	107.3	39.7	171.4	160
Turkey	15.5	68.3	79.2	511
Other Asia	48.9	198.8	87.3	179
Africa	66.1	291.5	286.2	432
Union of South Africa	12.1	150.6	77.7	642
Other British Africa	30.0	57.2	129.3	431
French Africa	9.9	16.4	21.4	216
Other Africa	14.1	63.3	57.8	410
Oceania	40.1	163.3	204.9	511
Australia	25.1	125.5	169.4	675
Other Oceania	15.0	37.8	35.5	237

1/ Based on January-May multiplied by 2.4

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these two factors cannot be known more than a few months ahead, and this suggests the need for annual appropriations. Assuming present funds can be stretched to cover necessities until the year end a reasonable present estimate of funds needed for the first six months of 1948 is about $1\frac{1}{2}$ to 2 billion dollars. Since funds used in this way do not add, save indirectly, to the capacity of the recipient to repay, and for the sender are replaceable, it would seem realistic for them to take the form of grants rather than loans.

(b) Occupied areas. Appropriations for occupied areas both for relief and for other economic aid are included in the military budgets. There is doubt, however, whether these amounts are adequate to finance a program which will lead to self support. They appear to be limited more closely to maintaining the present situation. Probably a modest additional amount of funds put into these channels accompanied by wise economic policies would assure earlier self support. The German production of coal in the Ruhr is perhaps the most critical situation in Europe for it is the key to self support in Germany and increased production in France.

(c) The United Kingdom. Partly due to exceptionally unfavorable weather conditions, partly due to inadequate economic policies, and partly to difficulties in restoring currency convertibility, the loan to Britain is nearly used up. Britain's requirements are the largest single item in the European aid program. It must be determined whether this need can be met as a part of the general requirement set forth in paragraph (a) above.

(d) China. China again is a case by itself. Unless a program is agreed upon which offers prospect of success no amount of money would be effective. If, on the other hand, a sound economic program is presented the situation may come within the charter of the International Bank for Reconstruction and Development.

(4) The Marshall Plan and the Budget

The goods supplied to Europe under the Marshall Plan have to be paid for; farmers and manufacturers cannot be expected to contribute their products. This means that to the extent aid is financed by government money it becomes a charge against the national budget and becomes in this way a factor in fiscal policy and in the national economy.

A major principle underlying the program is that the funds required for the Marshall Plan must be provided within a balanced budget so as to show a surplus.

This country, and in fact the world, is in the midst of a great inflationary movement which arises directly from the volume of money created by war financing, accompanied by dislocations of enterprise, so that the balance between money and goods has been distorted. The return of the world to economic sanity is dependent on restoring a balance between money and goods. This means in particular that countries must balance their budgets and stop deficit financing.

Since the United States is today the economic key of the civilized world, we must pursue policies in this country which will bring about economic stability. We shall be asking other countries to stabilize their currencies, which will mean balancing their budgets and reducing their excess money supply; and we ourselves must exercise leadership.

Thus, our responsibilities for other countries must be kept in relationship with our domestic responsibilities for a sound and dynamic economy. What we spend abroad must somehow be fitted into our domestic budget. If the foreign expenditures should run into large figures, consideration needs to be given to an offsetting reduction in other costs of Government or to the levying of additional taxes to cover these added expenditures.

The government budget for the current fiscal year reported August 20 shows a prospective surplus of 4.7 billion dollars, presumably available for debt retirement, for any tax reduction, and for any additional foreign lending or other contingencies. It should, of course, be noted that the budget already makes provision of 4.3 billion dollars for international affairs and finance, exclusive of the amounts that are available through the Monetary Fund and the International Bank. This 4.3 billion dollar item is approximately 800 million dollars larger than was included in the President's earlier budget estimate in January, 1947. The increase is the inclusion of 320 million dollars aid to Greece and Turkey and a 500 million dollar increase in the estimated use of the British loan. The breakdown is shown in Table 3.

respect to our foreign trade, and with respect to the demands on our commodity markets. An extra billion dollars or an extra hundred million bushels may tip

Table 3 - ESTIMATED EXPENDITURES FOR INTERNATIONAL AFFAIRS AND FINANCE IN 1947-48 BUDGET

Revised Estimates Included in the President's August Review of the 1948 Budget

(in millions of dollars)

Reconstruction and Stabilization	
Treasury Loan to United Kingdom	1,700
R.F.C. Loan to United Kingdom	-40
Export-Import Bank Loans	650
U. S. Commercial Company	74
Greek-Turkish Aid	320
Foreign Relief	
United Nations Relief and Rehabilitation Adm.	251
Post-UNRRA Aid	257
Occupied Areas (War Department)	661
Other *	428
	4,301

* Includes Philippine Aid, Membership in International Organizations, and Foreign Relations sub-functions.

respect to our foreign trade, and with respect to the demands on our commodity markets. An extra billion dollars or an extra hundred million bushels may tip

In considering any further appropriations for foreign aid it should be noted that the $4.7 billion estimated surplus is predicated on a continuance of very active business, which of course is not assured.

(5) General Principles for Financing Additional Aid

From the foregoing it appears clear that additional aid which may be given to Europe under the Marshall Plan should conform to four broad general principles.

First, we must help Europe to help itself, through developing its own resources and opening up the channels of private trade and financing. Confidence in the goodness of currencies is a first essential step, and this in turn means balancing budgets and stopping government borrowing from central banks.

Second, there must be encouragement of private capital to go to work in Europe. In addition to currency stability this means the reduction of endless restrictions and regulations, a freer movement of men and money, and at least a clarification of the extent of nationalization. It means also setting up the machinery of aid in such a way as to stimulate rather than supplant the normal markets.

Third, a clear distinction should be drawn in methods of financing and administration between emergency relief--the food and fuel program, which should diminish rapidly, will call for annual appropriations, and may well take the form of grants in aid,-and reconstruction,-the more permanent building of recovery. In the field of reconstruction we should emphasize the use of more normal channels, should contemplate loans rather than grants, should use various existing international agencies to the full, and above all should use the resources of private enterprise.

Fourth, the impact of the program on the United States must be cushioned. While the amounts involved may seem modest compared with our total resources, they are marginal amounts in the economic sense with respect to our budget, with respect to our foreign trade, and with respect to the demands on our commodity markets. An extra billion dollars or an extra hundred million bushels may tip the scale between stability and inflation. Likewise, the agencies which execute the program must adapt their operations from time to time to the condition of our markets, and always have regard to the essential need for economic stability in the United States as a keystone to world recovery.

If these principles are followed rigorously and persistently and with goodwill there is reason to believe that the United States has the means to meet the critical needs of Europe. By good fortune and foresight there are already in being two international financial agencies, competently manned and ready to operate as certain basic conditions are fulfilled. The United States Government has additional experienced agencies. The greatest gap is in suppling critically needed food and fuel. The funds now required in this area appear to be well within our capacity without violating principles of sound finance.

DEPARTMENT OF COMMERCE

OFFICE OF THE SECRETARY

WASHINGTON 25

PRESIDENT'S COMMITTEE ON FOREIGN AID

October 1, 1947

MEMORANDUM

To: Mr. Paul Dickens

From: William Remington Bill

This is the latest draft of the Burgess memorandum which we talked about on the phone this morning. I would appreciate your comments over the phone or in writing before the end of the day tomorrow, because the Economic and Financial Analysis Subcommittee will meet either in the evening Thursday, or Friday morning.

You can keep this copy. Thanks.

September 25, 1947

Strictly Confidential

FINANCING AID TO EUROPE

The character and amount of funds for further aid to Europe depends on the following:

(1) Gold and dollars now held by other countries and their nationals;

(2) The credit facilities already provided by the United States and other countries for national or international needs;

(3) The gaps which are not covered by these two sources of funds;

(4) The relation between financial requirements and the United States budget and economy;

(5) Suggested general principles for financing additional aid.

These will be reviewed in order.

(1) Gold and Dollars held by Other Countries and Their Nationals

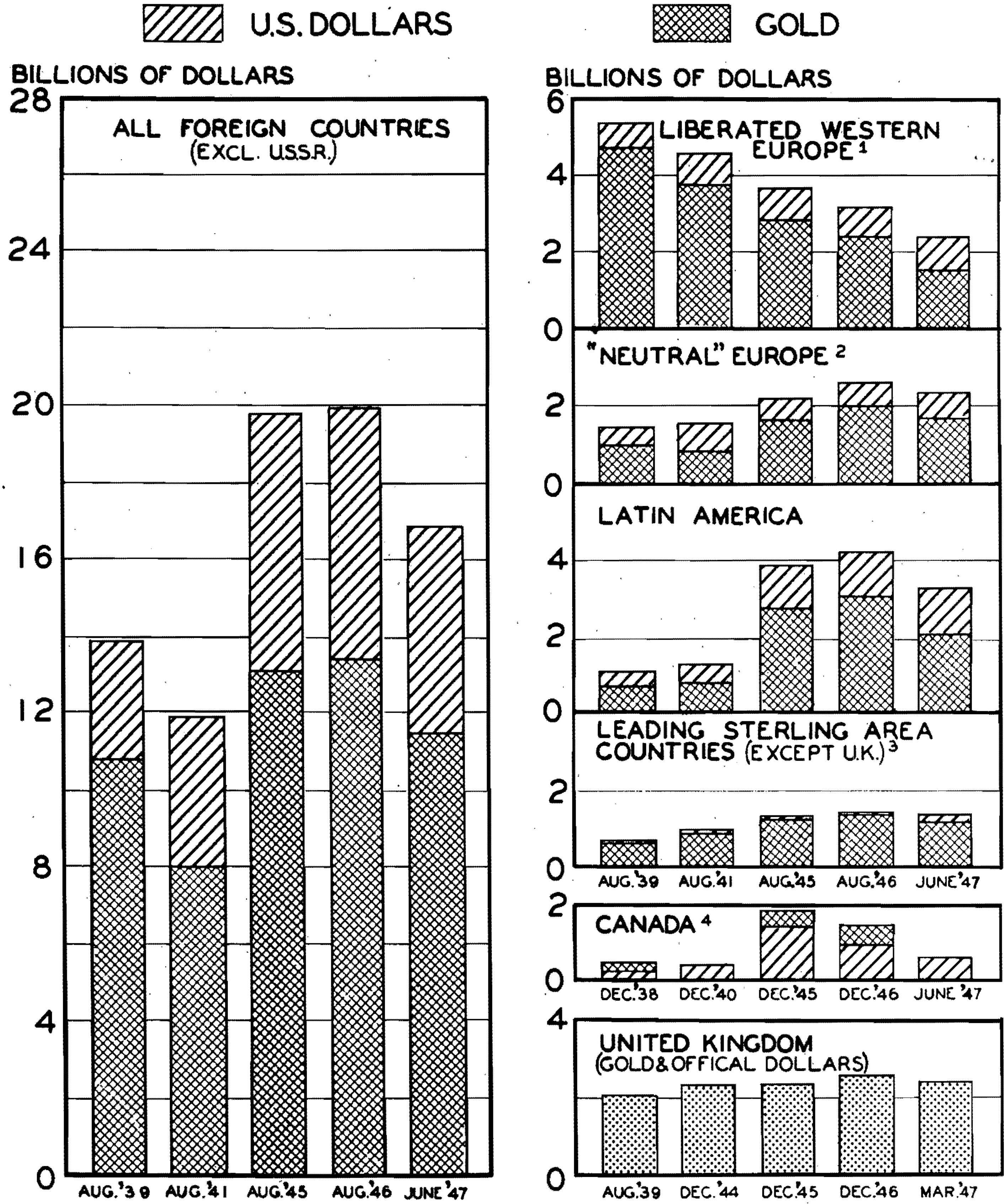
All countries outside the United States (but excluding Russia), after a substantial decline in recent months, hold between 16 and 17 billion dollars of gold and dollar balances. This is exclusive of the holdings of the International Monetary Fund and the International Bank for Reconstruction and Development, and is also exclusive of gold which may be hoarded by the nationals of these countries either at home or abroad and investments abroad. In the case of France, for example, the amount of gold hoarded within the country has been estimated at from one to three billion dollars, and dollar investment holdings of nationals are also substantial.

The amount of foreign investments in the United States has been estimated by our Department of Commerce at approximately 8 billion dollars of which some 3½ billion is stocks and bonds with the rest principally direct investments, and interests in real estate, mortgages, and trust funds. While private ownership and problems of mobilization and liquidation raise a question as to how much of these assets could actually be made available to the governments, the amount of gold and dollar assets held by foreigners, all told, is at least 10 billion above the 16 or 17 billion gold and dollars officially reported.

The changes in officially reported gold and short-term dollar assets over a period of years from 1939 to June, 1947 are shown in the accompanying chart. A further decline has occurred since June, despite the creation of additional dollar assets through heavy drawings on the American credit to England in July and August. On August 7th the British Chancellor of the Exchequer Dalton revealed that Britain's gold and dollar reserves totalled 2,400 million dollars.

These gold and dollar balances represent largely the monetary reserve of these countries against their heavily expanded bank credit. The maintenance of substantial monetary reserves is especially important in view of the need for building confidence in the currencies. Monetary stability is a first need in Europe's utilization of its own resources and adequate reserves will be a part of every program of currency stabilization.

FOREIGN GOLD AND SHORT TERM DOLLAR ASSETS



1. Belgium, Denmark, France, Netherlands, Norway.
2. Portugal, Spain, Sweden, Switzerland.
3. Australia, British Malaya, Egypt, India, New Zealand, Union of South Africa.
4. Canadian gold data not available for 1940 and 1947.

Source: Gold holdings are those of foreign governments and central banks, as estimated by the Federal Reserve Bank of New York. Dollar assets consist of short-term official and private balances as published in the Federal Reserve Bulletin. Data for United Kingdom are as reported from official British sources.

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A second point to note is that the aggregate figures are swollen by large gold and dollar holdings of a number of European neutrals such as Switzerland and Portugal. The breakdown of the figures shows that liberated western European countries as a group have in their official holdings no more reserves than they require and in some cases will need more when they stabilize their money.

A further important point in interpreting the figures is that the availability of privately held gold, dollars, or investments depends on the confidence the nationals of these countries have in the policies their governments follow and especially in the stability of their currencies.

This principle was illustrated in the case of France in the middle '20s. The condition of France appeared to be desperate, but when Poincare stabilized the currency and the government stopped borrowing from the central bank, French money began returning from abroad and coming out of the ground. France went into a period of prosperity with ample funds provided by her own citizens and without the need of any foreign credits.

To put the matter another way, we are all familiar with Gresham's Law which is that "bad money drives out good money." An essential reason for the so-called dollar shortage in many European countries is that there has been a flood of bad money, and this bad money has driven the good money under cover in Switzerland, the United States and elsewhere. The situation cannot be corrected just by supplying dollars, but only by turning the bad money into good money. That means taking the well recognized steps to monetary stability-balancing the budget, reducing the excess money supply, increasing production, and fixing realistic exchange rates.

If further proof of this principle were needed, it is furnished by Belgium in the past two years. Belgium concluded the war with a seriously difficult situation, but proceeded immediately to stabilize her money. The budget was balanced, excess money created in the German occupation was called in, and incentives provided to increase production. As a consequence, as Governor Frere of the Belgium National Bank recently disclosed, Belgian dollar and gold reserves have been on the rise since early this year. Belgian production is back to pre-war, and it has been possible to relax a great many restrictions on trade.

Bad money not only drives out good money but drives out goods. Secretary Marshall in his Harvard address called attention to the unwillingness of farmers to sell their produce for doubtful currencies, thus accentuating shortage of food. Currency stability is a necessary step to the success of any program.

The favorable aspect of this picture is that there are funds in hiding which will come out and get to work when they are given encouragement. In this situation money can be coaxed but not driven.

(2) Credit Facilities Available

Dollars already made available or potentially available to foreign countries under existing credit and grant programs total twenty-three billion dollars. Of this, approximately twelve billion dollars has been drawn down leaving a total of eleven billion dollars thus far un-utilized. The details of these programs are shown in the following table.

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FOREIGN GOLD RESERVES AND DOLLAR BALANCES 1/

End of March 1947 or latest prior date available
(In millions of dollars)

Country	Gold reserves	Dollar balances
Europe		
United Kingdom	2/ 2,245 1375	374
Switzerland	1,430	392
France	2/ 745	226
Belgium	635	179
Portugal	2/ 400	54
Netherlands	340	183
Rumania	270 +	12
Sweden	265	165
Germany	2/ 260	7
Spain	110 +	19 +
Norway	75	105
Yugoslavia	2/ 75 +	15 +
Italy	2/ 60	218
Denmark	30	63 +
Russia	2/ 3/	59
Greece	2/ 20	40
Finland	4/	31
Luxemburg	--	23
Other Europe	255 +	111
Total Europe	5/ 7,215	2,276
Latin America		
Argentina	2/ 875	182
Brazil	355	128
Cuba	235	151
Venezuela	235	47
Mexico	150	139
Colombia	125	52
Chile	55	51
Peru	20	34
Bolivia	20	13
Netherlands West Indies & Surinam	2/ 10	11
Panama	4/	73
Costa Rica	4/	9
French West Indies & Guiana	4/	4
Other Latin America	270	186
Total Latin America	2,350	1,078

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MONETARY GOLD RESERVES AND DOLLAR BALANCES 1/

End of March 1947 or latest prior available
(In millions of dollars)

Country	Gold reserves	Dollar balances
Asia		
Philippine Islands	4/	447
China	3/	343
India, Burma & Ceylon	275	41
Turkey	235	56
Japan	2/ 205	19
Netherlands East Indies	2/ 190	123
French Indo-China	--	39
Hong Kong	--	39
British Malaya	--	7
Other Asia	195	79
Total Asia 6/	1,100	1,193
Other Countries		
Union of South Africa	805	44
Canada	2/ 385	778
Australia	2/ 90	40
Egypt and Anglo-Egyptian Sudan	55	20
New Zealand	25	10
French Morocco	2/ 5	16
All other	30	90
Total Other Countries	1,395	998
Grand Total	7/ 12,060	5,545

Note - Wherever available the information on foreign gold reserves has been taken from official foreign sources. The figures on foreign dollar balances are those collected monthly by the Federal Reserve Banks on behalf of the Treasury Department. The gold and dollar balance figures for individual countries include the monetary reserves provided for under the monetary reserves provided for under the monetary laws of these countries, as well as the dollar balances, both official and private, required for international trade purposes.

1/ Excludes international institutions.

2/ Estimated on the basis of secret or confidential information.

3/ No reliable estimate available.

4/ Less than 2½ million dollars.

5/ Excluding Russia.

6/ Excluding China.

7/ Excluding Russia and China.

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Preliminary

GOLD AND DOLLAR RESOURCES AND REQUIREMENTS OF FOREIGN COUNTRIES

The attached tables present certain preliminary estimates of net dollar and gold resources available to foreign countries to meet extraordinary needs, after deduction of estimated amounts required as minimum monetary reserves and working balances for purposes of international payments. These estimates are based on certain assumptions and are subject to certain limitations, as follows:

1--The monetary reserves have been calculated on the basis of an assumed requirement of 25 per cent of the reported or estimated note circulation and demand liabilities (other than government deposits) of banks of issue. This 25 per cent reserve is the present legal requirement in the United States against Federal Reserve Bank deposits and notes in circulation, having been lowered from a mixed ratio of 35 to 40 per cent in June 1945. The assumed ratio of 25 per cent is considerably lower than the ratio of 40 per cent, which was regarded as the minimum reserve for the purpose of currency stabilization in the period after World War I and is still maintained as the legal reserve requirement in the monetary laws of most countries. However, because of the decline in their reserves and the expansion of their currencies, most countries have been forced to suspend legal reserve requirements and currency convertibility, and to introduce exchange controls.

At the present time, in view of the general abandonment of the gold standard and the adoption of managed currency systems, monetary authorities do not need to hold gold reserves for the purpose of meeting domestic demand for gold payments. The monetary authorities of all countries, however, strive to maintain a stable cover in gold (or dollars) against currency, not only because of its traditional role and its impact on the confidence of the public, but mainly because gold stocks and dollar balances fulfill very important and necessary functions as funds of manoeuver for the stabilization of exchange rates and as reserves against any contingencies in international payments. For these various reasons, governments regard with great preoccupation any decline in the ratio of reserves to the liabilities of the central banks, and introduce restrictions on imports and foreign payments whenever the ratio tends to fall below what they consider as the minimum level in relations to their liabilities and needs.

2--The working balances for international trade have been calculated on the basis of 25 per cent of the estimated value of current payments due by each country (or monetary area) to all other countries for goods and services. This is based on the assumption that each country needs, on the average, a working balance for trading purposes in gold or dollars equivalent to three-months gross payments to other countries--an assumption which can be justified in accordance with business practices, production turnover, and seasonal cycles. In the past, working balances for trading purposes were privately held, separately of monetary reserves; government participation in foreign trade and monopoly of exchange resources has tended to shift working balances from private to official accounts and to add them to the monetary reserves of central banks or exchange authorities.

Admittedly, not all foreign trade is carried out in dollars, but by far the largest proportion of imports of foreign countries is now obtained from the United States or the dollar area, or settled between exporters and importers or the monetary authorities of the various countries in dollars or gold. Contrary to monetary reserves, these gold and dollar balances are currently needed, and while they may be temporarily drawn upon, they could not be permanently reduced or depleted without affecting adversely the flow of international trade.

3--The total gold and dollar resources of each country or group of countries have been calculated by the Federal Reserve Board on the basis of reported statistics, available information, and estimated figures. Because of the variety of sources and difficulties in obtaining reliable and up to date information, it has been impossible to coordinate exactly the date of the gold and dollar resources (given as of March 31, 1947) with the dates of the monetary reserves and the working balances. In general, the monetary reserves have been calculated on the basis of the notes and demand liabilities outstanding on the books of central banks as of most recent date available (generally not earlier than end of 1946 and mostly for middle of 1947); the working balances have been estimated on the basis of the value of imports of goods (including UNRRA supplies) and services by the various countries for the year 1946 and the available months of 1947 (adjusted to annual rate). For a number of countries, no reliable figures of currency and trade could be obtained, and the gold and dollar resources held by them have been entered in the table as adequately covering their minimum requirements. In view of the overall purpose of this statistical tabulation, it is believed that these shortcomings would not affect the general validity of the conclusions.

4--Adjustments have been made for figures of "monetary areas", such as the sterling area, in which a central monetary authority holds all or part of the monetary reserves, the figures of notes and demand liabilities of the banks of issue (or currency boards) of the various members have been combined in order to arrive at a total figure representative of the aggregate outstanding notes and demand liabilities, to be used for the purpose of calculating the monetary reserves required by the entire monetary area. In the case of working balances for international payments, the trade of members of the same monetary area among themselves (for which no foreign balances are needed) has been deducted from the figures of their foreign trade, in order to arrive at a net aggregate figure of the imports of goods and services of the entire area from other countries. Following the same procedure, the gold and dollar resources held by the members of a monetary area have been combined for the purpose of calculating the aggregate gold and dollar resources and the net available balances of the monetary area. [In the case of the sterling area, Egypt (which ceased to be a member of it on July 15, 1947) has been included in view of the fact that it continues to hold its reserves in sterling, whereas the Union of South Africa has been excluded in view of the fact that it holds its reserves in gold.]

5--No attempt has been made to readjust exchange rates, but the par value of the International Monetary Fund, when available, or, in other cases, the rates applied to approved import transactions have been used for conversion purposes. Downward readjustment of overvalued rates, especially in the cases of some European currencies, would reduce the dollar value of the outstanding notes and demand liabilities and, consequently, the figure of required monetary reserves. On the other hand, this reduction would be comparatively smaller or disappear entirely if the exchange depreciation were to result in a new inflationary expansion of notes and liabilities.

6--The amount of short-term dollar liabilities, due by foreign countries to the United States, is not very large, and only an insignificant portion is specifically secured by dollar deposits or gold earmarked. No attempt has been made to arrive at a net figure of gold and dollar resources (after deduction of short-term liabilities) country by country, not only because of the limited amounts presumably involved, but also because a considerable part of such liabilities arises from secret or unreported operations. Similarly, no attempt has been made to separate official and private balances, as both serve substantially the same purposes: while the former may be regarded entirely both as monetary reserves and working balances, the larger part of the latter are probably kept as working balances by banks and business firms, and the remainder only is believed to be held by individuals as private savings.

7--In view of the confidential or secret nature of the figures, it will be necessary to arrange the statistical grouping in such a way as not to disclose embarassing or premature information on any particular country or monetary area. As the source of the figures may attach to them undue significance, it will be of great importance to define clearly their purposes and limitations to prevent their use in any improper ways.

8--The figures of gold contributed by members, and their quotas in the International Monetary Fund, have also been tabulated, as they represent marginal reserves available to foreign countries for making payments of a current nature.

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held at approximately monthly intervals to consider subjects of mutual interest.

Among the topics considered has been that of export credit and transfer guaranties, particularly of current proposals for the extension by the Export-Import Bank of such guaranties. From the point of view of the President's Committee for Financing Foreign Trade, as well as from the point of view of the Export-Import Bank, one of the principal questions regarding a government system of transfer guaranties is its possible usefulness in achieving the Bank's objective of encouraging participation by private capital in foreign-trade financing. The Committee and the Council are continuing to study the various aspects of the problem.

The Committee has also been active with respect to the legislative program for the marketing of securities of the International Bank for Reconstruction and Development. Measures have been taken, through the Investment Bankers Association and other organizations, to assist in obtaining state legislation making the International Bank's debentures legal investments for savings banks, insurance companies, and other institutional lenders.

Loans on Gold

In February of 1946, the Council determined that until further notice, foreign requests for short term loans on gold from Federal Reserve Banks need not be submitted to the Council for consideration. Since foreign countries may request such loans to meet immediate needs for dollar funds, a special reason existed for handling such requests in the most expeditious manner. The Chairman of the Board of Governors of the Federal Reserve System was requested, however, to inform the Council wherever a new loan of this type was granted. The volume of such loans outstanding as of March 31, 1947 amount to $ million.

League of Nations Loans

The Council formulated this Government's position with regard to the assumption by the Economic and Social Council of the United Nations of certain technical functions of the League of Nations in connection with a series of international loans made during the inter-war period.

The Council agreed that the residual technical functions of the League in connection with these loans are no longer important and that there is not sufficient reason for the assumption of these functions by the Economic and Social Council. The Council's views on this matter were transmitted by the State Department to the United States Delegate to the Economic and Social Council for his guidance and instruction.

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