Hoover Commission

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Messrs. Bitterman, Kamarck, Willis, Arnold, Fields, Hirschtritt
C. L. Callander

Attached is a copy of a draft report for the Hoover Commission on interdepartment relationships other than through committees. Also attached is a copy of the outline suggested by the Commission's representative.

I would like to have the draft discussed at a meeting tomorrow morning, if possible.

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REPORT ON INTERDEPARTMENTAL RELATIONSHIPS IN THE FIELD OF FOREIGN AFFAIRS OTHER THAN THROUGH COMMITTEES

Responsibility for establishing interdepartmental relationships

The basic role of the Treasury Department as the financial arm of the Government naturally implies the conduct of the interdepartmental relationships necessary for the performance of Treasury functions. Some of these relationships are in the field of foreign affairs or impinge upon that field. ~~Nearly all~~ Most of the interdepartmental relationships conducted by the Treasury in the field of foreign international financial affairs take place in connection with the operations of the OIF. The discussion which follows refers primarily to this office, although some reference is made to other bureaus and offices.

Among the examples of statutes which have the effect of requiring the Treasury Department to enter into interdepartmental relationships with other agencies, the following may be cited:

(a) The Foreign Funds Control operation, which the Treasury conducts under Section 5(b) of the Trading with the Enemy Act, has required the maintenance of relationships with the Department of State, the Office of Censorship, the Foreign Economic Administration, the Maritime Commission, the War and Navy Departments, the Federal Bureau of Investigation, The Bureau of Immigration and Naturalization, the Coordinator of Inter-American Affairs, the Office of Strategic Services, and the Office of Alien Property.

(b) Section 10 of the Gold Reserve Act of 1934 established the Exchange Stabilization Fund, which is under the control of the Secretary of the Treasury. In one of the important types of operations of the

Bretton Woods Agree Act
Anglo-American Fin Agree

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Fund, the United States enters into stabilization agreements with foreign countries, which generally provide for an exchange of the currencies of the signatory countries during temporary strains in their international balance of payments. In the course of negotiations leading to such agreements, the Treasury deals directly with the State Department;

(c) In the administration of Sections 303 and 522 of the Tariff Act of 1930, which pertain to countervailing duties and the evaluation of imports for customs purposes, respectively, the Bureau of Customs finds it necessary to enter into interdepartmental relationships with other agencies, particularly the State Department, for various purposes, including that of obtaining necessary information.

Other examples that might be cited include the statutes that make the Bureau of Fede al Supply the purchasing agent for certain programs involving foreign affairs; the statutes and conventions concerning international traffic in narcotic drugs, which involve interdepartmental activity on the part of the Bureau of Narcotics; the statutes which place tax policy under Treasury Department jurisdiction and therefore cause the Treasury to be active in the field of international tax problems, involving relationships with the State Department; and the most recent example, the Foreign Assistance Act of 1948, which has a bearing on numerous functions of the Treasury Department, a number of which involve interdepartmental relationships. In connection with the enactment of this statute, the Treasury maintained direct relationships with the State Department throughout the planning phase of the European Recovery Program, and at the present time maintains constant liaison with ECA on certain operating problems under the Program.

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Delegation of responsibility for interdepartmental relationships

The delegation within the Treasury Department of responsibility for establishing interdepartmental relationships is included in the delegation of responsibility for various functions of the Treasury Department to the various bureaus and offices.

In the case of the OIF, this responsibility is included in those outlined in the Treasury Department Order establishing the Office, a copy of which is attached.

Formal Interdepartmental Relationships

(Office of International Finance)

Most of the formally established interdepartmental relationships with which the OIF is concerned are carried on through the machinery of interdepartmental committees. However, there is a small number of formal interdepartmental relationships other than those carried on through committees; the most important of these are:

(a) A formal arrangement exists by which a member of the staff of the OIF serves as liaison officer between the Treasury Department and the State Department on matters concerning instructions to the Foreign Service on economic and financial reporting; insuring that documents and cables of importance to the OIF are obtained promptly; and obtaining information not available through routine channels.

(b) A member of the Office represents the Treasury Department in dealing with the State Department on looted gold problems.

(c) The Secretary of the Treasury has appointed a member of the staff of the OIF liaison officer between the Treasury Department and the ECA, in response to an oral request by Mr. Hoffman.

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(d) An agreement exists with the ECA under which the Treasury Department periodically furnishes to the ECA basic data information developed by the Treasury Department through the Bell Research with respect to international capital movements.

Why only ECA

(e) In a series of recent letters, arrangements have been made with the ECA under which Treasury Representatives stationed in certain European capitals will be appointed Financial Advisors to the ECA Missions. These arrangements pertain to Treasury Representatives stationed in London, Paris, Brussels, Rome and Stockholm.

Recent Developments in Relationships with the Department of State (OIF)

The most significant recent development in relationships with the Department of State in the field of foreign affairs has been in connection with the planning of the ~~European Recovery Program~~ EA Paris. The Treasury Department played an important part in this activity, in keeping with its normal and traditional role of providing advice on international financial problems to other agencies of the Government. A considerable proportion of the relationships with the Department of State in connection with this Program took place through the machinery of the National Advisory Council, with other agencies but a significant amount of contact took place outside of that machinery. At the very beginning, the Treasury Representative in London participated in the initial discussions of Under Secretary of State Clayton with the various European Governments. The Treasury Representative in Paris and the staff of the OIF in Washington reviewed and analyzed the CEEC Report prepared in September 1947 by the participating countries. The Treasury cooperated with the State Department in drafting the outline of the Program and draft legislation for presentation to the Congress. The Treasury also

restitution of looted gold neutral countries

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gave technical advice on procurement procedures and fiscal techniques and prepared testimony on financial matters for Congressional committees. Finally, in the early operational stages of the Program, the Treasury in a series of informal letters called the attention of the State Department to several important financial problems concerning the allocation of funds, intra-European trade and payments problems, offshore purchasing techniques in the Western Hemisphere, and similar matters.

Personal interdepartmental relationships (OIF)

Members of the staff of the OIF have numerous contacts with their counterparts in the State Department and other agencies engaged in international financial work, such as the Department of Commerce, the Export-Import Bank, the Securities and Exchange Commission, the Federal Reserve Board, and the Economic Cooperation Administration. These informal relationships are continuous and occur on very nearly all organizational levels within the Office. The Director of the Office, who reports directly to the Secretary of the Treasury, the Deputy Director, Division Chiefs and members of the Division staffs all have occasion to deal directly with the personnel of other agencies. Continuous contacts of this kind important because of their effectiveness in preserving continuity of communication and operation. The number of professional economists working in Washington in the international financial field is quite small, and the personal familiarity and friendship that arises from this fact contributes in an important way to the effectiveness of these personal contacts.

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In the case of the State Department, most of these contacts are with personnel of organizations under the Assistant Secretary of State for Economic Affairs, particularly the Office of Financial and Development Policy and the Office of International Trade Policy. In the case of the Department of Commerce, most of the contacts are with personnel of the Office of International Trade.

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Outline for Report to the Hoover Commission on
Interdepartmental Relationships Other Than Through
Committees
(Interdepartmental Phase of the Foreign Affairs Project)

I. Responsibility for establishing interdepartmental relationships implied by the basic role of the agency or specified in statutes.

II. Departmental regulations delegating responsibility for establishing interdepartmental relationships to particular offices within the Department.

A. Centralization or decentralization of responsibility.

B. Effectiveness of delegation of such responsibility.

III. Formal interdepartmental relationships established by letter, memoranda of understanding, etc.

IV. Recent developments in problems of relationships with Department of State.

A. Conferences with departmental officials or the Bureau of the Budget.

B. Statements to congressional committees.

V. Personal interdepartmental relationships (as against formal relationships)

A. Level.

B. Frequency.

C. Effectiveness.

D. Deterrents.

VI. Bearing of relationships established through committees on less formal relationships and vice versa.

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Messrs Kamarck, Willis, Glendinning, Stuart, Bitterman, de Beers, Fields, Schwartz

August 3, 1948

C. L. Callander

CLC

The Hoover Commission has asked for a list of all current interdepartmental committees in which the Treasury participates, both standing and ad hoc. Mrs. Biglow has prepared the attached list of committees of which she has knowledge in which OIF participates.

Please add to the list any additional committees which you think should be reported, and indicate which are standing and which ad hoc, also, please indicate which committees on the attached list are no longer operating.

This material is needed for a meeting at 9:30 A.M. tomorrow. I would appreciate receiving it by about 2:00 P.M. today.

Ad hoc: Reporting of International Investments (Bureau of Budget)

BJS.

CLC:mlw 8/3/48

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ADVISORY COMMITTEE ON OCCUPIED AREAS AFFAIRS

Treasury Representative, Mr. Southard
Alternates, Mr. Willis and Mr. Stuart (depending upon area involved.)

ADVISORY COMMITTEE ON REPARATIONS

Mr. Southard. Mr. Fields, Alternate

ADVISORY COMMITTEE ON SECURE DEMOCRATIC ACT OF 1947

Mr. Southard. Mr. Fields, Alternate

ADVISORY STEERING COMMITTEE ON EUROPEAN RECOVERY PROGRAM

Meetings attended by some combination of Messrs. Southard, Lynch, Humphrey, Willis, Arnold, Tennant

COMMISSION ON ORGANIZATION OF THE EXECUTIVE BRANCH OF THE GOVERNMENT

Messrs. Barber and Callander designated to assist the Commission's Foreign Affairs Committee. Mr. Southard available at all times for consultation on general policy questions.

COMMITTEE ON FOREIGN REPORTING SERVICES

Andrew M. Tennant, Treasury Representative. Chester L. Callander, Alternate

COMMITTEE ON REFUGEE IMPORTATION

John W. Barber, Representative. Harris J. Fields, Alternate

COMMITTEE ON TRADE AGREEMENTS

Frank A. Southard, Jr., Representative. Harris J. Fields, Alternate

ECONOMIC COMMITTEE FOR ASIA AND THE FAR EAST (ECAFE) (U.N.)

In April 1947 Messrs. Jenkins and P. Parker participated. Parker was adviser to Louis Hyde (of State), the U.S. Delegate.

ECONOMIC COOPERATION ADMINISTRATION

Philip P. Schaffner - Liaison Officer

ECONOMIC AND SOCIAL COUNCIL. (U.N.)

Fiscal Commission - Edward F. Sussman, U.S. Representative (No alternate)
Ivor C. Olson - Adviser to U.S. delegation
Harris J. Fields - Adviser to the U.S. Representative on the Economic and Employment Commission.

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EXECUTIVE COMMITTEE ON ECONOMIC FOREIGN POLICY.

Frank A. Southard, Jr., Representative. Harris J. Fields, Alternate
(Mr. Fields is Chairman of the Committee on Customs Procedures)
Subcommittee on Legislation Regarding American Business Abroad,
Louis Shere, Chairman L. Louis Lobes-Glen, Alternate
John E. Coburn, Member
Subcommittee on Inter-American Economic Affairs,
Fred E. Smith, Alternate

FEDERAL COMMITTEE ON INTERNATIONAL STATISTICS

George C. Haas
Robert J. Schwartz

FISCAL COMMISSION OF THE ECONOMIC AND SOCIAL COUNCIL

Edward F. Barnett, U.S. Representative. Alternates not permitted.

INTERDEPARTMENTAL INTERIM OVERSEAS-SURVEY ASSISTANCE COMMITTEE

Frank A. Southard, Jr., Representative George E. Willis, Alternate

INTERDEPARTMENTAL PROGRAM OF WAR COMMITTEE

Frank A. Southard, Jr. - Available in connection with questions relating to the international monetary aspects of the matter. (Mr. Katz works on material)

INTERNATIONAL MONETARY FUND

Auditing Committee - Gilbert Gem, U.S. Member
Liaison on technical and statistical problems between the Fund and the U. S. Government - John W. Carter

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Treasury Department
Office of International Finance

Date: 5/5/1948

To: ~~Mr. Hasstedt~~ Mary — Put in file with refs to Hoover Comm

From: C.L. Callander

Attached are two copies of Mr. Bitterman's comments on Mr. Mills' letter.

He has just added an afterthought by telephone: OIF did a lot of ~~the~~ statistical work on Senate Resolution 103. This was a non-recurring job.

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Mr. Callander May 4, 1948

Mr. Bittermann

Mr. Mills' letters to Parsons and Southard, April 26

A few comments by way of suggestions for the reply are given in the order of the questions submitted by Mills.

1. (a) The Office of International Finance is not primarily a statistical Agency in the sense that a large part of its activities are directed toward the collection, compilation or publication of statistical data. The statistical data prepared directly by the division from its own data consists of the statement of gold and dollar balances, for which the basic compilation is done by the Federal Reserve Banks, and data on gold operations, which are prepared by the stabilization division. The division also has an important function in the preparation of balance of payments statements in connection with the National Advisory Council's work under the Economic Cooperation Act. It has carried a large part of the burden in assembling relevant data on the balance of payments of each of the participating countries and of preparing tentative allocations of their import requirements. This activity is primarily a matter of evaluation and analysis rather than a compilation of statistics, since the raw materials are obtained from data collected by statistical agencies of the foreign governments and to a certain extent by other agencies of the United States Government, such as the Department of Commerce and the Board of Governors of the Federal Reserve System. While the data on gold and dollar balances are published in the Treasury Bulletin and the Federal Reserve Bulletin, balance of payments data are principally used as confidential data for the determination of policy.

Since the office is primarily engaged in analysis for policy purposes for the Secretary of the Treasury and the NAC, a considerable part of its work involves the analysis of statistical data as in practically all other economic analyses. The geographic divisions of the office are engaged in continual studies of the economic and financial situations of foreign countries and they analyse data prepared by these countries or other agencies for policy purposes.

(b) From a budgetary standpoint, I suppose Schwartz' division and possibly Eddy's people, should be included as those which are primarily statistical branches.

2. When showing the total budget and the personnel employed by the office and the former division of Monetary Research, you should point out that very little of the activities of the division up until recent years had been statistical, in the narrower sense of the term. I doubt that our own administrative data are adequate to give any breakdown of the probable portion of our staff utilized for statistical purposes in previous budget years. Dickens' shop was an innovation of approximately the year of 1945 or 1946 and prior to that date very little compilation was done in this office.

You might point out that the present office represents the merger of the old division of Monetary Research and Foreign Funds Control. Monetary Research was

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established primarily to prepare data for the operation of the U.S. Stabilization Fund and so had its origin in the Gold Reserve Act of 1934. After 1938 various other functions were assigned to the Division of Monetary Research by direction of the Secretary of the Treasury. These included the preparation of studies for war purposes. They included the preparation of handbooks and country studies related to civil government administration and an analysis of the economic structures of these countries. From 1942 on, a considerable part of the activities of the old division related to the formulation of the international monetary agreements which resulted in the eventual creation of the Fund and the Bank. This activity was not primarily statistical though in the course of it a number of statistical studies were made relating to the trade, financial situation and national income of the member countries. Secretary Morgenthau also by some directive, whose text I have not seen, designated the Division of Monetary Research to carry on all international activities of the Treasury. It was in view of this general broadening of functions that the designation of the office was finally changed in 1947.

3. The statutory basis of our activities is the Gold Reserve Act of 1934, as amended, and the Trading with the Enemy Act, (in so far as Foreign Funds Control activities are involved.)

4. Schwartz can give you more detail on this but my impression is that the only original data are collected by his division.

5. For this purpose I suggest a paraphrase of the Secretary's Order establishing the office. In particular, you might mention the use of data for the administration of the regulations under the Gold Reserve Act, the operations of the U.S. Stabilization Fund, response to Congressional inquiries on matters of international finance, either directly or as part of the secretariat of the NAC.

6. You might point out the extensive use of the balance of payments studies in connection with the European Recovery Program and might emphasize such data as we collect directly have been cleared with the Bureau of the Budget.

7, 8, 9. I think need no particular comment from us.

10. You might point out that the information which we now are collecting and analyzing would be of primary usefulness in a period of national emergency. There is little duplication between our analytical studies and those performed by other agencies of the government. While the State Department has a division of financial affairs under various titles and the Board of Governors has a research unit devoted to international matters, the close cooperation between these agencies and also the Department of Commerce, avoids duplication of effort. The data used would be useful in case of an emergency and primary responsibility could be placed here. The State Department does not make research activity an important part of its operations. You might mention that our representatives in foreign countries serve as a particularly important source of financial intelligence which would be of military value in case of an emergency. You might suggest that our personnel has not been adequate to prepare all the studies which we have regarded as important for our purposes and we are particularly weak in our study of Eastern Europe.

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2. When showing the total budget and the personnel employed by the office and the former division of Monetary Research, you should point out that very little of the activities of the division up until recent years had been statistical, in the narrower sense of the term. I doubt that our own administrative data are adequate to give any breakdown of the probable portion of our staff utilized for statistical purposes in previous budget years. Dickens' shop was an innovation of approximately the year of 1945 or 1946 and prior to that date very little compilation was done in this office.

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Dear Mr. Wills:

Reference is made to your letter of November 5, 1948 addressed to Mr. Southard, and the attachment thereto entitled "Appendix A - Uses of Federal Statistical Reports." As you request, we are submitting for possible inclusion in the Appendix a brief description of two statistical series which are produced by this Office as an integral part of its operations in the field of international finance, and which were discussed in our letter of May 12, 1948.

The Office of International Finance provides:

Data and analyses of short-term foreign assets and liabilities of the United States and U.S. capital movements, based on reports by financial concerns in the United States, consolidated and published monthly in the Treasury Bulletin and used by government agencies and by financial and business groups; ~~and individuals~~

data on purchases and sales of gold from foreign countries, ~~and~~ used for administrative purposes and for financial analysis by government agencies and the public.

Very truly yours,

s/ Dec. 29, 1948

George H. Willis
Acting Director

Mr. Frederick C. Wills
Commission on the Organization of the
Executive Branch of the Government
1626 K Street, N.W.
Washington 25, D. C.

cc: Callander, Southard

RJS:RH:ms 12/24/48
Final 12/27/48

Routed: Lancione, Glendinning, Willis

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Treasury Department
Office of International Finance

Date 1/Nov 1948

To: R J Schwartz

From:

I have carved this down a little rather late at night and may have been too brusque as a result. General idea was to make it rather impressive + brief. Look it over again + [illegible]

GEORGE H. WILLIS

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Treasury Department
Office of International Finance

Date _____ 194____

To: Willis

From: Glendinning

This letter can still be improved. Can you take a shot at polishing it?

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Treasury Department
Office of International Finance

Date 1/7/ 1947

To: Mr. Schwartz

From:

Dean and I would like to discuss with you the advisability of this action, in view of the objectives of the report.

GEORGE H. WILLIS

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GOLD & FOREIGN : Tripartite Commission
EX. RESERVES

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DEPARTMENT OF STATE INSTRUCTION

1396

CONFIDENTIAL

81 eld
ORIGIN: NO. CA-1564 August 15, 1958
E
INFO SUBJECT: Further Interim Distribution of Gold by Tripartite Commission for the Restitution of Monetary Gold
DCL
REP
EUR
NEA
IRC
L
OF

TO: ATHENS, BELGRADE, BRUSSELS, THE HAGUE, LONDON, LUXEMBOURG, PARIS, PRAGUE, ROME, VIENNA, WARSAW

AIR
ARMY
CIA
COMM
FRB
NAVY
OSD
TR

Part III of the Paris Agreement on Reparation from Germany, signed on January 14, 1946, provided for the establishment of a Tripartite Commission for the Restitution of Monetary Gold to distribute to claimant countries looted gold, found in Germany by the occupying powers or secured from neutral governments in negotiations by the Governments of the U.S., U.K. and France. Signatory governments presented to the Commission for adjudication their claims to monetary gold which had been looted or wrongfully removed from their countries by Nazi Germany. These claims totalled some 721 tons. A total of almost 332 tons of gold, valued at over $873 million, was collected by the three Governments, and it is possible that an additional 4 tons of gold may still be made available to the Gold Pool as a result of negotiations with Portugal.

The Commission completed its adjudication of the claims presented to it a few years ago, but transmittal to claimant governments of the adjudications, and final distribution of the Gold Pool, has been delayed by a number of complicating factors. The U.S. has refused to permit a further distribution of gold to Czechoslovakia until we receive some satisfaction from the Czechs on our claims to properties nationalized by the Czech Government, and on several other types of claims, and has refused to agree to the Commission's award to Czechoslovakia. At British behest, the U.S. and France agreed in 1951 that any gold due Albania should be delivered to the U.K. and/or Italy in satisfaction of claims they had against Albania. The Netherlands claimed the same gold both from the Gold Pool and directly from Italy under the Conciliation Commission established under the Italian Peace Treaty. The three Governments have agreed to block delivery of gold looted from the Bank of Danzig until a final settlement of the status of Danzig.

Early this year the three Governments finally agreed to a further interim distribution of gold, excluding Czechoslovakia, Albania and Danzig. It was also agreed that the Commission's decisions on each country's claims (except the unagreed Czech award) should be distributed to that Government, but pending agreement on the Czech claim, the British refused to permit publication of the decisions. The Commissioners of the three Governments on the TGC signed the adjudications (except

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DRAFTED BY: OFD:FN:JCLobenstine:mch 8/12/58
APPROVED BY: OFD:FN - John Parke Young
CLEARANCES: WE EE
BNA L/E - Mr. Czzak (in substance)

7288 33-5

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(except that for Czechoslovakia, which was signed by the British and French Commissioners only) on June 9. Letters of notification to representatives of the claimant countries were sent on June 11 and 12, enclosing copies of the TGC adjudications in all cases except Czechoslovakia, informing the Governments of the further interim allocation of gold, and requesting certain information necessary for the preparation of the actual gold delivery orders. Delivery has already been effected, according to information thus far available to the Department, to France,* Austria and Italy. The Netherlands has protested the decision in its case, and requested that distribution of gold be suspended (request denied). So far as the Department has been informed, Greece and Yugoslavia have not yet taken delivery of the amounts due them.

In all probability Greece will protest the rejection of 99 percent of its claim (as being claims to nonmonetary gold).

Poland has already protested the decision in its case--the entire Polish claim was denied, as none of it was for monetary gold. Poland also protested the decision to withhold from it pending a final peace treaty the gold looted from the Bank of Danzig. A protest on withholding its gold may also be received from Albania, although it was the only country whose claim was recognized in its entirety by the Commission.

The following table summarizes the amounts of monetary gold which have just been distributed, or which the Commission is authorized to deliver to the claimant countries. Presumably these amounts will be added to monetary reserves of the countries concerned. Additional data on the Gold Pool are enclosed for the information of the Embassies. All figures are given in kilograms of fine gold (one metric ton, or 1,000 kilograms, of fine gold is valued by the U.S. Treasury at $1,125,276).

Claimant Country	Kilograms	Value in U.S. $
Austria	6,150	$ 6,920,447
(Belgium	11,600	13,053,202)
(Luxembourg	750	843,957)
both delivered to France:	12,350	13,897,159
Greece	50	56,264
Italy	12,750	14,347,269
Netherlands	4,100	4,613,632
Yugoslavia	1,750	1,969,233

Enclosure:
Table of Claims.

BERTER, ACTING

*Under agreements of October 1944 and February-March 1946 between the Bank of France and the National Bank of Belgium and the Savings Bank of Luxembourg, respectively, the Bank of France reconstituted the preinvasion gold deposits with it by the other two banks, receiving in turn an assignment to such gold as Belgium and Luxembourg might recover through the Gold Commission.

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TGC - COUNTRY CLAIMS TO LOOTED MONETARY GOLD

(Figures in kilograms of fine gold)

Country	Total Claim Presented a/	Claim Recognized by TGC b/	64.1316% of Recognized Claim c/	Amounts Already Delivered d/	Amount of Current Delivery
Albania e/	2,454.8745	2,454.8745e/	1,574.3503	—e/	—e/
Austria	91,256.9156	78,267.1478	50,193.9742	44,031.8219	6,150.
Belgium	204,868.0736	198,433.8417	127,258.7976	115,650.9277f/	11,600.f/
Czechoslovakia	45,008.2784	43,999.3638b/	28,217.4960b/	9,781.0225d/	—
Danzig	4,726.0000	3,858.8835	2,474.7637	—g/	—g/
Greece	7,441.7344	83.7330	53.6993	—h/	50.
Italy	73,438.8292	69,320.6709	44,456.4554	31,667.5131	12,750.
Luxembourg	4,317.2028	4,223.7040	2,708.7289	1,929.4999f/	750.f/
Netherlands	145,650.0000	110,174.6296	70,656.7528	66,539.0068	4,100.
Poland	138,718.5309	—	—	—	—
Yugoslavia	3,407.4442	3,243.4422	2,080.0714	317.4256	1,750.
Totals	721,287.8836	514,060.2910	329,675.0896	269,920.2205d/	37,150.
Reserve			1,990.3877		
Total of Gold Pool			331,665.4773		
Possible further addition from Portugal			3,998.7410		
Potential maximum of Gold Pool			335,664.2183		

Notes:

a/ As revised (i.e., after deduction of claims presented but subsequently withdrawn by Albania, Greece, and Yugoslavia).

b/ The U.S. has not agreed to the award to Czechoslovakia.

c/ The final apportionment will be somewhat higher than 64.1316%, as there will probably remain for distribution at some future date another 5.5 tons or more of gold.

d/ Including a direct recovery by Czechoslovakia of 3,710.0148 kilograms.

e/ No delivery is to be made to Albania, in view of British and Italian counterclaims.

f/ Delivered to France. See footnote page 2.

g/ Withheld pending final peace settlement.

h/ An earlier proffered delivery to Greece was never completed as the Greek Government did not sign the required waiver of claims.

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Department of State

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54

Origin EUR

Info: RMR W L INR E IRC DCL CIA

NO:

FROM: Secretary of State

FEB 4 8 04 PM '59

TO: Amembassy BRUSSELS B- 125
RPTD INFO: " LONDON G- 554
" BONN G- 375
" PARIS G- 616
" LISBON G- 41

Page 1 of 1 Pages

Department has reached agreement with UK and French on following text letter notifying Inter-Allied Reparation Agency (IARA) of successful negotiation agreement on German assets in Portugal.

QUOTE I have the honor to inform you, on the instructions of my Government, that on October 27, 1958, an agreement was signed in Lisbon between the Portuguese Government and the Governments of the United Kingdom, France and the United States, finally settling the disposal of German assets in Portugal and all questions of Monetary Gold.

The result of the Agreement, a copy of which is annexed, is that a total of 144.5 million escudos will be made available by the Portuguese Government. The Tripartite Commission for the Restitution of Monetary Gold will receive approximately 128.5 million escudos of this sum in the form of fine gold, i.e., 3,998.741 kilogrammes, since the claim for gold constitutes a superior claim. The balance of about 16 million escudos will accrue to the I.A.R.A. Of this sum, 12 million escudos will be available at once, and the balance of about 4 million escudos will become available as laid down in Articles I (3) and I (4) of the Agreement, after the successive payments foreseen in the Portuguese Federal German Agreement of April 3, 1958, have taken place. The escudos made available will be freely convertible and transferable as provided in Article II of the Agreement UNQUOTE.

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If no objection perceived, foregoing should be transmitted IARA Secretary-General in concert with British and French colleagues.

DILLON

File Tripartite Commission - Gold - TE

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Drafted by: EUR:RA:LOSanderhoff:am 2/4/59

Airgram transmission and classification approved by: Myron L. Black

Clearances:
GEA: Mr. Harlan WE: Mr. Sacksteder
L : Mr. Maurer FN: Mr. Carre

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Department of State

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57

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Origin E

NO: CG-657

FROM: Secretary of State

Info

TO: Amembassy BRUSSELS
Amembassy LISBON

JUN 12 8 58 PM '59

Page 1 of 2 Pages

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Rptd info: Amembassy LONDON
Amembassy PARIS
Amembassy BONN

#1

For U.S. Commissioner, Tripartite Gold Commission, Brussels.

References: (A) Department's airgram sent Lisbon G-55, London G-831, repeated Brussels G-164, Paris G-825, Bonn G-506.

CIA

(B) Letter INT-3482, April 15, 1959, from Secretary General TGC to U.S. Deputy Commissioner in Brussels, copies sent also to French and British Commissioners.

RMR

(C) Despatch 232, November 6, 1958, from Lisbon, copy sent to Brussels by Department.

1. The U.S. Commissioner in Brussels should concert with the French and British Commissioners and arrange with the Secretary General for appropriate procedures for the transfer of gold from the Portuguese Government to the Tripartite Commission, pursuant to the Portuguese agreement of October 27, 1958 (enclosure to Lisbon's despatch 232), when the agreement enters into force. It will be noted that the gold transfers from Portugal will be made in two unequal installments. It is the view of the Department that the Commissioners in Brussels, either jointly or one acting for the three by mutual consent, may properly request the Secretary General to make the necessary arrangements, prepare the necessary papers and take the necessary steps at the proper time to have the gold deposited for the Commission's account.

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2. The Department suggests that the Tripartite Commission arrange for delivery of the gold either in London, New York or Paris, whichever is most convenient, in accordance with procedures and standards used by the Commission in accepting previous transfers of gold.

3. There has been no "Chairman" of the representatives in Lisbon of the three Governments which have negotiated with the Portuguese Government,

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Drafted by: OFD:FN:CMCarre':sek 6/12/59

Airgram transmission and classification approved by: Chester M. Carre'

Clearances:
L/T - by L/FE - Mr. Maurer (in draft)
WE - Mr. Walsh (in draft)
Mr. Sacksteder (in draft)
GER - Mr. Allen (in draft)
RA - Mr. Sanderhoff (in draft)

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File Tripartite Commission Gold + FE

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either before or since the signing of the agreement on October 27, 1958. When the three Commissioners in Brussels, in consultation with the Secretary General, have agreed on procedural questions relating to the transfer of gold from Portugal, it is suggested that the Tripartite Commission communicate with the American, British and French Embassies in Lisbon simultaneously, transmitting appropriate delivery instructions to be conveyed to the Portuguese authorities.

4. With regard to the question raised by the Secretary General in INT-3482 as to whether the Tripartite Commission should seek to acquire the 3,998.741 kilograms of fine gold from the Portuguese Government in the form of coins, the Department's view is that it would be inadvisable to present such a request to the Portuguese authorities, in as much as it would presumably be denied because of the premium on gold coins in the free markets, and it might lead to additional complications in the efforts of the three Governments to implement the agreement of October 27, 1958. It would seem that the problem of correcting any inequities in previous distributions of gold coins by the Tripartite Commission may best be resolved in some other manner than by requesting the Portuguese to transfer gold in that form. It is suggested that the Commissioners in due course consider other possible ways of dealing with this problem.

5. Embassy Lisbon is requested to concert with the British and French Embassies there and, when the Portuguese agreement of October 27, 1958 enters into force, jointly with such Embassies ascertain from the Portuguese authorities the location of the gold which the Portuguese Government will transfer to the Tripartite Commission for the Restitution of Monetary Gold on behalf of the three Governments. The three Embassies in Lisbon should then advise the Commissioners of their respective Governments in Brussels on this matter. The Department should also be kept informed of developments as they occur.

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Agreement on Reparation from Germany, which do not include the latter country. It is expected that this report will include a complete list of gold deliveries received by the Tripartite Commission, showing the source, quantity, type and delivery date of each, and references to any pertinent documents of authority. However, it will not include the actions which took place in the three Zones of Occupation in Germany and with neutral countries to secure gold for the pool.

As indicated in its telegram 647 to Brussels, the Department's general initial reaction to the German inquiry is negative. The specific reason and underlying motivation for the German request for such detailed information is not apparent from the communications received.

The Department would appreciate receiving from the Embassy in Bonn its evaluation of the German inquiry in terms of the probable implications that may be involved. Does the Embassy envisage the possibility of an eventual demand by the Federal Republic for an accounting for gold removed by the Allied Forces from German territory or other gold of German origin which was transferred to the gold pool, with the further possibility of disputing any such transactions which the Federal Republic may, in retrospect, consider questionable?

At the present time it is not desired that the Embassy in Bonn discuss this matter with Dr. Heinze or other officials of the Federal Republic, but the Embassy's own views are desired as to the specific reason and underlying motivation for the German request. In its discretion, the Embassy may consult its British and French colleagues in Bonn before reporting its views.

HERTER

Enclosures (for Bonn, London and Paris only):

1. Copy of INT-3586.

2. Copy of letter from Dr. Heinze.

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File Tripartite Commission Gold + FE

DEPARTMENT OF STATE INSTRUCTION

2313

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NO. CA-2964 September 30, 1960

SUBJECT: German inquiry regarding "confiscation of gold"

TO: The American Embassy, BONN
RPTD INFO: BRUSSELS, LONDON, PARIS

Reference: Department's telegram 647, September 28, 1960, to Brussels, repeated to Bonn by pouch for information.

The Department has received from the U. S. Commissioner on the Tripartite Commission for the Restitution of Monetary Gold in Brussels copies of communication INT-3586, of September 16, 1960, from the Secretary General to the three Commissioners, representing the United States, United Kingdom and France, and the enclosure thereto, viz. a letter dated August 31, 1960, from a Dr. Heinze, Head of Section of the Ministry for Economic Affairs, Federal Republic of Germany, to the Secretary General. Copies of both documents are enclosed for the Embassies in Bonn, London and Paris.

It will be noted that Dr. Heinze has requested certain detailed information regarding "the confiscation of gold" ..... "in connection with reparation and restitution measures already taken", and refers to "the draft of the Liquidation Law of the Reichsbank".

Although some of the information requested by Dr. Heinze could be obtained from the files of the Secretary General in Brussels, it would require extensive searching of the archives of the three Governments to document a complete history of how all the gold was acquired, and particularly the negotiations of the three Governments with neutral countries. With the lapse of time and changes of personnel, this would not be an easy task.

A confidential report from the Tripartite Commission to the three Governments is in process of being drafted by the Secretary General, and it is expected that appropriate parts of this report will eventually be made available to the signatories of the Paris

Agreement

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CLEARANCES: L/E - Mr. Maurer (in draft) GER - Mr. Stalder (in draft) RA - Mr. Burns (in draft) WE - Mr. Beaudry (in draft)

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Secretary General and state that it would be appreciated if he would provide us with draft copies of the typical documents which pass in other delivery cases, made out, however, for the Czech case. (TGC covering letter announcing further distribution, waiver, receipt, acceptable Czech answering letter and attached acceptable Czech full powers). Among other things we will wish to examine these documents to see whether they need to be altered in view of the telescoped procedure proposed in 1 and 2 above.

Since a meeting with the Czechoslovakian representatives may be arranged for the latter part of this month, it would be desirable for the Department to have any reactions (including draft documents) before July 24.

DILLON

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the United States representative signs the Czech award and the delivery order (theretofore signed by the French and U.K.) and the TGC Secretary General hands the delivery order to the Czech representative, the latter would turn over a certified check or cashier's check on a United States bank, or perhaps a Swiss bank, for $2,000,000 to the United States representative. This is our preferred procedure.

(2) The Czechs have, however, indicated that they may possibly wish to utilize part of the gold they are to receive to pay the United States. In other words, instead of a certified check or cashier's check for $2,000,000 the Czechs might be prepared to turn over a delivery order for $2,000,000 in gold. In this connection it would be our intention that the $2,000,000 in gold should be drawn from the gold on deposit with the Federal Reserve Bank in the name of the TGC, rather than from a Czech depository abroad. This second alternative would also require advising the Federal Reserve Bank before hand that it was contemplated the Czechoslovakian Government would receive a delivery order for a certain amount of gold but that the Czechoslovakian Government would, in turn, issue a delivery order for a portion of the gold to the United States.

You should inquire whether the other Commissioners or the Secretary General see any difficulty for either of the two alternatives envisaged. You should caution your colleagues and the Secretary General of the TGC that, of course, we are still at the negotiating stage and that while we have hopes of concluding an agreement, we consider important that no word of the present matter get to the attention of the Czechoslovakian Government.

In connection with the above, at an opportune time you should approach the

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NO.

FROM: Secretary of State

JUL 14 8 41 AM '59

TO: The American Embassy, BRUSSELS G-4

RPTD INFO: American Embassy, PRAGUE G-7

Page 1 of 3 Pages

#5

Reference is made to Department's instruction G-63 to Prague of October 23, 1958, repeated for info as G-89 to American Embassy, Brussels, which concerns arrangements for the simultaneous delivery of 18,400 kilograms of gold to Czechoslovakia and $2,000,000 to the United States.

The Department believes it is desirable at this time for you to bring to the attention of your British and French colleagues and the Secretary General of the TGC Commission, orally and informally and perhaps on an individual basis, the matter of the arrangements which might be worked out with the Czechoslovakian Government with respect to the simultaneous delivery described above. You may explain that we are engaged in the process of negotiating and there is a possibility that we may be able to reach a successful conclusion and that, in light of this, the Department thinks it best to advise of the arrangements it envisages with respect to the Czech gold and the receipt of $2,000,000 by the United States. We expect to be in a position to sign the award at the time of the simultaneous delivery.

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(1) We contemplate a procedure in Brussels in which, at the same time

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Drafted by: L/FE:EMaurer:dl 7-14-59 for L/E

Airgram transmission and classification approved by: L/FE:EMaurer

Clearances: FN: Mr. Carre (In draft) L/SFP: Mr. Griffin (In draft)
EE: Mr. Sommerlatte (In substance)

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File Tripartite Commission - Gold + FE

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TREASURY DEPARTMENT
Office of International Finance

Date 11/27 1958

TO: ~~Mr. Callander~~ JC
MR ROSS

I called John Young and squared this away. We agreed to do nothing until this case comes again. HB

Henry J. Bittermann
Room 3204

TD - OAS - DC

Mr. Southard

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The Managing Director

November 5, 1958

Frank A. Southard, Jr.
U.S. Executive Director

Gold Holdings of the Tripartite Commission for the Restitution of Monetary Gold

I have taken up with my Government the matter raised in your memorandum of July 29, 1958 and, following consultation with the other members of the Tripartite Commission, I regret to inform you that my Government does not feel that the information requested can be released at this time.

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Office Memorandum

TO: Mr. F. Southard

DATE: July 29, 1958

FROM: The Managing Director

SUBJECT: Gold Holdings of the Tri-Partite Commission for the Restitution of Monetary Gold

I should like to ask you if you could assist us in a statistical matter that is of great importance to the Fund's work. The active discussion of the adequacy of the world's gold reserves requires the greatest care in the compilation and publication of gold statistics. A review of the Fund's data on world gold holdings, which we publish each month in International Financial Statistics, indicates that there are deficiencies that arise from the unavailability of some information on the world's holdings. One of the holders for whom data have not been available is the Tri-Partite Commission for the Restitution of Monetary Gold, of which the U.S., the U.K., and France are members. I understand that within a few weeks the bulk of its holdings will have been distributed. It would be useful, therefore, if the dates and amounts of its holdings in the past or the dates and amounts of its distributions could be released as an item to be published in the table, or as an item to be used without specification in the construction of the totals. Figures on the Tri-Partite Commission's holdings are included in the totals for world gold holdings published in the U.S. Federal Reserve Bulletin and in the U.S. National Advisory Council's reports to Congress. Differences between Fund data and other widely used data on any such question are in themselves a source of much difficulty.

I should very much appreciate it if you would take steps that could lead to the release of these data at this time. I am writing the same memorandum to Mr. Thoroid and Mr. Tharon.

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X Foreign Trade

The chief of the Soil Products Office was suspended, reportedly for failure to pursue sales of the large exportable cereal crop surplus as vigorously as desired by the Administration. The Turkish Government is continuing its efforts to conclude sales of an estimated 2 million tons of cereals. Discussions are underway with Italy, Yugoslavia, West Germany, Finland, the Netherlands, Sweden and Denmark. The selling price of wheat has been reduced from a high of $130 to $110 per metric ton FAS through the EPU clearing account and at the prevailing New York selling price if payment is made in dollars (i.e. about $96 per ton). The Turks justify this spread by referring to a price differential between American and European manufactured goods, needed by Turkey, which is in some instances 30 per cent higher for the latter in relation to the former.

West Germany reportedly has offered to purchase 250,000 metric tons of wheat at the equivalent of $98; 150,000 metric tons of barley at the equivalent of $77; and 50,000 metric tons of oats at an unknown price. All of the above German bids were made by Germany on an FOB basis, with the buyer to provide bottoms. It is also understood that the Netherlands is in the market for 100,000 tons of cereals, but their offer for wheat is reputed to be the equivalent of $86 per metric ton. Meantime Turkey concluded cereal sales with Pakistan and Yugoslavia, each sale being for 100,000 metric tons at the equivalent of $130 per ton.

(For a review of credit facilities as applied to foreign trade, see Section VII[I] - Bank Credit)

The following tables give official statistics for Turkey's foreign trade for the first nine months of 1952, as compared with a similar period in 1951, broken down both by commodities and by countries:

Table I

Turkish Exports by Commodities (TL million)

	September		January-September	
	1951	1952	1951	1952
Cereals	4.4	19.4	43.1	17.1
Tobacco	4.1	7.9	115.7	99.7
Cotton	4.9	17.3	149.1	137.4
Fruits	16.9	9.0	53.8	59.8
Nuts, seeds	2.6	1.2	15.0	20.5
Mineral ores	5.9	11.2	61.2	81.7
Other products	10.9	11.1	133.5	86.8
TOTAL	49.7	77.1	571.4	685.0

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From ____

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Page 1 of 3
No. 245
Desp. No. Ankara
From ____

Turkey - Gold

AIRGRAM

October 22, 1952

MSA/TURKEY
MSA/SRE/Paris
INFO MSA/WASHINGTON

MSA/SRE/Paris
TOREP 64 RPTD INFO TOMUS 61 OCTOBER 23

Ref: REPTO 375 October 21
REPTO 283 October 16
REPTO 257 October 8
REPTO 201 September 15

1) As of September 27 the Turkish gold holdings totalled $146,065,000, a net reduction of $3,681,000 during the month.

2) Of this $146,065,000, $62,662,000 was pledged and an additional $3,376,000 was segregated in Ankara to cover gold liability to the Bank of International Settlements.

3) The $62,662,000 of pledged gold covers the following loans with maturity dates as noted:

AMOUNT OF LOAN (in $1,000,000)		MATURITY DATE	WEIGHT (in metric tons)	VALUE (in $1,000,000)
FRBNY				
21.5	30	13/11/52	27.2	30.612
.5		15/12/52		
8.0		15/12/52		
*8.0	15	19/12/52	13.6	15.306
7.0		29/12/52		
45.0			40.8	45.918
CHASE BANK				
10.0		30/9/53	9.1	10.236
BIS				
3.0		1/12/52	2.7	3.04
loan in gold		1/12/52	3.08	3.47
				62.66
BIS**				
loan in gold		1/12/52	3.0	3.376

** Gold segregated in Ankara. Se paragraph #2.

4) According to the Turkish Central Bank the $8 million portion of the $15 million loan (indicated by * in above table) from FRBNY was due Sept. 19. At that time the loan was extended 3 months but no additional gold was pledged.

DAYTON

CONFIDENTIAL

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Bal. of Payments

Trade: Imports 1st mo. 1947 – T$ 64,010,790
Exports " " T£ 56,073,022

52,937,268 Visible deficit

1st adverse balance since 1938 –
Imports greatly expanded due previous year –
Partly result of liberal import licensing due to
expectation of greater for exchange proceeds from increased
exports following currency devaluation in Sept. 1946.
Turkish prices still too high to fully encourage exports.
fall in output, notably export commodities –
Restrictions against sterling exports also important
factor in fall in exports from 1946 level (because of
sterling inconvertibility) – net deficit in dollar dealings
1st 6 mo. 1947 – T$ 16,660,535 (Trade with U.S.,
Italy, Belgium, Luxembourg, Japan) – Rest of figure –
Gold sales in 1947 (1st 6 mo.) T£ 2,104,4 fine (T£ 2,398,8 dollars)
committed to Port. expend. 1948 or for T$ 68-69 million –
approximate adverse dollar balance, visible & invisible

Turkey following trend to removal of barter
trading because of Greece, Czechoslovakia –

Bank statement:
Correspondent abroad, invisible for exchange
derived from mortgage P&R will soon be put on
monthly basis – approximately
Deposits – for exchange deposits placed by commercial
banks with Central Bank
other on Decem – Miscellaneous

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Turkey - Gold & For Exchange

#13 Feb 12, 1948

100 French Francs = T.L. 1.306 buying rate at central bank
3.72 T.L. to 1 $ in Black market -
Turkey owes $20 million to Federal Reserve Bank to be paid by March, 1948 - Owes Int $5 million -
Apparently Turkey had about $33 million trade deficit with U.S. - May pay about $25 million out of new tobacco exports to U.S. -

Export restrictions against Sterling Area partly relaxed in January - In order to sell exports.

Turkey's credit balance with France now 633.6 million francs due to 80% increase under French devaluation - can convert am't above 500 million francs (about $624,000) into gold or dollars - Will wait to see if French export rise to absorb excess -

A-36 Feb 6, 1948

Total net gold holdings Jan 24, 1948 T.L. 324,581,000 -
Net Fo. Exchange holding - T.L. 133,121,428 (mainly Sterling - all fo. exchange non-convertible) - Net liabilities of G. of T.L. 20,514,935 an increase over the 12,107,000 T.L. on Dec 27, 1947 -

#53 Dec 23, 1947

Turkey never did get around to having a convertibility arrangement with U.K. - Meanwhile, in anticipation of this she imported heavily from dollar countries (U.S. - also Italy + Belgium) - Sold gold, thinking sterling holdings would soon become convertible -

Sterling imports encouraged - ~~$ imports restricted~~

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Imports permitted by listing of commod to aid licensing — Now, since dolla shortage & cessation of gold sales, many listed imports are not granted licenses — Essentials allowed, non-essentials curtailed —

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S. and for. ex.

Britain's Gold Reserve

In the past week two important statements have been made about the recent growth in Britain's reserve of gold and dollars. On Saturday members of the US Senate Banking Committee stated that Mr. Harry White had told a closed session that Britain now held $3,500 million in "gold and securities held on deposit in the U.S." Two days later Sir John Anderson made Britian's external problem his theme for an address to the Canadian Chamber of Commerce, stating that Britian will be "terribly short of dollars" in the immediate post-war years, and that her reserves, though "better" than formerly, are still "substantially less" than before the war. The timing of these statements may have been pure coincidence; but while the Chancellor's statement has had the effect of seeming to lend authenticity to the American figure, it has also put the leakage--if such it was--in perspective.

Mr. White's figure is an ambiguous one, depending for its significance upon the extent of the included "securities on deposit" and upon whether they are such as could in practice be realised for normal exchange reserve purposes. Sir John's statement does, indeed, carry a certain implication that the gold portion must be substantially less than $2,400 million-though it should be noted that he referred, not to gold as such, but to "liquid cash reserves." He did not, in any case, actually name a figure: the figure of $2,400 million derives from statistics--without doubt, British official statistics--released by the American authorities at the time of the Lend-Lease negotiations. The last pre-war statement showed that at March 31, 1939, the Exchange Equalisation Account held $2,800 million worth of gold, and it was generally understood that this included all, or virtually all, the holdings of exchange. In November, 1940, Lord Lothian disclosed that Britian's reserves were "virtually used up," and the Chancellor now says--what was, indeed, already known--that before Lend-Lease they were down to "a single figure," i.e, less than £10 million. Finally, the official document released in Washington in early 1941 showed that Britain's drafts on gold and exchange reserves in the sixteen months to end-1940 totalled $2,316 million.

*

Together, these statements are pretty conclusive evidence that at the outbreak of war the reserve stood around, and perhaps a little under, $2,400 million--£600 million at the current rate. If the holding is even beginning to approach such levels now, it would certainly be a good deal larger than most people in Britain would have supposed. The increase is, of course, mainly a consequence of spendings by American troops in the sterling area, and this source of dollar income will shortly shrink to small proportions. The recent trend is no useful guide to the future trend. Moreover, as Sir John emphasised, Britain's reserves, whatever their precise level, are small by comparison with the huge increase in overseas indebtedness-now well over £3,000 million and expected to reach "at least £4,000 million before we are finished." To look, as the American public are now apparently doing, simply at the figure of reserves, real or alleged, is to get a grossly distorted picture. And that cannot be to Britain's advantage. Is it not time that authentic figures were regularly published, both of the Exchange Account and of overseas indebtedness?

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Gold and For. Ex.

COPY

UNITED KINGDOM TREASURY DELEGATION
Box 680
Benjamin Franklin Station
Washington, D.C.

Ref. 4-A

Telephone EX 2020

My dear Frank,

Frank Fetter of the State Department has recently put to us one or two enquiries relating to our figures of net gold and dollar reserves and overseas liabilities as reflected in the Stage II papers, and in particular has mentioned the question of dealers' balances and retained accounts, saying that his impression was that the sum of these two items is normally of the order of $300 to $350 million. As you know, we consider it inappropriate to regard either of these holdings as part of our reserves (see, for example, the penultimate paragraph of my letter to you of the 21st November 1944). They are the minimum operating balances of dealers and business companies necessary for the day-to-day conduct of their affairs. They could not be liquidated without disastrous consequences and in fact may be, to an extent which cannot be calculated, reserved against dealers' or businesses' current commitments. But while for the above reasons we should deprecate any suggestion that theitems should be taken into account in any consideration of our exchange assets, we should like to avoid any misapprehensions which may exist as to the size of the balances in question. The amounts naturally fluctuate within narrow limits from month to month but on the latest information available the totals are:

Retained accounts	$ 140 million
Dealers' balances	93 million
	$ 233 million

Any future change in these totals is likely to be of insignificant amount and the figures are not for the reasons stated above included in our net gold and dollar balances reported to you.

I am taking the liberty of sending a copy of this letter to Fetter.

Yours sincerely,

s/ Frank Lee

F. G. Lee

Mr. Frank Coe
Director of Monetary Research,
Room 3430,
U.S. Treasury

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Treasury Department
Division of Monetary Research

Date August 20 1947

To: Glasser, Willis, de Beers

From: Mr. Dickens

Argentine Holdings of Gold and Dollars

End of Month	Gold	Dollars
1946 (Dec.)	1,055	113
1947:		
Jan.		166
Feb.		180
March		181
Apr.		223
May	740	252
June	1/ 614	265

1/ Calculated by deducting gold sold to U.S. in June from May 31 reported holdings.

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U.K., Gold

January 5, 1948

U.K. will sell £4 million gold to Egypt for Sterling to permit Egypt to pay increased quota to IMF – U.K.-Egypt Financial Agreement

Telegram – No. 30 – London

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U.K, Gold & FX

BELGIUM--GOLD AND FOREIGN EXCHANGE

Belgium still had considerable reserves of gold - the Belgian gold stock was one of the largest in the world, amounting to more than BF 26 milliard. Thus the statutory cover ratio of 30% for the Belgian note circulation was still amply secured, although the regulation requiring it had been abolished during the war. But if Belgium was to maintain this sound position it was essential that no fresh advance was granted to the State beyond the limits already reached. The ceiling for such advances had been fixed in September 1945 and had never been exceeded since. Advances to the State should be understood as including not only direct advances but also advances granted to foreign countries within the scope of payments agreements, which amounted to BF 12 milliard. If the countries concerned wanted to obtain Belgian francs, they must deliver either goods or gold. In fact, Belgium had been receiving gold from abroad. Since the suspension of sterling convertibility, Gt Britain had transferred gold to Belgium for an amount of £ 13 million, or BF 2,225 million.

SOURCE:

B.I.S. Press Review No. 254
Dated December 31, 1947
Page 2.

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April 20, 1948.

UNITED KINGDOM, GOLD & FOREIGN EXCHANGE

GOLD

The Traffic in Free Gold THE ECONOMIST, 17/4, in a survey of the London Bullion Market, deals in particular with the traffic in free gold.

The bullion market today is only a shadow of its former self. That is true not only of the business transacted by London but of the whole world turnover. The international traffic in gold has seldom been larger than in the past few months, but all except a small proportion is official business directly arranged between central banks and Govts and of no immediate interest to the market. In London, formerly the leading centre for international dealings in bullion, the private market in gold has now dwindled to almost insignificant proportions. Some hope of a revival in the London gold market came with the so-called "export float scheme" introduced by the Bank of England at the end of 1945, under which the authorities put at the disposal of the market an initial quota of about 50,000 ozs of gold intended for export in the form of processed and manufactured metal, which would yield a return in foreign exchange beyond the bare value of the bullion. After evidence of export had been submitted to the authorities, the gold in the "float" was replaced together with a 50% "bonus". As a result of this arrangement, the gold in the float had approximately doubled by the end of 1947. Owing to the convertibility crisis last August, the 50% "bonus" arrangement in the export-float scheme was cancelled. This left the float at around 100,000 ozs, but, as the rapidity of its turnover increased, the fact that the scheme was deprived of the supplementary releases did not check the business transacted under it. The granting of export licences was, however, subjected to more stringent scrutiny and, in particular, greater attention was given to the destination of the exports. Those to sterling-area countries were discouraged, and certain obvious abuses of the scheme were remedied. In December 1947 replacements of gold in the float were no longer allowed against exports of wedding rings, dental alloys and fountain-pen nibs. Some countries had authorised the import of wedding rings in a few months on a scale that would have satisfied the needs of their marriageable population for at least ten years, while others bought enough dental gold to fill a most improbable number and size of cavities. Since the end of 1947 the export-float scheme has been further curtailed by an even stricter system of allocating export licences, and it would now seem that the volume of business is almost negligible. Even last year, however, the business done under the export-float schme was considerably less than the substantial turnover from purchases and sales of U.S. dollars which London dealers were allowed to handle provided they acted as intermediaries between principals outside the sterling area. Permission to engage in such transactions had been granted by the Bank of England towards the end of 1946, and the business acquired considerable importance during the first half of 1947. Supplies for this traffic came largely from Mexico, Central and South America and from gold deposits maintained in London by non-residents and dating back to pre-war years. Most of the buying came from the Middle and Far East. The business was arranged at prices which varied considerably from the official parities. Supplies of gold were forthcoming from

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Central America at between 10 and 20% above the U.S. Treasury price of $35 per oz. Prices paid by the ultimate buyers in the Middle and Far Eastern countries at times showed premiums of up to 50% on the U.S. parity. This business was stopped in July 1947 as a result of the I.M.F.'s gold edict. It was not until the following November that the U.S. Treasury issued new regulations specifically prohibiting the export of gold at these higher prices. For more than four months, therefore, the New York market was picking up the international gold business which London was forbidden to touch. The new U.S. Treasury regulations, however, left an interesting loophole which for a short while allowed the tables to be turned in favour of London and against New York. These regulations still permitted the re-export of processed gold at prices above the parity, enabling London dealers to export to the U.S. sheet gold, for which more than the parity price could be obtained. This business suited the British authorities, since it yielded dollars at a rate of around $43 per oz instead of the return of only $35 per oz obtained when gold was sold direct by the British to the U.S. Govt. Though ostensibly intended for manufacturers, sheet gold is the perfect hoarding medium. After the U.S. authorities had lodged objections in London, this traffic was stopped early in January, by the simple expedient of refusal by the Bank of England of export licences. Since the cessation of this traffic, the export of manufactured gold from Britain has been kept down to very small proportions. The exports to non-dollar countries are now regulated by a rigid and minute quota. Licences are of course granted more regularly for exports to dollar countries, but this business is neither large, nor, in terms of sterling, particularly profitable. Although London and New York, the main bullion markets, are temporarily impeded in their international gold business by the restrictions placed on free dealings by their own controls and at the instigation of the I.M.F., this does not mean that no active arbitrage business in gold can take place. On the contrary, the gold business in the Middle and Far East has seldom been more active. This basis for it is the exceptional hoarders' appetite. In satisfying this demand, the Syrians, above all others, have come into their own as the champion black marketeers. They are the main agents for this traffic in gold. They buy largely from South America and Abyssinia, and their supplies are also fed indirectly by the coins provided through British and American initiative in Greece and other Middle Eastern countries. They sell largely to hoarders in the Middle and Far East. The price per oz in Hong Kong has been as high as the equivalent of $53 but is now about $47. In the Middle East the price is now equivalent to about $41. These are prices on the basis of which arbitrage is taking place and their disparity is a measure of the charges that have to be incurred in this gold traffic. The prices paid by the ultimate buyers in China and elsewhere are considerably higher. The market in gold bears all the marks of disruption and disorganisation caused by exchange controls and national import and export licensing systems of widely varying degress of intensity. The principal common thread that runs through the markets is the fact that all free prices are well above the official quotations. Another of their characteristics is that, wherever the metal is quoted in terms both of dollars and sterling, the quotations produce an equivalent of about $3 to the pound.

One of the biggest gold markets in the world today, certainly the biggest in Asia, is at Macao, the Portuguese settlement at the mouth of the Canton River.

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It is reliably reported to have absorbed more gold during the past six months than any other market in the world. Most of the gold is coming from Mexico and the U.S., while the balance is from various European and Middle Eastern countries. Macao is the main channel for gold entering China and also serves as a distributing centre for the whole of the Far East. The capacity of the Chinese market to absorb large quantities of gold at prices which are 75 and 100% above parity is a puzzling phenomenon. During the year ending 17th February 1947, the Chinese Govt sold gold for an amount estimated at 2 million ozs through the central bank as part of a campaign to bolster China's currency. On 17th February 1947, however, official sales were suspended and unofficial dealings were declared illegal. Owing to the increasing demand, a good deal of smuggling and illicit trading continued. It was at this juncture that the dealers turned their attention to Macao. Portugal not being a member of the I.M.F., there was no legal bar to the traffic. More than 1.1 million ozs were imported into Macao last year and about 350,000 ozs during the first seven weeks of 1948. At the beginning import licences were issued at the rate of Macao $1 per oz; the rate has now been raised to M$2 per oz for direct imports and M$3 per oz for imports in transit. A deposit of 10% of the value imported has to be made in Macao dollars with the Banco Nacional Ultramarino. This has led to a shortage of Macao dollars and, as a result, the Hong Kong dollar, which runs normally at par, is being quoted at a discount ranging from 10 to 21%. The importer also has to surrender 1% of the American exchange required to finance the traffic. Most of the gold is smuggled into China and Hong Kong - the current smuggling quotation from Macao to Hong Kong is about HK$12 per tael - but there is also a considerable flow in the direction of Bangkok, Rangoon and other markets in the East. It is thought by some observers that imports into Macao this year may touch 3 million ozs.

Source: B.I.S. Press Review No. 76, pages 1-3
From Basle
Dated April 20, 1948.

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April 12, 1948

UNITED KINGDOM, GOLD AND FOREIGN EXCHANGE

CURRENCIES AND EXCHANGE

British Exchange Situation The British press of 10/4 reports and comments on a statement by Sir Stafford Cripps to the effect that the British Govt will no longer publish monthly figures of gross gold sales. Quarterly statements will be issued instead. The Chancellor explained that monthly reports on the drain on British reserves might give a distorted picture, "particularly in the next few months while ERP is coming into operation". During the first quarter of 1948 £ 147 million had had to be found from British gold and dollar reserves to meet the current deficit in the balance of payments of the sterling area, including the U.K. On 1st January 1948 the central holdings of gold and dollars had amounted to £512 million. During the first quarter the reserves had been reinforced by the South African gold loan of £ 80 million, and the rest of the U.S. line of credit (£ 74 million) had been withdrawn. Further, £ 11 million had been withdrawn from the Canadian line of credit and £ 15 million from the I.M.F. India also had drawn £ 7 million from the I.M.F. The combined effect of all these operations was that the central holdings of gold and dollars increased to £ 552 million at 31st March 1948. But sums received during the quarter in reinforcement of the reserves had to a large extent been non-recurrent. The Chancellor's statement shows that the overall dollar drain from 1st January (when the central reserve of gold and dollars amounted to £ 512 million) to 31st March was rather smaller than had been indicated by the Treasury's monthly statements on gold sales, namely £ 147 million against £ 159.5 million. The discrepancy between the two figures is explained largely by the fact that the monthly statement does not take account of changes in the size of U.K. current dollar balances with U.S. banks. It now appears that these were some £ 12 million higher at the end of March than they were at the beginning of January. An interesting fact which emerges from the Chancellor's statement is that the central reserves of gold and dollars were not supplemented during the first quarter by acquisitions of gold from other sterling-area countries - other than the £ 80 million gold loan obtained from South Africa. This is in line with the recent announcement that any deficit South Africa incurs with the U.K. this year will probably be covered by the Union's holding of sterling, which was considerably increased last year. Apart from the new production of the South African mines, the only important sterling-area source of gold is in Australia. All sterling-area sources other than South Africa are estimated to be able to contribute gold at a rate of about £ 1 million per month to the central pool, but even these minor contributions do not appear to have been received during the first quarter. Another interesting point is that the recent purchase of dollars made by India from the I.M.F. has been brought into the central hard-currency reserve.

The future quarterly statements will be published by the Treasury "at convenient dates after the end of each quarter".

Source: B.I.S. Press Review No. 70, pages 2 and 3,
From Basle
Dated April 12, 1948.

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March 18, 1948

UNITED KINGDOM, GOLD AND FOREIGN EXCHANGE

CURRENCIES AND EXCHANGE

The Anglo-Belgian Payments Agreement. The British press of 17/3 publishes details of the new Anglo-Belgian monetary agreement as announced by the Chancellor of the Exchequer in the House of Commons. The agreement concerns trade and payments arrangements for the period 1st January 1948 to 30th June 1949. The two countries have agreed that, although trade exchanges should be maintained at the highest possible level, payments between the two monetary areas are to be regulated in such a way that they should be brought into balance as soon as possible, thus avoiding further losses of gold by the U.K. If some temporary transfer of gold is required in the early part of the period, the U.K. will have the right, once the desired balance is achieved, and provided that Belgian exports to the U.K. are maintained in accordance with the agreed programme, to repurchase later in the period any gold sold after 1st March 1948. The U.K. is to receive increased quantities of steel, and also flax, fertilisers, copper, and other essential raw materials and manufactured goods, while the Belgian Govt. has agreed that the Belgian market is ready to admit imports from the sterling area to the greatest possible extent. In addition, to assist in bringing payments into equilibrium, the Belgian Govt. has agreed that it will, over the period of 18 months, restrict drastically the acceptance of sterling from countries outside the sterling area. When payments have been brought into balance and any gold losses have been recouped to the U.K., the two Govts. will consider whether there is room for increasing these acceptances of sterling from outside the sterling area, or whether additional imports can be licensed from the Belgian monetary area.

Commenting on the agreement, THE TIMES states that Belgium appears to be making considerable concessions. The new clause governing transfers of gold - which are believed to have reached recently not much less than £ 1 million a week - means effectively that Belgium will maintain during the period of the agreement the whole sterling balance of £ 27 million which she has accumulated; for, if any sale of gold to Belgium is required in the early part of the period, the U.K. will have the right to repurchase it later if she can build up the current balance necessary to do so. Moreover, Belgium must suffer considerably from the inability of other countries to pay her in sterling, for no doubt the right to pay in sterling has been a not inconsiderable factor in sustaining her export trade to Europe.

AG.EC.& FIN., 17/3, understands that, as a result of Belgian payments of £ 4 million for supplies received under Mutual Aid, the Belgian sterling holdings have declined since the beginning of the year to £ 23 million.

Source: B.I.S. Press Review No. 55, page 1,
From Basle,
Dated March 18, 1948.

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March 16, 1948

UNITED KINGDOM, GOLD AND FOREIGN EXCHANGE

GOLD

South African Gold for Gt. Britain FIN.TIMES, 15/3. Surprise has been caused among bankers in London by the disclosure in the Economic Survey that no gold is expected to reach the sterling area dollar pool from South Africa in 1948 other than the £ 80 million handed over to the British authorities a month ago under the Loan Agreement. The amount contributed to the dollar pool by South Africa in 1947 is estimatad at £ 70 million and for 1946 a figure of £ 71 million is given. It thus appears that the net additional contribution to the pool in 1948 resulting from the Loan Agreement over and above the contributions received in 1946 and 1947 (when transfers of South African gold to Gt. Britain were regulated by a minimum annual sale to the Bank of England) will be limited to £ 10 million. It had been hoped that, in addition to the transfer of £ 80 million from South Africa's accumulated reserve of gold, the U.K. would be able to strengthen the central gold and dollar reserve of the sterling area by periodic purchases of newly-mined gold from South Africa during 1948. It was assumed that sales of gold might in any event be undertaken to provide South Africa with the sterling needed to cover any current adverse balance of payments with the U.K. and the rest of the sterling area. But it would now seem that if there is such a deficit it will be made good by South Africa's present holding of sterling. The balance of visible trade is likely to continue to be adverse to South Africa during the present year, but it is not unlikely that a sizable part of the sterling required to cover that balance will in fact be furnished from the proceeds of capital movements from Gt. Britain to South Africa. Any remaining gap would probably be covered with relative ease from the Union's existing holdings of sterling, which increased substantially last year since the visible gap was largely covered from the sterling proceeds of the capital influx from Gt. Britain; the bulk of the sterling obtained by South Africa from sales of newly-mined gold to the Bank of England was actually used for the building up of sterling reserves.

Source: B.I.S. Press Review No. 53, page 1,
From Basle,
Dated March 16, 1948.

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U.K. Gold & FX

UNRESTRICTED CR

FROM: LONDON
DATED: MAY 24, 1948

Secretary of State
Washington

A-1118

Government Statement Regarding United Kingdom Gold Reserve

FOR TREASURY AND OTHER INTERESTED AGENCIES.

Mr. Douglas Jay, Economic Secretary to the Treasury, replying to a question raised on the adjournment in the House of Commons on May 14 gave a statement on Gov't policy relating to sterling area drawings on the central gold and dollar reserve. The statement contained nothing new. He also justified the level of capital exports to the sterling area in 1947 and denied the opposition's allegation that the Gov't had attempted to conceal the actual amount of capital investment in the sterling area as shown in the White Paper (Cmd. 7371). Mr. Spearman (Conservative, Scarborough and Whitby) who raised the question, criticized the Gov't for not controlling drawings on the gold reserve by members of the sterling area more carefully in 1947 and for permitting such a high level of unrequired exports. Mr. Spearman asked what steps the Gov't was taking to reduce the drawings on the gold reserves and the level of unrequited exports to the sterling area in 1948.

Mr. Douglas Jay stated that the gold and dollar reserves were not for the exclusive use of the U.K. but for the whole sterling area for whom the U.K. acted as banker and trustee. He stated that the outflow of capital in 1947 amounted to no more than £80 million while in 1946 there was a movement in favor of the U.K. of £30 million. He pointed out "If we are to act as bankers for the sterling area, there is bound to be a certain ebb and flow of payments between one area and another." He agreed, however, that the country could not afford a high level of unrequited exports in 1948 and stated that they would be permitted only in the following circumstances. First, they would be permitted where they were necessary in order to assist in the physical

cc: 6/2/48 Messrs. Gunter, Arnold, Holzman (3), Schwartz, Eddy, Bittermann, McNeill

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development of the colonies and other parts of the sterling area. Such physical investment would give the U.K. a rich return in the future. Secondly, unrequited exports might be necessary in order to save countries receiving the sterling goods from buying in the U.S. In this connection, he mentioned textiles which are needed by some Far Eastern countries. In this way unrequited exports actually save dollars on the current account. Thirdly, unrequited exports would be sent to sterling area countries such as Burma where it was necessary for their existence and recovery.

With regard to the Gov't's general policy in 1948, Mr. Jay stated "We shall in the first case continue to press the other member countries in the sterling area to reduce to an absolute minimum their net drawings on the common gold and dollar reserves, and to limit the drawings on their sterling balances so as to keep both unrequited exports and the drop in our gold reserves to the lowest possible figure."

Mr. Jay then outlined the way in which the Gov't was implementing this policy. First, members of the sterling area have been requested to limit to the absolute minimum purchases of dollar and other hard currency goods. The results of this policy which has been in effect for several months were slow in showing up in the gold and dollar drain figures but the April figures were an improvement on January's and February's. Secondly, the Gov't hoped by agreements or understandings to insure that sterling balances were not drawn upon except where it was absolutely necessary. Mr. Jay pointed out that there were agreements in effect with practically all the sterling area countries involved. Thirdly, the Gov't would attempt to prevent leakages through technical deficiencies in the exchange control system.

Mr. Jay emphasized that the Govt. was not prepared to use any compulsory methods to regulate drawings on the central reserve which would "threaten to break up the sterling area and perhaps the Commonwealth." He stated that the above mentioned measures would "keep the strain both on the gold and dollar reserve and on our productive exporting capacity within full limits." Mr. Jay stated that the U.K. was anxious to prove to some of the new members of the sterling area that membership in it and in the Commonwealth "is something worthwhile in this world" In concluding the debate, Mr. Spearman questioned the figure given in the White Paper for the deficit arising out of repayment of external debt or export of capital and he suggested that

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the Gov't had taken measures to conceal the real size of the deficit. Mr. Jay denied this but stated that he would look into the figures.

Copies of the debate will be transmitted to the Department when they are available.

DOUGLAS

MR. BLISS
MR. HEBBARD
MRS. WINTON

EMWinton/ac

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BRITISH GOLD AND DOLLAR RESOURCES AVAILABLE, EXPENDITURE, AND METHODS OF FINANCING

(Millions of U.S. dollars)

		Resources Available Beginning of Period			Gold and Dollar Expenditure During Period			Financing of the Expenditure				
	Period	Gold & Dollar Reserves[a]	Gold & Dollar Credits[b]	Total	Per Period Total[c]	Cumulative	Monthly Rate	U.S. Credit[d]	Canadian Credit[e]	I.M.F.[f]	E.C.A.[g]	Reserves
	1	2	3	4	5	6	7	8	9	10	11	12
-938	Aug. 31	4,200	—									
1944	Dec. 31	2,371	—									
1946	Jan-Jun	2,476	—		321	321	54	—	146	—	—	-175
	July-Dec	2,301	4,840[h]	7,141	583	904	97	600	378	—	—	+395
1947	Jan-Mar	2,696	3,862	6,558	916	1,820	305	500	100	—	—	-316
	Apr-Jun	2,380	3,262	5,642	973	2,793	324	950	53	—	—	+30
	Jul-Sep	2,410	2,259	4,669	1,537	4,330	512	1,300	150	60[k]	—	-27
	Oct-Dec	2,383	809	3,192	704	5,034	235	100	120	180[k]	—	-304
1948	Jan-Mar	2,079	587[i,j]	2,666	595	5,629	198	300	45	8[l]	—	-162[j]
	Apr-Jun	2,241[j]	242	2,483	433	6,062	144	—	7	16[m]	89	-321
	Jul-Sep	1,920	235	2,155	308	6,370	103	—	—	—	165	-143
	Oct-Dec	1,777	235	2,012	376	6,746	125	—	—	24[m]	431	+79
1949	Jan-Mar	1,856	235	2,091	332	7,078	111	—	30	32[m]	326	+56
	Apr-Jun	1,912	205	2,117	634	7,712	211	—	30	—	343	-261
	Jul-Sep	1,651	175	1,826	539	8,251	180	—	29	—	284	-226
	Oct-Dec	1,425	132[n]	1,557	31	8,282	10		27	20[o]	247	+263

Footnotes attached

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Footnotes to Table on Gold and Dollar Resources Available, Expenditure, and Methods of Financing

a. 1938: Net holdings of gold and U.S. dollars, from Cmd. 6707; 1944: Total gold and U.S. dollars, from Cmd. 7099; 1946-1949: Treasury gold and dollar reserve announcement, Jan. 4, 1950

b. Compiled from various sources, mainly U.S. and Canadian

c. 1946-June 1949: Cmd. 7793; July-Dec. 1949: Treasury gold and dollar reserve announcement, Jan. 4, 1950

d. Report of the National Advisory Council on International Monetary and Financial Problems Covering its operations from October 1, 1947 to March 31, 1948. Transmitted to Congress August 4, 1948

e. Derived from published figures

f. 1946-June 1949: Cmd. 7793 and N.A.C. Semiannual Report for the period April 1-Sept. 30, 1948; Oct.-Dec. 1949: Treasury gold and dollar reserve announcement, Jan. 4, 1950

g. Includes aid to Ireland. 1946-June 1949: Cmd. 7793; July-Sept. 1949: Sir Stafford Cripps' announcement, Oct. 5, 1949, adjusted for £ devaluation; Oct-Dec. 1949: Treasury gold and dollar reserve announcement, Jan. 4, 1950

h. Includes U.S. credit of $3,750 which became available July 15, 1946 and Canadian credit of $1,090, converted at parity, the rate established July 5, 1946

i. Because of rounding and some estimating, figures do not always reconcile exactly.

j. South African gold loan of $325 million became available in February, 1948. This is reflected in Col. 2 but not in Col. 3 or Col. 12.

k. U.K.

l. India 28; U.K. 60

m. India

n. Canadian credit revalued in terms of U.S. $, Sept. 18, 1949

o. Australia

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Letter No. 138 from Mr. Dickens, dated November 14, 1950.

United Kingdom Gold and Dollar Reserves

The United Kingdom gold and dollar reserves as of September 30, 1950 amounted to $2,756 million. They have increased rapidly since that time. A year earlier (September 18, 1949) they amounted to only $1,340 million while at the time of the start of the Eruopean Recovery Program they were $2,241.

The rapid increase since devaluation -- doubled during the course of the year -- has been due, 1) to the restriction of imports from the dollar area, 2) to some stimulation of exports to the dollar area by the devaluation, 3) to U.S. prosperity and to the U.S. defense production program which caused large purchases of sterling for commercial purposes and, 5) to extraordinary financial assistance from abroad. ECA aid accounted for 65 percent of the increase.

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U.S.S.R. GOLD & FOREIGN EXCHANGE

2. Soviet Gold Production, Exports and Reserves

The accompanying table gives some statistics of Soviet gold production, exports and reserves. In the table and in the present text all figures are expressed in U.S. dollars of present-day value ($35 per fine ounce).

Official statistics of gold production in the U.S.S.R. were published up to 1927. From that date onwards information is available, based largely on percentage figures from Soviet sources, which make it possible to give fairly reliable estimates up to the war. During the war, it seems reasonable to assume, gold production fell in the U.S.S.R. as elsewhere - and it has probably risen again during the past two years. An estimate of the average production equivalent to $100 million a year from 1941 to 1946 would doubtless be on the low side.

No official statistics of gold exports from the U.S.S.R. have been published since 1914. But post-1918 exports seem to have been largely concentrated as to time and direction: from 1925 to 1928 they went almost wholly to Germany and the United Kingdom; from 1931 to 1934 to Germany alone and, subsequently, largely to the United Kingdom (especially in 1937 and 1938) and to the United States. The gold imports of these countries from the U.S.S.R. have been assembled in the table together with minor amounts for other countries (e.g. France and Switzerland up to 1939). The figures given in the table are therefore minima and take no account of Soviet exports to other western countries or such Asiatic countries as Mongolia, Western China and Afghanistan, which are said to have received Russian gold. Reports of Russian imports of gold are rare.

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From 1922 to 1932 the State Bank published monthly figures of the official gold reserves; but regular figures finish with August 1932 and statements were made only irregularly during 1933, 1934 and 1935. The last figure shown in the table, $839 million, applies to 1st October 1935 (and is the latest shown in American statistics). Later figures from German sources indicate a sharp fall to the equivalent of $280 million for 1st April 1936, rising to $380 million at the end of that year (and here all information based on Russian sources comes to an end).

A fall from $840 million to $280 million in six months can hardly be accounted for except by (a) a change in valuation or (b) the constitution of hidden reserves. In fact, there was a devaluation of the rouble according to the decree of 29th February 1936, coming into force on 1st April 1936, from the equivalent of 0.774385 grammes to 0.184536 grammes of fine gold, i.e. to only 23.8 per cent of the former nominal value. Such a devaluation would normally have led to a writing-up of the internal rouble value of the gold stock unless, at the same time, something in the nature of a stabilisation fund or foreign-trade fund were constituted, as was quite fashionable at that time. Actually, there is some evidence that the gold stock was revalued at the new rate, and all "surplus" gold (above the legal reserve of 25 per cent of the note circulation) was transferred to the Commissariat of Finance.

It is not easy to find any correlation between Soviet gold production, exports and reserves. From 1920 to 1935, total production was $730 million and exports at least $690 million, so that apparently total production was exported except for a negligible amount; but over the same period the reserves of the State Bank rose by $840 million! It is, of course, possible that some of the gold coin in circulation before the war of 1914-18 and also private hoards were purchased by the

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State Bank from the public; and gold and foreign currencies are reported to have been collected from the Torgsin shops when they were closed at the end of 1935; further, it is possible that part, at least, of the reserve of the Imperial Bank of Russia (last given in December 1917 as the equivalent of some $1,100 million present-day dollars) was recovered and brought into the reserves of the State Bank (although the gradual increase of these reserves over the years would seem rather to indicate an accretion from current sources). It is also possible that part of the pre-1917 reserves were held undisclosed and that exports have been made from this source; indeed, until 1934 exports generally exceeded current production.

In conclusion, it may be observed that very little light is thrown on the present position of the gold reserves of the U.S.S.R. by the old figures published by the State Bank. But it can be said with reasonable certainty that up to 1938 known exports of Soviet gold, around the equivalent of $1,100 million since 1920, were practically the equivalent of production over the same period, say, $1,200 million. On the other hand, from 1939 to 1946, Soviet production must have amounted to at least $1,000 million, while known exports to the west were less than one-third of this amount, say, $300 million.

If the total gold stock of the U.S.S.R. was, say, $1,000 million before 1939 and somewhat over $700 million has been added since then, this would give perhaps $2,000 million at the present time. But as Soviet gold production may have been somewhat higher than $100 million annually during the period 1941-46 and gold was also obtained from other sources (e.g. the Baltic States), a maximum of $2,500 million for present Soviet gold stocks would not appear unreasonable. Such a figure would be of the same order of magnitude as the British gold stock. (But whereas the British reserves are considered as being held for the whole Commonwealth and are the equivalent of only three months' British imports, the gold

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stock of the U.S.S.R. is probably equivalent to three years' commercial imports at the present rate.)

Soviet gold exports continued in 1947, the best-known being those in implementation of the gold loan of $28 million to Poland, concluded in March 1947.

(SEE NEXT PAGE FOR TABLE).

Source:

Bank For International Settlements
Monetary and Economic Department
Basle

C. B. 203
"Brief Notes on Current Questions", December 1947.

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Soviet Gold - Production, Exports and Reserves

Yearly figures	Production (1)	Exports (2)	Reserves of State Bank (1)
	in millions of present-day dollars at $35 per ounce		
1920	3	16	-
1921	2	5	-
1922	7	23	4
1923	11	-	76
1924	19	0	124
1925	19	43	159
1926	27	40	143
1927	24	19	164
1928	14	180	156
1929	25	0	249
1930	53	0	421
1931	58	100	556
1932	68	79	645
1933	95	69	704
1934	135	87	744
1935	167	26	839 (3)
1936	181	12	
1937	188	201	
1938	183	117	
1939	175	37	
1940	140	31	
1941		56	
1942		60	
1943		4	
1944		29	
1945		11	
1946		34 (4)	

(1) According to the statistics of the Federal Reserve System (see "Banking and Monetary Statistics" 1943, pages 543 and 551).

(2) Compiled at the B.I.S. on the basis of imports of Soviet gold into the United States, United Kingdom, Germany (and France and Switzerland to 1939).

(3) End September 1935 (actually the returns were made on the first day of the month and in this case fell on 1st October 1935).

(4) United States imports only.

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GR

UK - Gold + For. Ex.

ECONOMIC COOPERATION ADMINISTRATION

PLAIN

FROM: London

TO: ECA ADMINISTRATOR

NO.: TOECA 1116, October 3.

SENT WASHINGTON TOECA 1116, REPEATED PARIS TOREP 981 NOR OSR;

PASS TREASURY AND ECA.
Following for release 2100 hours British summer time October 3:

During third quarter 1950 sterling area gold and dollar surplus 187 million dollars compared with surplus 180 million dollars second quarter and 40 million dollars first quarter. Reimbursement of expenditure and other forms assistance under ERP amounted to 147 million dollars compared with 240 million dollars in second and 229 million in first quarter. Gold and dollar reserves rose during third quarter by 334 million dollars and amounted to 2756 million dollars on 30th September compared with 2422 million dollars 30th June and 1984 million dollars 31 March 1950.

Snitskell will elaborate further in Mansion House speech this evening. Will give figures as in preceding paragraph and will state that four factors contributed to rapid shift in UK balance of payments position.

(1) Cessation speculative short term capital movements against the pound and reversal these movements;

(2) Increased dollar exports due in part favorable effect devaluation competitive position;

(3) Dollar saving measures adopted by British and Commonwealth;

(4) Restoration strong US-Canadian buying following inventory recession spring 1949 and strengthening prices sterling area commodities.

We asked that these factors be clearly related to discussion changeover in balance of payments position before dollar aid and not to increase in gold and dollar reserves. British accepted suggestion and revised speech slightly to comply.

cc: 10/6/50 Messrs. Willis, Arnold, Widman (3), Schwartz, Eddy, Southard-Hooker, Curtis, Maloney, Wynne, E. Rains, Hynning

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CR

later point in speech Gaitskell pays warm tribute importance of American aid.

Gaitskell will warn of expected deterioration over-all balance of payments with adverse shift in terms of trade but will state first half year showed over-all surplus.

No copy speech yet available to us. Text or summary will follow.

LONGMAN

PAF:MMG

PLAIN

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U.S.S.R. GOLD RESERVES

October 27, 1948.

The amount of U.S.S.R. gold reserves is controversial and there is a considerable range between the estimates of various experts. Although much has been written on Soviet gold no concrete reliable information is available for recent years.

An attempt to explain the estimates of the O.I.F., Treasury, and the Federal Reserve Board is attempted as a possible guide to future Treasury research men.

The estimate of $1,850 for December 31, 1945 in NAC Document No. 82, May 22, 1946, apparently doesn't include the $522 million in gold acquired from Spain during the Civil War. Added together they equal $2,372 million, the figure used by the F.R.B. for December 31, 1945 previously to the revisions in 1947. Based on the $2.5 billion for June 30, 1947 revision, (FRB now uses $2,250 million as of December 31, 1945, which allows for a sale of $44 million in gold to Argentina.)

All Treasury and F.R.B. U.S.S.R. gold estimates as of periods prior to June 30, 1947 are now obsolete unless revised according to June 30, 1947 base. Estimates of U.S.S.R. gold reserves by both Treasury, (O.I.F.) and F.R.B. by joint agreement are based upon the $2.5 billion as of June 30, 1947.

At the time of negotiations on the Lend-Lease settlements representatives of State and Treasury meeting in Mr. Glasser's office agreed on $2.5 billion for U.S.S.R. gold reserves as of December 31, 1946. When the F.R.B. compiled the gold and dollar holdings of foreign countries as of June 30, 1947 for S.R. No. 103 and other NAC documents, the $2.5 billion was carried forward to June 30, 1947 without allowance for new production.

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Miss Bryant estimated war time gold production of the U.S.S.R. at $175 million per year. Both the F.R.B. and Treasury have been using $200 million per year starting June 30, 1945.

For December 31, 1947 the $2,575 million, F.R.B., and $2,570 million, Treasury, allows for $100 million for 6 months production from June 30, 1947 ($2.5 billion) and the loan of $2.8 million in gold to Poland, and later sold to the U.S. Also approximately $5 million may have been transferred to the U.K. and Switzerland. The resulting figure for December 31, 1947 would be $2,567 million, which has been rounded by this Office to $2,570 million.

While it is recognized that the statistical methods are questionable, and that some of the data in regard to the U.S.S.R. are confused, the adoption of the $2.5 billion base for June 30, 1947 and production of $200 million per year will be used for future estimates. This method will conform to the F.R.B. Also, it may be noted that the Bank for International Settlements in December 1947, "Brief Notes on Current Questions" estimate the reserves in 1947 at $2,500 million. It is generally recognized that no reliable information on gold reserves or production for the U.S.S.R. is available.

GCiebc 10/27/48

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U.S.S.R., GOLD & FOREIGN EXCHANGE

The gold mining along the Kolyma River was, and presumably still is, carried out by Dal'stroy which is an agency of the Secret Police (NKVD -- now, MVD). All mining proper was performed by prisoners. As a rule, mining was done on the surface of beds of small creeks flowing into the main river. Only in exceptional cases shallow mines of about 40-50 feet in depth were built. No strips were worked unless the gold-bearing sand had a minimum gold content of 5 grams per cubic meter (one Troy ounce = 31.1035 grams). The average gold content, however, was higher, and amounted to about 20 grams per one cubic meter of sand. The soil remained permanently frozen, and as a result the opportunities for mechanization were small. Most of the digging was done by tools. There was only a limited number of steam shovels. Two American excavators which were brought to one of the fields in the region proved ill-suited for the frozen soil and were under-utilized. The winter months were devoted to gold digging. Gold washing was done during 100 summer days only. In 1938, an attempt was made to wash gold in the winter months by channeling steam into the mines so as to unfreeze the soil and to melt the ice, but the losses of gold were staggering (about 60 per cent), and the attempt was abandoned.

Total gold output of the Dal'stroy is said to have developed as follows:

Table I

	Gold Output (In metric tons)	Values in Millions of Dollars (At 35 dollars per oz.)
1936	100	113
1937	140	158
1938	200	226
1939	175	196
1940	150	169
1941	100 ?	113 ?
1942	50 ?	57 ?

The increase in output until 1938 seems to have been caused by the steady growth of the labor force. In 1936, there were about 40,000 workers who were engaged in mining throughout the year. The corresponding figure for 1938 was 110,000 workers. It should be noted that the total number of forced labor in Dal'stroy was about twice as large. Prisoners who did not work in the mines throughout the whole year were engaged in construction, lumbering, and even agriculture; the latter was conducted in hothouses. During the short summer season, however, about 90 per cent of all prisoners were occupied in gold washing. The high output of 1938 was also casued by a change in the working conditions in the mines. While in 1937 the working day lasted for about 9 hours in the winter and 10-12 hours in the summer, it was increased in 1938 to 12 hours in the winter and 14-16 hours in the summer. Finally, output in 1938 was also increased somewhat by the previously mentioned attempt at winter gold washing. The following decline in output in 1939 is essentially explained by

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two factors: (1) In 1939 working hours were reduced to 10 hours in the winter, and 12-14 hours in the summer. The extremely high mortality among prisoners in 1938 is said to have caused the change in working hours; (2) a considerable portion of the labor force was taken off mining and dispatched some 300 miles west of the Kolyma River to construct a new mining camp. It was, incidentally, this field--the so-called Western Administration of Dal'stroy--that Mr. Wallace visited during his journey to Siberia in 1943. After the outbreak of the war, about 50 per cent of the labor was sent to tin mines and road building. (Dal'stroy maintains a large tin mine about 500 miles west of the mouth of the Kolyma River). Mr. P. refuses to credit various previously published reports according to which Soviet gold production continued undiminished throughout the war.

With regard to total Russian gold output the following estimates were ventured.

Table II

	Total Gold Output of the U.S.S.R.		Dal'stroy Gold Output as Percentage of Total U.S.S.R. Output
	In metric tons	In millions of dollars (at $35 per oz.)	
1936	180	203	57
1937	200	225	70
1938	250	280	80
1939	200	225	87
1940	180	203	83
1941	120	135	83

For the years 1936-38 the series on total Soviet gold output as given in the preceding table may be compared with the data on Russian gold output in the Federal Reserve Bulletin. The former are consistently higher than the latter. For 1936 the discrepancy is only 9 per cent. It increases very greatly, however, for the two following years, and amounts to 22 per cent in 1937 and 55 per cent in 1938. When confronted with these discrepancies, Mr. P. expressed the opinion that the Federal Reserve data had underestimated the rapid growth of gold output in the Kolyma region.

Source: Review of Foreign Developments No. 92
Board of Governors of the Federal Reserve System
July 27, 1948.

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Treasury Department
Division of Monetary Research

Date April 28, 1948

To: Files

From: Mr. Hirschtritt

In response to subject: U.S.S.R. gold, Miss Shlifer of Economics Service Agency was directed to our office by Mr. Gunter. The following replies were given to her questions:

1. Statistics on U.S.S.R. gold holdings prior to 1945?

   Answer: There is a figure quoted in the Statistical Yearbook of UN, 1942 to 1944. In general you will find that estimates vary from somewhere around $1 billion to $3 billion.

2. Russian gold production?
   Answer: Estimates of Russian gold production appear in the Federal Reserve Bulletin.

3. Order of reliability of data that have been published?
   Answer: The data are estimates and are based upon estimates of previous holdings and production and known sales. As a result you might have a variation between from as low as $2 billion in current holdings to $4 billion. However the estimate that appears in Federal Reserve Bulletin, April 1948, is considered the best estimate at the time.

that concerned Quadre

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U.S.S.R., c. 1, & Foreign Ex.

DEPARTMENT OF STATE

OUTGOING TELEGRAM

CONFIDENTIAL

April 21, 1948
11 a.m.

AMEMBASSY,

MOSCOW.
433

For ur info only, USSR during week ended April 17 withdrew from US all ($4.5 million) gold held here under Soviet earmark. Dept informed gold loaded SS VOLGA for shipment to Soviet Union.

LOVETT ACTING.

FH:WJStibravy
4-19-48

CONFIDENTIAL

cc: 4/23/48 Messrs. Gunter, Mastersen (3), Shwartz (3), Shaffner, Wood, Willis, Eddy, Schwartz, Bittermann Mint

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File U.S.S.R. Gold YE

International Financial News Survey, January 22, 1960 pages 222 and 223

Gold Imports of the United Kingdom

During the first 11 months of 1959, gold imports by the United Kingdom from Russia amounted to 7,292,000 ounces, valued at about £ 91 million. This was a substantial increase over the 6 million ounces estimated to have been imported during the entire year 1958. Detailed figures of gold imports and exports became obtainable in 1959 for the first time. Messrs. Mocatta and Goldsmid in their annual circular point out that imports were very heavy in the first quarter of 1959. Sales practically ceased during the summer, but revived again in October. Much of the gold coming on the London market passes to buyers in other Western countries. In the past year, however, these imports were considerably larger than the amount of Russian gold dealt in on the London market. The explanation may be that some gold was sent directly to the Bank of England and that some may have been disposed of through the Paris market, where Russian sellers appear to have the benefit of special advantages. The general trend of international gold dealing in 1959, however, was toward and not away from London, which was enabled by the external convertibility of sterling to compete on equal terms. The London market's facilities were improved in March, when the market received permission to do forward business in gold without previous reference to the Bank of England (see this News Survey, Vol XI, p. 302).

Source: The Economist, London, England, January 9, 1960.

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U.S.S.R., Gold & FX

Instructions given to Soviet representatives in Shanghai to obtain a large quantity of gold bars in black market. These bars will be transported to Manchuria for the purpose of stabilizing financial conditions in areas under Chinese Communist control.

ource: C.I.G. — SO 9287 — from a former member of Bur. Inf. & Stat, Ministry of National Defense.

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Russia

1940

gold stock unknown - fairly certain
less than $1 billion
closer probably to $500 million

Known gold exports 1933-1938 -
$506 million, equal to over half the estimated mine output of those years

Estimated mine production: (1939-1945) (figures)
1939 - $170 million (4.9 million oz.)
1938 $183 "
Source: Treasury, Feb. 9-'40 file: "Gold"
Yellow folder

1934-1939 - Russian gold imported into U.S.
$216,442,655 of this in
1939 52,983,383
Source: Treasury

gold production
1939 - 149,800 fine kg (@ $1125.27 ~~$155~~ per kg = 168,565,000 ~~$175 million~~)
1940 180,000 " " (@ $1125.27 ~~$155~~ per kg = 202,548,600 ~~208 million~~)
3rd 5 yr. Plan - total annual increase to be 15%
Source: State Dept report Jan. '42
"Gold Production in the Soviet Union for 1940"
"CR 1941-44 - USSR"

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Notes on F.R.B. figures

U.S.S.R. - what was reported reserve in Sept 1935?

What gold production figures were used?

Estimates of gold retained by U.S.S.R. - millions $		
'33-'38	500	(known exports '33-'38, 506 = ½ + 06 estimated production)
1939	100	(estimated production 1939 = 170 06 which U.S. imported 50 +
'40-'45	510	(6 x 170 (av. yearly production) = 1020 ÷ 2 = 510
	1110	(+ reserve before 1933 =

Treasury basis		Basis on 1940		
Through 1939	700	'33-'38	500	
		1939	100	
Estim. retained		'40-'45	~~+800~~ 198	(6 x 200 / 3)
			~~1800~~ 1400	(+ pre 33 reserve)
1940-45	510			
	1210			'40-45 - exporting 1/3

Gold reserve 2.0-2.5 billion $

current production estim. @ $200 million

Dpt. State - Divisn of Financial & Monetary Affairs dated 2/17/45

Russia Miscellaneous

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Latvia (Jan-Jun) Report of Nati[redacted] Banks

1940 July 29 L S (Lats)

Gold 71,537,650.12 ($13,499,154 @ $.1887 11/23/40 B)

Foreign currency 29,157,001.80 ($5,501,926

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Lithuania — L ½ of Lithuania

1939 — December 30 - Litas

Gold — 53,010,981.08 ($9,022,999 @ .17021 S. 8/1/39)

For. currency — 6,583,845.20 ($1,120,636 " "

Litas = 0,150462 gr. fine gold

gold @ .150462 gr. per Lita = ~~5,590~~ 7,976 kg. =

~~$6,456,450~~ ~~$9,212,280~~ $8,975,153.5

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Estonia
1939 Report of National Bank
Dec. 31 Ekr.

Gold	40,923,123.01	--- $10,604,408 @ 25.913¢
For. exchange	4,210,344.82	
	45,133,467.83	$11,695,435.5 @ $ 25.913¢

8/1/39

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U.S.S.R. **Gold**

Russian Gold for the U.S. AG.EC. & Fin., November 15, 1947, reports from Washington that the U.S. Government has announced that Russia is continuing to ship gold to the U.S.; the third delivery this year was made in October, for an amount of $5,345,505. In September, Russia had an export surplus to the U. S. of $11 million, while as a rule it has a passive trade balance with that country.

SOURCE: Press Review of the Bank for International Settlements - November 12, 13, 14 and 17, 1947.

gold which originated in U.S.S.R. — loaned to Poland

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August 14, 1947

U. S. S. R Gold and Fr. Exch.

The Russian buying office for precious metals, precious stones, etc., which had been closed since March, was reopened at the beginning of March. Since the buying office had paid the highest prices, the Berlin gold market was subject to a price slump after its closing. It is now expected that prices for gold, jewellery, etc. will rise sharply as soon as the buying office resumes operations on a larger scale.

SOURCE: Press Review of the Bank for International Settlements - Basel, Switzerland, August 15, 1947.

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Yugo Gold & FX

"Yugoslav gold repatriation"

The Economist, London, Aug 3, 1946

The Bank of England has returned 11,000 kilos £12,377,970 of gold which had been deposited in London by the Yugoslav central bank before the war. Similar gold in the U.S. is also to be returned. A small part of the reserve which remained in Belgrade & was removed by the Italians has been identified & will be distributed among looted allies. Yugoslavia will be one of the recipients.

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Yugoslavia

2

Gold holdings in Switzerland

538 kilos - reported on June 1, 1944 from Zagreb

980 " " August 1, 1944 " "

1518 -

$1,708,159

Source: Telegram to State from Bern Legation

Dec. 7, 1944 - File: "Sold"

Gold Holdings in Italy

Part of holdings of Yugoslav National Bank were seized in April, 1941 and sent to Italy

9,300 kg. (U.S. $10,500,000)

Source: Yugoslav Prime Minister - from Embassy, Cairo - Jan 13, '44

File: "Sold"

Exchange rates

1944 - Nov 24 - Official rate in Croatia

800 dinars per $

1945 - June 10 - Official rate

50 dinars per $

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notes on FRB figures (75)

Yugoslavia - million $

47 earmarked in U.S. [June, 44)

1.7 in Switzerland (1,518 kilos) (44)

10.5 in Italy ('41)

59.2 (+ unknown part of assets (11) in Brazil)

11 Brazil

70.2

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Yugoslavia

1944 June - Yugoslavia's Western Hemisphere foreign exchange assets

	million U.S. $
In U.S.	
Official $ balances	3
Private $ balances	4
Earmarked gold	47
In Brazil	
Official holdings (approx.)	11
Total Known	65

1940 million $

Sold	82
Foreign exchange	16
	98

Source: UNRRA - Dec. 22 '44 - "Memo on Foreign Exchange Position of Yugoslavia"
File: "Foreign Exchange Position"

1940 - Officially announced gold production, 1,114 kg.

228814

Gold and Dollar Assets of Foreign Countries as of June 30, 1945
(including estimated security holdings, but excluding direct investments, interests in estates and trusts and other less readily marketable assets)

(In millions of Dollars)

Summary by Areas	OFFICIAL				PRIVATE			
	I Total Gold Holdings 1/	II Gold in U. S.	III Short-Term Balances	IV Total Gold and Dollar Balances (I & III)	V Deposits in U. S. Banks	VI Other Short-Term Assets	VII U.S. Securities 2/	VIII Total Short-Term Assets & Securities (V & VI & VII)
Canada	345	- -	1047	1392	203	17	625	845
Latin America	2588	1494	469	3060	570	34	353	957
Europe	9781	2149	1436	11217	1192	91	1657	2940
Africa	935	- -	6	941	14	- -	14	28
Asia	1398	357	661	2059	200	16	208	424
Australia and New Zealand	30	- -	19	49	11	5	9	25
All Other	- -	- -	55	55	15	1	- -	16
Unidentified	- -	- -	- -	- -	17	- -	2	19
Grand Total	15077	4001	3694	18771	2222	164	2868	5254

Note: The figures are rounded and will not necessarily add to the totals.

1/ Preliminary data supplied largely by the Board of Governors of the Federal Reserve System.

2/ Estimated roughly by raising TFR-300 data about 25 percent for rise in securities prices between June 14, 1941 and June 30, 1945

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Country	OFFICIAL I Total Gold Holdings	OFFICIAL II Gold in U.S.	OFFICIAL III Short-Term Balances	OFFICIAL IV Total Gold and Dollar Balances (I + III)	PRIVATE V Deposits in U.S. Banks	PRIVATE VI Other Short-term Assets	PRIVATE VII U.S. Securities 2/	PRIVATE VIII Total Short-Term Assets & Securities (V+VI+VII)
Canada	345	---	1047	1392	203	17	625	845
Latin America:								
Argentina	1190	657	22	1212	45	7	60	112
Bolivia	15	10	11	26	8	--	2	10
Brazil	340	272	118	458	24	5	15	44
Chile	80	49	43	123	24	1	12	37
Colombia	100	30	54	154	21	1	4	26
Costa Rica	10	10	4	14	4	--	1	5
Cuba	170	170	8	178	179	3	80	262
French W. Indies & Guiana	—	---	4	4	2	—	—	2
Mexico	230	91	101	331	57	2	35	94
Netherlands W. Indies & Sarinan	—	12	11	11	14	4	5	23
Panama	—	---	2	2	74	10	65	149
Peru	30	8	2	32	33	-	10	43
Venezuela	175	44	24	199	17	-	9	26
Other, Latin America	248	142	64	312	68	2	55	125
Total, Latin America	2588	1494	469	3060	570	34	353	957

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Country	OFFICIAL I Total Gold Holdings 1/	OFFICIAL II Gold in U. S.	OFFICIAL III Short-Term Balances	OFFICIAL IV Total Gold & Dollar Balances (I & III)	PRIVATE V Deposits in U.S. Banks	PRIVATE VI Other Short Term Assets	PRIVATE VII U.S. Securities 2/	PRIVATE VIII Total Short Term Assets and Securities
Africa:								
Egypt & Anglo-Egypt Sudan	50	-	1	51	10		7	17
French Morocco	5	-	1	6	2		-	2
Union of South Africa	880	-	4	884	2		7	9
Total Africa	935	-	6	941	14		14	28
Asia:								
China	50	48	431	481	84	6	65	155
French Indo-China	-	-	21	21	4	2	-	6
Hong Kong	-	-		-	19	3	25	47
India, Burma & Ceylon	275	-	5	280	17	1	7	25
British Malaya	-	-	-	-				3
Japan & Manchuria	415	-		415	1		2	13
Netherlands East Indies	213	136	107	320	3	1	15	19
Philippine Islands	-	-	22	22	4		52	56
Turkey	235	132	35	270	25	2	20	47
Other Asia	210	40	40	250	16		7	23
Total Asia	1398	357	661	2059	29		15	44
					200	16	208	424
Australia and New Zealand:								
Australia	5	-	18	23	8	5	8	21
New Zealand	25	-	1	26	3		1	4
Total, Australia & New Zealand	30	-	19	49	11	5	9	25
All Other	-	-	55	55	15	1	-	16
Unidentified	-	-	-	-	17		2	19

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COUNTRY	Official: I Total Gold Holdings 1/	Official: II Gold in U.S.	Official: III Short-Term Balances	Official: IV Total Gold and dollar Balances (I + III)	Private: V Deposits in U.S. Banks	Private: VI Other short-term Accounts	Private: VII U.S. Securities 2/	Private: VIII Total Short-Term Assets and Securities (IV + VI + VII)
Europe:								
United Kingdom	1,834	45	558	2,392	285	18	150	453
France	1,893	128	312	2,205	177	40	225	442
Belgium	715	379	18	733	120	5	55	180
Denmark	45	8	3	48	10	-	6	16
Finland	5	3	4	9	2	-	1	3
Germany	435 3/	-	2	437	5		15	20
Greece	30	7	32	62	23	1	5	29
Italy	3/	18	24	24	20	-	30	50
Luxembourg	-	4/		-	19	-	5	24
Netherlands	414	239	15	429	182	16	500	698
Norway	75	54	199	274	40	2	14	56
Portugal	355	274	15	370	24	1	9	34
Roumania	265	13	3	268	6	-	1	7
Spain	110	-	25	135	7	-	18	25
Sweden	480	177	133	613	32	-	42	74
Switzerland	1,070	720	45	1,115	209	7	550	766
U.S.S.R.	1,800	-	20	1,820	1	-	-	1
Yugoslavia	75	47	2	77	4	-	1	5
Other Europe	180	38	25	205	25	-	30	55
Total, Europe	9,781	2,149 4/	1,436	11,217	1,192	91	1,657	2,940

3/ About $115,000,000 of Italian gold is included under Germany. Of this $25,000,000 is in Allied custody in Italy.

4/ Excludes $102,814,000 held as collateral for loan by a New York banking group.

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Gold + Foreign Exchange
Yugoslavia

OUTGOING AIRGRAM

March 21, 1952

To: Washington
From: Belgrade
No. TOMUS A-8
Ref: TOMUS 116 repeated TOREP 120

The referenced telegrams furnished data as to free gold reserves on December 31 for the years 1947 through 1951 respectively and foreign exchange holdings as of January 1 for the same years.

In answer to a request by the British, the Yugoslavs have reported that gold holdings as of June 30, 1951, were 1655.2 kilograms, and foreign exchange holdings as of June 30, 1951, amounted to 530.4 million dinars.

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COPY

Yugo - Gold + For. Exch

CONFIDENTIAL - Security Information

March 13, 1952

FROM: Belgrade
NO: TOMUS 117, March 13, 1952

PRIORITY

SENT WASH TOMUS 117; REPEATED INFO PRIORITY PARIS TOREP 120.

Ref B/P info requested MUSTO 98.

Yugos just submitted docs 76 and 74A, which pouching Mar 13. Doc 76, gold reserves and foreign exchange holdings, summarized as fols:

1. Gold - free gold reserves (mils dinars) 1947 thru 1951 respectively: 3,142 and 1,012 and 37 and 141 and 124.

Assuming deficit B/P financed other means, Yugo gold reserves will increase by nets amts domestic production, namely on Dec 1951, 2,202 kilos; June 1952, 2902 kilos; Dec 1952, 3602 kilos; July 1953, 5167.

2. Foreign exchange holdings (mils dinars) years 1947 thru 1952 were 1,115 and 453 and 859 and 158 and 358 and 463. In each year.

3. Doc 74A concerns uncommitted credits Aust, Belg, Germ, Nether, Switzer. $3,000 as of Dec 1950: Belg 13,800, Germ 35,000, Switzer 68. As of June 1951 Aust 948, Belg 120.

BEAM

MRM:ED

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Yugoslavia — Gold

Mr. Schaffner

December 7, 1948

Mr. Conway

The Yugoslavs have withdrawn $39 million in gold from earmarking at the New York Federal Reserve Bank for export to Switzerland between the week ending August 18 and December 1, 1948, according to weekly gold movement schedules received from the New York Federal Reserve Bank.

Releases of Yugoslav gold for export to Switzerland, August 12 - December 1, 1948:

Week	Value in thousands $
August 12-18	5,626
September 9-15	6,021
September 16-22	17,629
September 30-October 6	6,243
November 4-10	3,488
	39,007

Remaining gold earmarked for the account of Yugoslavia on December 1, 1948, is listed as $7,879, all of which is set aside as collateral for a loan on gold by the New York Federal Reserve Bank.

The total release of gold, formerly blocked by Executive Order in the United States, was $46,887 thousand, rather than $56 million as publicly reported. Of the approximately $39 million withdrawn for export to Switzerland, approximately $28 million have been sold in Swiss free ports according to the attached airgram. (A-556, Bern, November 10, 1948).

The cable writer also discusses gold sales above premium prices, possible Swiss Government controls on gold trading, possible use of Swiss francs procured from gold sales for communist propaganda and speculation that the gold ultimately reaches the Paris market.

This memorandum is meant to be merely informative in the calling of attention to this movement of gold and supplementing the attached cable.

cc: Mr. Pollack
Mrs. Schwartz

12/8/48

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Yugoslavia, Gold & FX

CR 1565 - London, July 15, 1948

Yugos & Italy have reached an agreement whereby Yugos will accept 8,393 kg. of gold or $ million from Italy for gold looted by Italy in Yugo

No effective date of final restoration, or receipt of gold mentioned

telegram No 1452 - July 16, 1948 Brussels

Tripartite Com. approves Yugo claim of 471.1425 kgs. (1) of gold which Germans looted known as ~~#~~ Ostrog monastery gold.

\# ~~Gold~~

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YUGOSLAVIA Gold

The Yugoslav Foreign Minister, on November 13, 1947, handed to Mr. Marshall an aide memoire, urging the early return to Yugoslavia of $56 million of Yugoslav gold held by the U. S. Treasury. This monetary reserve has been blocked in the U. S. for a number of years. According to "Reuter", this gold stock, constituting the currency reserve of the Yugoslav National Bank, was shipped to the U. S. shortly before the German invasion.

FR shows 46.9

SOURCE: Press Review of the Bank for International Settlements - November 12, 13, 14 and 17, 1947.

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Foreign Gold & Ex

~~Fed. N.Y.~~ 7-31-47

Barcas, earmarked gold, ~~[illegible]~~

Fed Res. N.Y. 7-31-47

Bal due gold

For depositors

$163,000 $46,887,000

drop in Bal from 663,000

in July, 1945

46.9

12.4 gold returned

59.3 from England

Foreign Short term balance

in U.S. 4-30-47 [illegible]

Treasury Securities Miscellaneous Funds Total

N.Y. Res. Bank Other banks

$163,000 12.0 31 15.3

---

gold prod. varies

from 1.70 2.5 m 1.6 yr

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Revised February 17, 1950
F. L. Widman

MEMORANDUM FOR THE FILES CONFIDENTIAL

Notes on the Forecast for U. S. Balance of Payments with the United Kingdom and the Rest of the Sterling Area for Fiscal 1953

A. The U. S. Balance with the United Kingdom

U. S. exports to the United Kingdom, including military supplies, are estimated to be $475 million, which is about 60 percent of the 1949 level. The figure includes, however, $75 million worth of military equipment financed by the MAP. Consequently it allows only about $400 million for commercial imports. This would virtually limit British imports to cotton, tobacco, lubricating oils and petroleum equipment. Probably not more than $75 million would be available for purchases of other commodities.

U. S. receipts on transportation account are seen to be substantially less than 1949 for three reasons:

(a) ECA shipping restrictions will no longer be in effect;

(b) British imports from the United States will be at a much lower level; and

(c) British imports from American petroleum companies will be at a reduced level.

It is assumed that the British will maintain severe restrictions on travel in the United States and that U. S. income from investments in the United Kingdom will remain at roughly the 1949 level. The paying off of the RFC loan and the devaluation of sterling would tend to depress U. S. receipts from investments but the coming into force of a special petroleum contract between the Standard Oil Company of New Jersey and the Anglo-Iranian Oil Company in 1952 will mean an annual increase of about $30 million in U. S. investment income. The projection assumes that interest payments on both the British loans and ECA loans will be waived. Income from miscellaneous services is expected to continue at approximately the 1949 rate.

U. S. imports from Britain are placed at a figure of approximately 75 percent in excess of 1949, but only 35 - 40 percent above the levels which the United Kingdom attained in 1948 and the early part of 1949. Part of this increase may be ascribed to the rise in U. S. national income and part to the dollar export drive.

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Transportation payments by the United States are expected to rise somewhat over 1949 and travel payments to increase slightly. Payments on investments are also expected to increase by a small amount, but payments on miscellaneous services are assumed to remain at approximately the 1949 rate. It is assumed that any additional U. S. military expenditures in the United Kingdom will be financed by the British Government and will not result in an accrual of dollars.

Private unilateral transfers from the United States are projected at about 75 percent of the 1949 rate. The military assistance program is expected to yield about $75 million to the United Kingdom but no other U. S. assistance in grant form is contemplated. Net movement of private long-term U. S. capital is expected to be about in balance except for the capital contributions of the American oil companies to joint U. S.-British petroleum companies operating in the Middle East. Repayments on the Shell-Caribbean loan will probably fairly well offset the flow of American capital into the United Kingdom itself. The figure of $50 million received by the U. S. Government on long-term capital account represents repayment on the British loan. British investment in the United States is projected at a rate very slightly in excess of the 1949 level.

It has been assumed that the United Kingdom will sell in the United States all of the gold which it receives from transactions with other areas. It is envisaged that the British will obtain about $225 million in gold from the Union of South Africa in settlement of that country's deficit with the sterling area, and also about $50 million worth of gold constituting the current production of Australia and other sterling area countries. These gold receipts by the United Kingdom will not reflect the current account position of these countries but is merely the result of sterling area reserve arrangements. Net movements of short-term capital and the net movement of British dollar reserves in the United States are projected at zero. Taking into consideration errors and omissions amounting to a receipt of $120 million by the United States, the United Kingdom would have a residual of $325 million available for transactions with other areas.

The projection assumes that the British will in addition obtain about $40 million from the rest of the sterling area. This is on the assumption that the British colonies will have a surplus of from $125 - $150 million in their transactions with the United States, excluding their current gold production. India, Pakistan, Australia, Southern Rhodesia and others are likely to draw upon the United Kingdom, however, for perhaps $80 - $110 million (again leaving out of consideration their current gold production). The Union of South Africa would, in effect, settle its own deficit with the United States through the sale of gold directly to the United States.

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These projections would leave the sterling area with $365 million to cover gold and dollar payments to all countries other than the United States. The British could probably expect to receive as much as $30 million in dollars from their transactions with Israel and Ethiopia. They would probably have to pay out about $75 million to Iran for conversion of sterling, and the petroleum operations of British companies in Latin America should be virtually in balance on dollar account — sales of British companies to the United States and to the dollar area countries of Central and Northern South America virtually offsetting the dollar expenditures of U. K. companies in the Venezuela - Colombia area. The sterling area deficit with Canada is projected to be in the neighborhood of $300 million. The Canadians might finance, say, $10 million of this on credit but the sterling area would probably have to pay some $290 million in dollars to the Canadians. The projection thus leaves about $20 million for British payments to European countries. Switzerland and Denmark would appear to be the most likely recipients of such payments. There might be some other small gold and dollar transactions with European countries but for the area as a whole these transactions would probably offset one another.

B. Other Sterling Area

Sterling area countries other than the United Kingdom. — It has been assumed that the colonial areas will continue to restrict U. S. imports severely. Self-governing countries are expected to maintain their imports from the United States at the very highest possible level, other purchases being limited only by the amount of dollars which they can compel the British to provide to supplement the dollars available from other sources. This would mean that U. S. exports to the sterling area, exclusive of the United Kingdom, may be nearly as large in 1953 as in 1949, declining by probably less than 10 percent. U. S. earnings on transportation are expected to decline by a fairly substantial percentage, primarily because of the decrease in imports of petroleum from American companies. Earnings on travel and miscellaneous services are expected to be roughly the same. U. S. investment income is expected to be cut in half through a change in the status of the Bahrein Petroleum Company and the consequent reduction in dividend remittances.

On the payments side U. S. imports are expected to be approximately $130 million greater than in 1949. This is an increase of about 15 percent partly attributable to the assumed increase in U. S. national income and partly to other factors. U. S. payments for services are assumed to be approximately the same as in 1949.

Private unilateral transfers are projected at a level somewhat below that of 1949 and the grant assistance program of about $25 million and the military assistance program of $10 million are projected for countries in Southeast Asia which are within the sterling area. U. S. Government loans to these areas are projected at $50 million and the net flow of U. S. private capital is assumed to be slightly in excess of the 1949 level despite a decline in petroleum investment. International Bank loans of $30 million are projected.

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Purchases of gold from South Africa are set at a figure of $250 million assuming that the Union's total production will have risen to approximately $475 million and that the Union will settle its own deficit with the United States by direct shipment of gold.

cc: Messrs. Dickens, Schaffner, May, Stuart, Weidberg; Mrs. Hoffenberg; London, Cairo

FDHrb - 2/17/50

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Revised Feb. 17, 1953

CONFIDENTIAL

MEMORANDUM FOR THE FILES

Notes on the Forecast for U. S. Balance of Payments with the Middle East for Fiscal 1953

The forecast of U. S. balance of payments with the Middle East for 1953 is based not so much on the projection of 1948 or 1949 estimates but rather on an assessment of the operations of the major petroleum companies, since petroleum constitutes by far the dominating element in the Middle East balance of payments with the United States. In order to make the picture consistent with the U. S. Department of Commerce approach to the U. S. balance of payments, it has been necessary to treat the American petroleum companies operating in the Middle East as residents of the Middle East countries. This has meant that all of the companies' purchases of equipment from the United States show up as U. S. exports. The companies' profits from their world-wide operations show up as income on U. S. investment, and the companies' receipts for sales of petroleum for dollars are also entered into the figures. Sales in the United States appear as U. S. imports of merchandise and sales to other countries appear as receipts of funds from other areas.

A separate set of notes has been prepared to set forth the assumptions on world-wide petroleum operations which have gone into the overall projection of the U. S. balance of payments in 1953, and only the major elements need be pointed out here. For other than petroleum operations the forecast is derived by projecting 1948 estimates in most cases. To a considerable extent the approach has been on an individual country basis. Exports of the United States to these countries are, in general, treated as a residual figure, allowing for very minor transfers of dollars between countries within the area.

U. S. income on investments is almost entirely accounted for by petroleum operations of Aramco and the Gulf Exploration Company in Saudi Arabia. Private unilateral transfers are expected to continue at a fairly high level, most of them flowing to Israel. A small item for U. S. Government grant assistance is entered in continuation of Arab relief programs and similar items. Little movement of U. S. private capital is expected. No further investment in petroleum industry is contemplated by 1953, and U. S. interest in other enterprises is small. U. S. Government loans and International Bank loans may be expected in some moderately small amount. Gold production in the area is shown in the projection as moving directly to the United States. Although in practice this may not occur, it represents the most convenient way of bringing the production into these tables.

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Transfers of funds from other areas are expected to be substantial, about $90 million from ERP countries, $85 million from the sterling area, and $30 million from the Far East for crude oil and petroleum products. In addition Iran may well receive about $75 million from the United Kingdom to cover its dollar requirements. It would envisage that the Iranians would pay perhaps nearly $20 million to European countries. Israel might also pay nearly $20 million to Europe and perhaps $25 million to the sterling area. Ethiopia would probably also make small dollar payments to the sterling area but these would probably be offset by U. K. dollar payments to Egypt. Other countries in the area might also pay perhaps $5 million in dollars to ERP countries.

F. L. Widman

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cc: Messrs. Dickens, Schaffner, May, Stuart, Weidberg; Mrs. Hoffenberg; London, Cairo

FLWrb - 2/17/50

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February 3, 1950

MEMORANDUM FOR THE FILES

Subject: Estimated U. S. Balance of Payments with Continental ERP Countries and Their ECA's in 1953.

1. The current balance of payments items were projected for each of the Continental ERP countries on the basis of present performance and projections as prepared by the various countries in their 1951-1952 programs. U. S. Government unilateral aid was assumed to be as follows in 1953: Germany - $200 million; Austria - $75 million; Greece - $75 million; Trieste - $10 million. Net U. S. private investment in the Continental ERP countries was assumed to be about $35 million concentrated largely in France, Germany, Italy and Belgium. U. S. Government loans in 1953 were assumed to be $70 million gross--i.e., about $50 million less than ERP amortization payments to the U. S. in that year. International Bank gross lending was assumed to be $40 million with collections of $8 million for amortization.

2. The results of the calculations show an item of $475 million representing errors and omissions and dollar receipts from other areas. When the ECA's estimated surplus with the U. S. is taken into account the $475 million figure is reduced to $400 million. It is impossible to estimate what portion of this $400 million represents errors and omissions arising from projections of current data on U. S.-ERP transactions. If, as is likely, there is a substantial capital flight from ERP countries to the U. S. through undervaluation of exports and overvaluation of imports a considerable part of the $400 million figure might actually contain concealed receipts from the United States. A large part, however, must be assumed to represent receipts of dollars from countries other than the United States. The prospects for any sizeable receipts from such sources are not too good. It would, therefore, appear that a much more stringent level of dollar payments must be assumed or that U. S. aid must be increased. Imports from the U. S. in 1953 are shown at $1.8 billion, compared with the 1948 rate of $3.2 billion, a decline of almost 44 percent. Exports to the U. S. on the other hand are projected at a level of $772 million, compared with the 1948 rate of $510 million, an increase of 51 percent. Further reduction of imports or increase of exports than the above estimates indicate would probably not be feasible. The above estimates of exports and imports probably depend on further exchange rate adjustments by certain of the European countries.

3. After allowing for the amounts of U. S. Government unilateral aid to Austria, Greece and Germany, as indicated above, it appears that the three countries which will face the most drastic adjustments to balance their dollar accounts in the post-ERP period are France, Italy and The Netherlands.

4. The above comments refer to ERP recipient countries only. Switzerland and European countries outside the ERP group are assumed to be approximately in balance on current account with the U. S. in 1953.

Philip F. Schultze

Copies: Mr. Wadsworth, Hickman, Stuart, Glaser, Hirschfeld, Curtis, Glendinning, Willis

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Table 1.—International Transactions of the United States, by Area, Fiscal 1949
(In millions of dollars)

Item	Total	Continental ERP Recipient Countries	ERP DEF's
Exports of goods and services:			
Merchandise, adjusted	9,760	1,820	95
Transportation	865	234	
Travel	380	41	
Miscellaneous services	595	157	
Income on investments (U.S.)	1,705	115	
Income on investments (International Bank)	25	21	
Total	13,330	+ 2,388	+ 95
Imports of goods and services:			
Merchandise, adjusted	8,500	772	165
Transportation	1,025	234	
Travel	840	189	
Miscellaneous services	815	105	
Income on investments (U.S.)	315	36	
Income on investments (International Bank	-	-	
Total	11,495	- 1,336	-165
Net balances on goods and services	+ 1,835	+ 1,052	- 75
Unilateral transfers (net):			
Private	- 380	- 150	
Government	- 700	- 360	
Total	- 1,080	- 510	
Long-term capital (net):			
United States private	- 565	- 85	
United States Government	- 300	+ 30	
Foreign capital	+ 60	-	
International Bank	- 200	- 32	
Total	- 1,005	- 67	

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Table 1 (continued)

Item	Total		
Gold and short-term capital:			
Net purchases (-) or sales (+) of gold	- 750		
Net movements of United States short-term capital abroad	-		
Net movement of foreign short-term capital in the United States	-		
Total	- 750		
Transfers of funds between foreign areas (receipts from other areas (-), payments to other areas (+), and errors and omissions	+ 1,000	- 475	+ 75

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Messrs. Stuart, Schaffner, Blaser, May

January 19, 1950

Paul D. Dickens

Forecast of balance of international payments of the United States in 1953.

In accordance with our previous discussion of this subject and consistent with the assumptions indicated on the attached sheet and the resulting figures, please allocate for your areas as identified below the estimates for the 1953 balance of payments.

Subject Area Breakdown

1. United Kingdom (Blaser)
2. Rest of Sterling Area (Blaser and Stuart)
3. Canada (Blaser)
4. Continental ERP Countries (Schaffner)
5. ERP Dependencies except those of U.K. (Schaffner)
6. Latin America (May)
7. Far East, not elsewhere covered (Stuart)
8. International (no assignment)

If anyone, upon examination of the detailed figures for the total balance of payments of the United States, should decide that the facts relating to his area are inconsistent with the total figures such a decision should be raised for discussion with the group when the consolidation is attempted. For example, if one area should happen to believe that international bank loans in his area will amount to $200 million or more it may be necessary to reconsider the grand total for that item.

Will you please try to have these estimates ready for discussion by Monday, January 30th?

Attachments

PDD:ms 1/19/50

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World Gold to Fa. Sal.

Gold

World gold production last year is estimated at 26,400,000 ounces or 382,000 fine ounces more than in 1951, but output was below the 26,579,000 ounces achieved in 1950. The estimate is compiled by Union Corp. and is contained in the annual "bullion" review of Samuel Montague & Co., London. It is also estimated that more than 12,000,000 ounces of fine gold were absorbed by the "free" gold markets last year, against about 9,500,000 ounces in 1951. About 10,000,000 ounces came from freshly mined gold, the balance from institutional holdings. The output report contains the usual possible figure of 2,000,000 ounces for Russian gold production which is included in the aggregate for the world.

HERALD TRIBUNE March 31, 1953

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Gold & F.E. - WORLD

Free Gold Prices in 1953

The recent decline in the price of gold in free markets has been helped by the stronger appearance of the French franc. The rise in savings banks deposits in France shows that the public is no longer placing all its savings in gold, but is more prepared to save through normal channels. The one-kilo ingot bar was worth only 430,000 francs at the end of 1953, against 516,000 a year before, and 600,000 at the end of 1951. The still sharper drop in the price of gold napoleons reflects the success of the policy of buying bar gold to mint new napoleon coins with fictitious dates on them. The French authorities have thus taken advantage of the premium which hoarders are prepared to pay to have gold in coin rather than in bars.

Gold prices have also fallen in the Far East. The Bangkok syndicate, which was authorized by the Thai Government more than a year ago for the regulation of legal imports of gold (see this *News Survey*, Vol. V, p. 129), has now worked itself into a leading position in gold trading. In Alexandria, the price of gold per fine ounce has fallen during the year from the equivalent of about $50.40 to $46.30, and in Bombay, from $49.30 to $45.40. Both these markets are officially closed, and imports and exports are officially prohibited. However substantial supplies are still available through smuggling.

The free gold market and the attitude of dealers are at present dominated by Russian sales, and the present position might change quickly if these sales ceased. Such small sales of Russian gold as there were before 1953 usually came from stocks originally minted in South Africa. The more recent sales have been of gold mined in the U. S. S. R.

Source: *The Manchester Guardian*, Manchester England, December 30, 1953.

International Financial News Survey, 1/22/54

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Gold & FE - World

Free Market Gold Sales

The volume of gold sales in the free market in 1953 is expected to exceed the 12 million ounces which it is believed were sold there in 1952. The increase is attributed primarily to the South African decision to relax restrictions. At the same time gold, which was still being hoarded in France in 1952, is now being offered in the Paris market, where monetary tightness has forced some sales, and some operators have begun to sell forward. This may provide some support for the market when these forward positions are closed, but in the meantime it has pushed the free price lower than might otherwise have happened.

Some free market sales of South African gold were reported in the last week of November, at $34.85 per fine ounce. When South African gold is sold through the Federal Reserve Bank of New York to the U.S. Treasury, the net price received by the seller, after allowance for insurance, freight, and handling charges, is $34.77.

It is anticipated that one consequence of the disappearance of the premium on "free" gold will be an increase in official montary reserves, as there will no longer be any inducement for producers to prefer to sell to private hoarders. Sellers will, however, continue to prefer sales for hard currencies, so that, initially, increasing supplies of gold are likely to flow into the reserves of dollar countries. However, the monetary reserves of other countries where there has been a hoarding demand for gold should also benefit ultimately, since in the past dollars which should have been turned over to the exchange control authorities have often been diverted to the purchase of gold for hoards.

Sources: *The Manchester Guardian,* Manchester, England, November 19, 1953; *The Economist,* November 28, 1953, and *The Times,* November 30, 1953, London, England.

International Financial News Survey, December 11, 1953

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original

Mr. Allan J. Fisher

December 10, 1953

Harold H. Rosen

Supplementary Observation to "Gold Movements and Gold Reserves"

The following is not intended for the record but to supplement the thought appearing in the last complete sentence on page 2 of your draft.

The increase in world gold reserves from June 30, 1945 to September 30, 1953 amounted to $2.9 billion. With world gold production (exclusive of the U.S.S.R.) estimated at about $6.6 billion for the same period, and industrial consumption at $1.4 billion, it is evident that about $2.3 billion in gold was directed to non-monetary uses. (Although there is no published data as to the world supply of non-monetary gold outstanding at the end of 1945, the figures show that the increase in most of the world gold production from 1938 to the end of World War II was channeled into monetary reserves.)

It may be observed that the increase in non-monetary gold holdings since the end of World War II has been reflected in an acceleration of transit shipments between certain locations in the Middle East, Africa, India, and Southeast Asia. It may be presumed that these transit shipments, appearing outside of official monetary channels, have served to supplement the means of private payments in trade between these areas. Finally, since the aggregate amount of non-monetary gold holdings may now be estimated at not less than 10 percent of total official gold holdings, the importance of this "floating supply" of gold assumes increased significance since a substantial part of current gold production enters into non-monetary stocks. Some mention could also be made as to the effect of the decline in premium prices for gold on dishoarding, and consequent changes on official gold holdings.

HHR:amk 12/10/53

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L.5.2. RFD 223

Board of Governors of the Federal Reserve System

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

September 1, 1953

The Official Price of Gold 12 pages
Robert Solomon

NOT FOR PUBLICATION

This Review is intended primarily for internal circulation and should in no case be cited or quoted. It consists of personal and informal contributions by the author, which in many cases represent tentative analyses of the subject considered.

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September 1, 1953

The Official Price of Gold

Robert Solomon

Whether or not the United States should raise the official price of gold has been widely discussed throughout the postwar period. The subject has received particular attention during the past year as a result of the announced intention of the United Kingdom and the other countries of Western Europe to progress as rapidly as possible toward currency convertibility and relaxation of restrictions on trade. Significant progress toward these objectives is usually regarded as requiring an increase in the gold and dollar reserves as well as in the dollar earnings of these countries; the proposal for a higher gold price is frequently presented as a means of fulfilling both these prerequisites. In general, the various arguments in favor of a higher gold price fall into two principal categories: (1) the need for greater international liquidity and (2) the need to increase the dollar earnings of the rest of the world.

This paper will appraise the major economic arguments which have been advanced in various quarters for an increase in the official price of gold. It is assumed here, as in most discussions of the subject, that what is under consideration is a uniform increase in the price of gold by all countries; that is, on a given date every country would raise the official price of gold in terms of its currency by the same percentage. As a result, exchange rates would remain unchanged throughout the world. Such a uniform change in the price of gold is provided for in Article IV, Section 7 of the Articles of Agreement of the International Monetary Fund. Agreement by the United States to such a measure would require an act of Congress, in accordance with the provisions of the Bretton Woods Agreements Act.

It should be noted at the outset that the possible inflationary effects of increasing the price of gold will not be dealt with in detail in this paper. In the non-gold producing countries, the principal danger in this regard would arise from the expenditure by governments of gold revaluation "profits". If these were used indiscriminately to finance increases in government expenditures (or to permit reductions in taxation) serious inflationary dangers might result. Although it is certainly within the power of governments and central banks to prevent such effects, as is argued by the proponents of an increase in the price of gold, it might be politically difficult if not impossible to do so in many countries. The sudden acquisition by governments of the financial resources represented by the revaluation profits would undoubtedly lead to pressures for new expenditures or tax reliefs which would not have been forthcoming in the absence of such new financial resources. Since the advocates of gold revaluation recognize these dangers, the question resolves itself into a matter of judgment as to the ability of governments to resist such pressures. Nevertheless, for the purposes of analysis, in order to meet the proponents of a rise in the gold price on their own grounds, this paper will accept their contention that the inflationary impact (in non-gold producing countries) would be insignificant.

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The price of gold and international liquidity

The argument in favor of a rise in the price of gold in order to achieve a higher level of gold reserves has several aspects. It is argued by some that the world supply of gold is insufficient to sustain continued growth in production at current prices. Money supplies have increased at a far greater rate than gold reserves and unless the gold shortage is relieved, severe deflation will be the result. The process whereby such deflationary tendencies would occur, while not always clearly elaborated, appears to involve either (1) deliberate deflationary fiscal and monetary policies to achieve balance of payments surpluses and therefore accretions to reserves or (2) restrictions on foreign trade and payments in order to limit potential claims on limited gold reserves. Such actions would spread cumulatively from country to country.1/ This argument, therefore, appears to resolve itself into the proposition that gold reserves are insufficient to permit a level of international trade consistent with full employment at current prices. A related argument states that countries with low gold reserves have less flexibility to pursue domestic economic objectives, since minor balance of payments fluctuations might seriously deplete gold reserves.2/ Most recently it has been argued by many observers that significant progress toward freer trade and currency convertibility requires that the reserves of many countries be increased markedly in order that they may be in a position to withstand the unpredictable reactions to the relaxation of trade and exchange restrictions.3/

Supporters of these views point out that a rise in the price of gold would not only raise the dollar value of gold reserves proportionately, but would also provide an incentive for increases in gold production. Consequently gold reserves would be augmented from this source as well. It is usually noted, in this respect, that world gold production (outside the U. S. S. R.) has declined from a dollar value of nearly $1.3 billion in 1940 to less than $850 million in 1951 (from about 37 to about 24 million ounces). A higher price, it is argued, might restore gold output to the 1940 level. While there may be merit to this argument, part of its force was removed by the devaluations of 1949, which raised the sterling price of gold by 44 per cent.

In evaluating the arguments concerning the inadequacy of reserves, it might first be pointed out that the concept of reserves need not be, and in most periods of modern history has not been, confined to gold. Dollar holdings, which are in any case freely convertible into gold by foreign monetary authorities, can also serve the purposes which the proponents of these arguments put forth as the functions of gold reserves.4/

1/ This argument may be found in W. J. Busschau, The Measure of Gold (1949), passim. and in R. F. Harrod, "Imbalance in International Payments", Staff Papers (International Monetary Fund) April 1953, p. 4.

2/ Busschau, op. cit., p. 2.

3/ See, for example, "Prospects for the Gold Price", The Economist, Dec. 6, 1952, p. 706.

4/ On this point, as well as others contained in this paper, see Miroslav A. Kriz, The Price of Gold, Essays in International Finance No. 15, Princeton University, July 1952.

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The arguments for higher gold reserves are usually supported by comparisons of gold reserves with the value of foreign trade. Most computations of this sort compare the current ratio of gold reserves to trade with the ratio existing in 1938. In view of the large increase in the dollar price of gold which occurred in 1934 (69 per cent) and the corresponding increase in the dollar value of world gold reserves, whereas the value of world trade was depressed in 1938, it is not surprising that the comparison with 1938 should be highly unfavorable. It is desirable, therefore, to examine the data for a period prior to both the depression of the thirties and the gold revaluation of 1934. The year 1928, which fell in a period of prosperity and high levels of international trade, appears to be more comparable to the present period.

Table I

Ratio of Official Gold Reserves to Total Imports 1/

	(Per cent)		
	1928	1938	1951
Canada	7	24	20
Latin American Republics	40	45	26
United Kingdom	13	63	20
Other Sterling Countries	14	23	8
Continental EPU Countries	25	78	18
United States	85	592	191
World, excluding U. S.	23	60	18

1/ Omits members of Soviet bloc, and dependent territories of both United Kingdom and Continental EPU countries.

Source: — The Adequacy of Monetary Reserves, International Monetary Fund, June 1953.

Table I presents data, compiled by the International Monetary Fund, on changes in official gold reserves as a percentage of imports between 1928, 1938 and 1951 for the principal countries and areas.

It may be seen that the ratio dropped sharply for all countries, including the United States, between 1938 and 1951. Comparison with 1928 shows a much more moderate decline in the ratio of gold reserves to trade. For the rest of the world, excluding the United States, the ratio fell from 23 per cent in 1928

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to 18 per cent in 1951.1/ In the case of the United Kingdom, gold reserves as a percentage of annual imports rose from 13 in 1928 to 20 in 1951. For the sterling area as a whole, the figure was virtually the same in the two years.

There are, of course, a number of reasons why the comparison with 1928 is somewhat misleading. In the first place, gold circulated freely in 1928 whereas at present it is concentrated in official institutions in most countries.2/ Secondly, in the case of the United Kingdom, claims against the gold (and dollar) reserve have risen substantially since that time. Finally, it might be argued that the widespread use of trade restrictions at present, in contrast to the relative freedom of trade and payments in 1928, represses the current volume of trade.

On the other hand, it is easy to exaggerate the rise since 1928 in potential claims on the gold reserves of the United Kingdom. Although the sterling area has been formalized since 1939, even before that time most of the present members maintained exchange reserves largely in the form of balances in London. These balances were always convertible into gold. Thus the extent of the increase in actual or potential sterling claims which might require gold sales by the Bank of England (or now by Exchange Equalization Account) involves a difficult judgment. With respect to the volume of trade, it is arguable whether the relaxation of trade restrictions would have, under present circumstances, a significant effect on the over-all volume and value of international trade. In view of the achievement of internal financial stability in most, although not all, countries, it appears likely that such relaxation would affect the geographical distribution much more than the volume of trade. It is true, however, that an increase in trade with the dollar area, even if it were accompanied by a decline in trade with other countries, might be regarded by many countries as requiring higher gold and dollar reserves.

The preceding analysis does not indicate that the gold reserves of non-dollar countries are adequate. It does bring out the fact that by 1928 standards the deficiency is considerably less glaring than are indicated by the usual comparisons with 1938. Mr. Harrod, for example, states that for the countries other than the United States "to restore their reserves to their pre-war relation to trade, they would have to get all the gold out of Fort Knox, and long before that happened the United States would feel herself short. The plain fact of the matter is that, at the present valuation of gold in terms of goods, not all the gold in the world (including that in Fort Knox) is sufficient to provide nations with adequate reserves."3/ It is clear that so extreme a statement could not be based on comparisons with the twenties; by "pre-war" Mr. Harrod means 1937-38, but he fails to point out that in those years the relation of gold reserves to trade was unusually high.

1/ For the non-dollar world (the countries included in the IMF study except for the United States, Canada and the dollar countries of Latin America) the percentages for the three years are 25, 26, 17.

2/ It has been estimated in the case of the United Kingdom that monetary gold outside the Bank of England — that is, with other banks or in private hoards — amounted to $90 million in 1928 (Statistical Yearbook of the League of Nations, 1931-32, p. 268). If this sum is added to official gold reserves for 1928, the ratio to imports rises to just over 14 per cent.

3/ Op. cit., p. 4.

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Increases since 1951 - The reserves of many countries have increased substantially since December 1951, the final date used in the International Monetary Fund study. The official reserves (gold and dollars) of the United Kingdom had just regained the end-of-1951 level by mid-1953, but those of the Continental EPU countries had risen by nearly $1.4 billion. The last column of the following table shows the increase in gold and dollar holdings of the Continental EPU countries between December 31, 1951 and June 30, 1953. Virtually all of the increase was in official reserves. This increase is compared, for each country, with the increment to reserves which would have resulted from a 50 per cent rise in the price of gold as of the end of December 1951. It appears justifiable to compare the latter (hypothetical) figures with the (actual) increases in gold and dollar reserves in view of the fact that the increments in dollar holdings are convertible into gold.

Table II

Gold and Dollar Holdings of Continental Western Europe
(In millions of dollars)

	Gold holdings December, 1951	Hypothetical increase from 50% rise in gold price	Actual increase in gold and dollar holdings Dec.51-June 53
Austria	50	25	65
Belgium-Lux.	624	312	59
Denmark	31	16	26
France	548	274	44
Germany, Fed. Republic	28	14	459
Greece	3	2	33
Italy	333	167	23
Netherlands	316	158	418
Norway	50	25	14
Portugal	265	133	75
Sweden	152	76	56
Switzerland	1,452	726	118
Turkey	151	76	-13
Total	4,003	2,004	1,377
Total, excluding Switzerland	2,551	1,278	1,259

Table II shows that the group of Continental EPU countries, excluding Switzerland, has gained nearly as much in gold and dollars since December 1951 as it would have gained at the end of 1951 from an increase in the price of gold to $52.50.1/ In other words, it has taken only a year and one-half for Continental

1/ It is assumed, perhaps unrealistically, that anticipations of the rise in the gold price would not have led to large-scale conversions of dollar holdings into gold by foreign monetary authorities before December 31, 1951.

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Western Europe, excluding Switzerland, to gain from balance of payments improvement plus American aid what would have been gained from a 50 per cent rise in the price of gold.1/

The additions to reserves which did occur were more equally distributed than those which would have resulted from a gold revaluation. In particular the large absolute increases which would have accrued, under an assumed rise in the price of gold, to countries whose gold reserves were already relatively high (Switzerland and Belgium) were avoided. Instead a number of countries whose reserves were small at the end of 1951 have added substantial amounts to their gold and dollar holdings.

The adequacy of reserves - The data in Table I, especially when supplemented by the information in Table II regarding increases in gold and dollar holdings since 1951, hardly support the fears that a world-wide deflation might be precipitated as a result of inadequate reserves. On the other hand, reserves might very well be inadequate, in the case of a number of countries, to support significant relaxations of trade and exchange restrictions. In particular, the reserves of the United Kingdom are not regarded by the British authorities as adequate for convertibility. It is questionable, however, whether it is either desirable or necessary to increase them by raising the price of gold. The resources of the International Monetary Fund (its gold and dollar assets amount to about $3 billion) and perhaps other sources for stabilization loans might be sufficient to supplement British reserves. Such resources can be loaned selectively, in contrast to the general effects on reserves of a uniform increase in gold prices.

The possibility must be considered that the increased reserves resulting from a gold revaluation might be used not only to finance normal fluctuations in balances of payments, as is assumed by the proponents of a rise in the price of gold, but also to finance deficits in some countries until reserves were again drawn down. In other words many countries might regard the increase in the dollar value of their gold reserves as a once-for-all resource to be utilized for the financing of development programs or other domestic requirements. While a flow of capital resources from the United States to underdeveloped countries is generally accepted as desirable, it is questionable whether its geographical distribution ought to be based on the size of the present gold reserves and the disposition among these countries to spend increases in such reserves. This objection has particular force in a period of high economic activity in the United States and most other countries of the world.

1/ It is obvious that, if there had been no changes in world trade and payments or U. S. aid disbursements and the price of gold had been raised in December 1951, official reserves would have been considerably higher. But it is probably more realistic to assume that, if the gold price had been raised in December 1951, American aid would have been considerably smaller during the past eighteen months. (Between December 1951 and June 1953 disbursements of grants and loans by the Mutual Security Agency to Continental Western Europe amounted to somewhat over $1.5 billion.) On this basis, it is possible to regard the hypothetical increment to reserves shown in the table above as an alternative to the actual increase in gold and dollar reserves.

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The price of gold and the dollar problem

The other set of arguments for an increase in the price of gold rests on the proposition that such an increase is necessary in order to permit the rest of the world to increase its earnings from the United States.1/ The resultant closing of the "dollar gap" would in turn permit the elimination of grant aid from the United States and also enable the rest of the world to relax discriminatory restrictions against dollar imports and to progress toward convertibility.2/

These arguments are usually supported by statistics showing that the price of gold has remained unchanged while commodity prices have risen by 100 per cent or more since pre-war. For the sterling area in particular, gold was the principal means of covering the dollar deficit during the thirties and the failure of the gold price to rise is frequently regarded as the main explanation for the dollar deficit of the post-war years.3/

Here again the comparison is with the thirties, the period immediately after the 69 per cent increase in the dollar price of gold. If, as in the case of gold reserves, the year 1928 is taken as a basis for comparison, it is found that U. S. wholesale commodity prices have risen 77 per cent while the price of gold has increased 69 per cent. While a disparity remains, it is so small that it can hardly be held chiefly responsible for the dollar gap of the post-war period.

Although the argument of the previous paragraph casts doubt on the claim that the constancy of the gold price is the chief explanation for the dollar difficulties of the post-war years, it does not dismiss the claim that an increase in the price of gold would be of great benefit in alleviating the dollar problem.

It may immediately be conceded that a rise in the gold price would relieve the dollar problem of South Africa. But the case is usually presented as a means whereby the United Kingdom and Continental Western Europe could increase their dollar earnings and as a result relinquish American aid and reduce their restrictions against dollar imports. It is not sufficient, therefore, merely to show that if the gold price had risen, world gold production would have been sufficient to cover the surplus in the U. S. balance of payments. It is also necessary to show that those countries which incurred dollar deficits would have been able to earn the (higher-valued) gold production.4/

1/ Although Mr. Harrod does not explicitly argue for an increase in the price of gold, he points to the contribution such an increase would make to eliminating the dollar gap; op. cit., p. 11.

2/ See, for example, "A Programme for the Commonwealth", The Banker, September 1952, pp. 131-133.

3/ See, for example, A. R. Conan, The Sterling Area, London (1952), pp. 76-77.

4/ An example of the omission of this step may be found in Mr. Harrod's demonstration that a rise in the gold price would have permitted the rest of the world to cover its deficit with the U. S. in 1950-52. He includes the gold production of Canada with that of the rest of the world; but surely an increase in the price of gold would not make it significantly easier than at present for other countries to earn gold from Canada.

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Table III

World Gold Production in 1951
(In millions of dollars)

South Africa	403.1	
Rhodesia	17.0	
West Africa	22.9	
Australia	31.3	
India	7.9	
Belgian Congo	12.3	
Sub-total		494.5
United States	66.3	
Canada	153.7	
Mexico	13.8	
Colombia	15.1	
Chile	6.1	
Nicaragua	8.8	
Sub-total		263.8
Other		81.7
Total		840.0

Source: — Federal Reserve Bulletin

Since the United States, Canada, Mexico, Colombia and Nicaragua are "dollar countries", their gold production may be considered as of no value in meeting the dollar deficit of Europe, for the reason that exports to these countries are already payable in currencies which may be freely converted into gold by foreign monetary authorities. As may be seen in Table III, this leaves no more than about $580 million (valued at $35 per ounce) of gold production which, if valued at a higher price, might be of greater benefit to Western Europe. For the sake of discussion and analysis it is useful to pick a maximum figure for the value of this portion of world production under the twin assumption of a rise in the gold price and an increase in gold output. Assuming a doubling of the price and an increase in gold production by one-third, the maximum value of annual gold production which Europe might earn would amount to about $1.4 billion.1/ Of this sum, South Africa would account for almost 70 per cent.

The major question, therefore, is whether the United Kingdom and Continental Europe would be able to earn this amount of gold from South Africa

1/ It is also assumed that there is no disappearance into industrial uses or private hoards. In 1952 these factors accounted for over one-half of production outside the U. S. and U.S.S.R.; (Federal Reserve Bulletin, March 1953, p. 211).

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more easily than they could earn dollars elsewhere. The answer to this question involves consideration of (1) the policies South Africa might be expected to follow with regard to discriminatory restrictions and (2) the ability of the United Kingdom and Continental Europe to compete with the United States in the South African market.

With regard to South Africa's trade policy, there appear to be no economic reasons why it should continue to discriminate against the United States in the event of an increase in the price of gold and the attendant large benefits to South Africa's real income and potential dollar earnings.1/ Earnings from gold exports financed over one-third of South Africa's merchandise imports in 1952. An increase in the price of gold by 50 per cent, even without a rise in gold production, would permit merchandise imports to be increased by more than 15 per cent at present prices. If the price of gold were doubled, South Africa could raise its imports by at least one-third. It seems reasonable to conclude that under the circumstances South Africa would abolish discriminatory restrictions, if not all quantitative restrictions on imports.

The question remains, therefore, whether the United Kingdom and Continental Europe could earn surpluses with South Africa in the face of competition from the United States. On the one hand, it might be argued that if the United Kingdom could compete successfully with the United States in South Africa, then it could also compete with the United States elsewhere, including the United States market itself; and if British goods are competitive with American goods, the United Kingdom's dollar problem can be solved without an increase in the price of gold, since it would permit greater direct earnings from the dollar area and greater earnings of dollars from non-dollar countries. On the other hand, however, it must be conceded to the proponents of a rise in the gold price that it is probably somewhat easier for the United Kingdom to compete with the United States in South Africa than in the Western Hemisphere, particularly in the United States. Long-standing business and cultural ties, the lower level of tariffs and, as a result of the gold revaluation, the rapid increase in real income in South Africa are among the reasons why British exports could be more easily sold in South Africa, even under conditions of non-discrimination, than in the United States or other countries of the Western Hemisphere.

A more precise formulation of this advantage to the United Kingdom is that its terms of trade, after a given increase in the dollar value of its exports, would be more favorable if the exports were sold to South Africa than if they were sold elsewhere for dollars. It is important to note that the benefit to the United Kingdom, and perhaps other countries of Western Europe, from a rise in the gold price is confined essentially to this factor; namely, the higher prices associated with exports to South Africa where real income would be growing rapidly, than to other

---

1/ The notion that South Africa might agree to continue discriminating in favor of the United Kingdom in return for British support in persuading the United States and the International Monetary Fund to raise the price of gold is in rather direct conflict with one of the principal purposes of the proposed rise in the gold price; namely, that it would permit rapid progress toward a system of freer world trade and payments.

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countries from which dollars might be earned.1/ The value of this benefit is difficult to assess. One can conceive of circumstances under which its value might increase; this would happen if, for example, American tariffs were raised relative to South African tariffs. Similarly, a recession in the United States greater than in South Africa would enhance the value of the benefit. On the other hand, its value would be reduced by an easing of American commercial policy.

If there were no costs to the United States resulting from a rise in the price of gold, it might be argued that even though the benefits to the United Kingdom and Continental Europe were not of major proportions, they were of sufficient importance to justify the revaluation. In fact the increase in the price of gold would be equivalent to a large improvement in the terms of trade of South Africa. The burden of the higher volume of imports thus permitted to South Africa would, in the final analysis, fall on the United States, whether South Africa sold its gold directly to the U. S. Treasury or used it to purchase goods from the United Kingdom which, in turn, sold it to the United States. This point may be seen more clearly if gold is regarded as a commodity. The United Kingdom would be importing this commodity from South Africa and re-exporting it to the United States. As a result the terms of trade of the United Kingdom would be unaffected by the increase in the price of gold, while the terms of trade of the United States, the final importer of the gold, would deteriorate.

Now it might turn out that the current account surplus of the United States would be no greater than in recent years when it has been financed by foreign aid. In that case, the real burden on this economy would not increase. It has always been assumed, however, that the foreign aid burden was a temporary one. Furthermore the substitution of higher gold imports for foreign aid suffers from the disadvantage of replacing the political and economic criteria governing the distribution of foreign aid by a system based upon the accidents of geology.2/ In view of the announced intention of the European aid-receiving countries to dispense with aid as soon as possible, it is somewhat questionable whether it ought to be replaced by another burden on the American economy, from which the United Kingdom and Continental Europe would derive only a minor share of the benefits.

1/ Two additional but less important benefits would be (1) the increase in earnings on British investments in South African mines and other enterprises whose incomes would rise and (2) the higher value of gold production in the colonies which would be more certain to accrue to the mother countries. On the other hand, an increased flow of capital from the U. K. to South African gold mines and other enterprises would probably offset, in the short run at least, the higher investment earnings.

2/ In addition it is more inflationary to finance the current account surplus in the U. S. balance of payments by gold imports than by government grants. If expansionary policies were to become desirable, from the viewpoint of the U.S. economy, there are other ways to achieve them.

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In compensation for this real cost to the American economy, the gold so acquired would have a higher value as a claim on goods abroad. However the balance of payments argument for gold revaluation regards gold imports as a more or less long-term means of financing the current account surplus in the U. S. balance of payments. It follows that the United States is expected to continue to accumulate, rather than to use, these higher-valued claims on foreign goods and services. If, on the other hand, it is argued that the United States could utilize the gold by taking various measures to raise imports, the force behind the gold revaluation argument disappears, since such measures would in themselves increase the dollar earnings of the rest of the world.

Under present circumstances most countries of the world are experiencing rapid reductions in their dollar deficits (or increases in their surpluses). Between March 1952 and June 1953, the gold and dollar holdings of foreign countries increased by more than $2-1/2 billion. Of this amount, the United Kingdom has accounted for about one-fifth. It is impossible to predict how long these tendencies will continue or whether they will be reversed. But as long as they do continue, it is difficult to accept the claim that, for balance of payments reasons, an increase in the price of gold is an essential condition for a solution of the "dollar problem" or for progress toward freer world trade and payments.

Conclusions

Current arguments favoring an increase in the official price of gold advance the proposal as a means of facilitating progress by the United Kingdom and other countries of Western Europe toward the elimination of trade restrictions and the achievement of convertibility.1/ The proposal is put forth as a way, on the one hand, of augmenting the value in terms of goods of the gold reserves of these countries and, on the other, of increasing their dollar earnings.

There are of course no fixed criteria for judging the adequacy of gold reserves. Most observers would agree, however, that the gold (and dollar) reserves of the United Kingdom are probably not sufficient to support sterling convertibility under present circumstances. The extent of this insufficiency has frequently been overstated as a result of comparisons with the immediate pre-war period, when the ratio of gold reserves to foreign trade was abnormally high. Furthermore the gold and dollar reserves of the United Kingdom and many other countries have been rising rapidly in the recent past and this movement is continuing. It is therefore suggested that other methods of augmenting reserves, for countries which need such assistance, might be found. The resources of the International Monetary Fund can be used selectively in support of significant measures in the direction of freer trade and payments. In addition, stabilization credits from other sources might be used to supplement the reserves of particular countries in the same way.

1/ One observer has deduced that the Commonwealth Economic Conference of last December received favorably South Africa's plea for a joint Commonwealth appeal to the United States regarding a uniform increase in the price of gold; C. Gordon Tether, "New Phase in the Gold Price Controversy?" The Banker, February 1953, p. 90.

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The argument for a higher gold price is even less convincing when it is presented as a means of increasing the dollar earnings of the United Kingdom and Continental Europe. It is demonstrated above that the benefit to the latter countries in this respect would not be as great as is sometimes assumed. That benefit is measured by the greater ease in developing an export surplus with South Africa than with other countries from which dollars might be earned. The major benefit would accrue to South Africa and the major cost, in real terms, would be borne by the United States. Under the circumstances, therefore, the case for a rise in the official price of gold has little to recommend it.

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Date July 21, 1954

To Mr. Victor Mack

From Margaret Garber

MESSAGE:

For your information and

comments.

Attachment

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World-Gold It For File

July 13, 1954

Revised version incorporated in article in FR Bulletin of Sept 1954

The Flow of Gold to Non-Monetary Uses:
An Overall Appraisal -- 1931-1953

Frank M. Tamagna and
Margaret Garber

The past decade has witnessed an unprecedented movement of gold to non-monetary uses throughout the world. As private demand for gold subsides, it seems appropriate to assemble available information and statistical data that can contribute to an assessment of the amount of the metal involved in these operations and the direction of its movements. This article analyzes the sources and uses of gold during the period from January 1931 to December 1953. 1/

Summary and conclusions

During this entire period some $3 billion of gold accrued to the world non-official holdings; this resulted from large transfers from Middle and Far Eastern countries to European countries in the thirties and from net additions to private holdings, in both the East and the West, after 1943. This amount of gold represents about one-seventh of an aggregate gold production of $21 billion from 1931 to 1953. About the same amount of gold ($20 billion) had been produced in the years between 1900 and 1930, and some $10 billion were produced in the 19th century. Production throughout the preceding three centuries is rated at a few billion dollars only. It may be surmised, therefore, that gold production over the past four centuries and a half aggregated perhaps $55 billion, of which some $37 billion were acquired and are presently held as reserves by monetary authorities. On this basis, the total disappearance of gold since the discovery of America into private holdings, artistic and industrial uses, and waste and destruction may be placed at around $18 billion.

The following facts and conclusions emerge from the statistical and other information presented in this article for the post-war years.

(1) The many and varying factors which contributed to the high level of private demand for gold in this period may be related to monetary disorders, political fears and dangers of war. The first of these factors appear to have been the most pervasive, as nations showing high preference for gold had generally in common governmental policies of monetary inflation and loss of public confidence in their currencies. On the other hand, traditional and psychological factors seem to have conditioned nations differently, as in many cases the reaction to monetary disorders was flight of capital into foreign assets, domestic investments and consumer goods rather than into gold.

(2) The existence of restrictions on exchange and gold transactions during this period led to the establishment of "free" gold markets, restricted in their operations by government controls. In London, while the gold market

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1/ Gold movements from 1931 to 1937 were reviewed in the Federal Reserve Bulletin of August 1937. Material for the period 1937-1947 was presented in November 1948 in an internal paper on "Gold Hoarding -- An Overall Estimate" by Mary Maroney.

For purposes of convenience, all figures are in dollars, on the basis of the present gold valuation of $35 per ounce.

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had been closed since 1939, authorized dealers were permitted to act as agents in arranging transactions between non-residents. Switzerland provided facilities for domestic as well as external gold transactions. In other countries, such as France and India, transactions were permitted on internal markets. The operations of these "free" markets involved frequently illegal transactions, particularly with respect to international movements of gold.

(3) Gold was dealt in these markets at premium prices -- i.e., at prices higher than its official monetary value. These prices reflected in part the effective depreciation of the currencies used in the operation, in part the risks involved in the illegal nature of the market transactions, and in part simply a speculative preference for gold. Prices varied greatly with respect to various currencies and in various markets, and they fluctuated widely from time to time.

(4) South Africa and Latin America were the leading producing areas supplying the gold markets; other important producers (Canada and the rest of the Sterling Area) played a lesser role in this field. Gold moved from these producing areas to industrial countries, such as the United States, the United Kingdom and other European countries (France, Switzerland, Italy, the Netherlands), for processing into forms which the markets could handle.

(5) Part of the gold so processed appears to have been retained in Western Europe, being held in the United Kingdom exclusively for foreign accounts, in France largely for internal account, and in Switzerland without limitation as to holders. The rest of the gold moved toward Tangier, which had become a major depository center for the West, or toward the Middle and Far East.

(6) The movement of gold to the East could be traced through certain transit points -- namely, Beirut and Kuwait in the Middle East, and Hong Kong, Macao and Bangkok in the Far East. It appears that China ceased to be one of the most important net buyers after 1949, and that India became thereafter the major recipient of gold.

(7) The unprecedented private demand for gold in the post-war years has apparently led to the accumulation of considerable amounts of metal in the hands of dealers in far distant depository and trading places. The subsiding of the demand and the reopening of the London market in 1954 have brought about some dishoarding, accompanied by occasional declines of foreign gold prices below the dollar parity.

(8) The subsiding of private demand for gold and the decline of market prices to the official valuation of gold in terms of dollars and certain other currencies have occurred along with the progress of financial stabilization and the relaxation of exchange and trade restrictions in Western Europe and the Sterling Area. With the restoration of currency convertibility, a free gold market would again, as in the thirties, operate along with the free exchange market in influencing fluctuations of exchange rates. The existence of these twin markets would offer a broader scope of operations to monetary authorities and is likely to become again, as in the past, an important factor in the course of international exchange developments.

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General trends of supply and demand 1/

The statistical analysis presented in the table on the next page indicates that the aggregate supply of gold for the 23-year period (1931-1953) may be placed at $23.2 billion, of which $21.1 billion was obtained from new production and the rest from other sources. From this has been deducted an estimated increase in the world's monetary reserves of $18.6 billion (from $18.1 billion in 1930 to $36.7 billion in 1953), and the industrial consumption in the United States ($1.8 billion). This leaves a residual of $2.8 billion, which was presumably used in arts and industries or added to private holdings outside of the United States over the entire period.

There is no basis, because of lack of information, for estimating the current industrial consumption abroad independently of other types of private demand. Prewar experience would show that approximately the same amount of gold was normally used in arts and industries in the rest of the world as in the United States. In practice, the combination of foreign industrial consumption and additions to private holdings appears to be a more reliable yardstick because of the growing difficulty of distinguishing between these two categories of gold use and also of their limitless interchangeability.

The figure of gold absorbed by private demand abroad would be somewhat higher if account were taken of sales by the USSR on the gold markets over the past few years. The USSR apparently ceased selling gold

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1/ Statistical basis of analysis -- The figures appearing in this article are based in part on regularly reported statistics and in part on incomplete data and estimates. Information on gold relates primarily to supply factors and monetary reserves; the non-monetary demand is determined as the difference between additions to supplies and changes in monetary reserves. No attempt has been made to estimate the USSR production, consumption and holdings of gold, nor USSR sales on gold markets.

Figures for gold production are believed to be sufficiently reliable, since all of the major producing countries report their output. Other sources of supply include transfers of gold from USSR to other monetary authorities and the estimated return of coin and scrap gold.

Changes in gold reserves are based on reported gold holdings of central banks and governments and international institutions, unpublished holdings of various central banks and governments, and estimated holdings of countries from which no reports have been received.

Changes in private Middle and Far Eastern gold holdings have been estimated on the basis of available information on local production and sales by monetary authorities within individual countries, as well as of movements of gold to and from other areas. Estimates of these movements have been derived from officially reported trade statistics or unofficial information from various sources. Owing to the inadequacy of data, these figures are obviously subject to a wider margin of error. Private gold demand from the rest of the world is the residual item; any errors in the other estimates would result in an opposite error in this residual.

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Estimates of Supplies and Uses of Gold, 1931-1953
(In millions of dollars at $35 a fine ounce)

Year	Supplies of gold: New production (excl. USSR) 1/	Supplies of gold: Other 2/	Supplies of gold: Total	Uses of gold: Changes in monetary reserves (excl. USSR)	Uses of gold: U.S. industrial consumption (gross) 3/	Uses of gold: Changes in private Middle and Far Eastern holdings	Uses of gold: Residual 4/
1931	720	205	925	510	50	-200	565
1932	775	310	1,085	1,150	35	-475	375
1933	795	310	1,105	455	30	-300	920
1934	825	280	1,105	1,460	15	-250	-120
1935	885	170	1,055	975	25	-200	255
1936	970	90	1,060	1,595	35	-125	-445
1937	1,040	325	1,365	1,715	40	- 75	-315
1938	1,140	-375	765	295	30	- 75	515
1939	1,220	90	1,310	1,925	40	-175	-480
1940	1,310	85	1,395	1,710	40	- 50	-305
1941	1,265	75	1,340	1,210	70	25	35
1942	1,125	60	1,185	980	75	25	105
1943	870	15	885	905	95	150	-265
1944	775	25	800	385	125	175	115
1945	740	30	770	390	140	125	115
1946	755	90	845	350	200	125	170
1947	765	75	840	420	100	50	270
1948	805	45	850	385	90	225	150
1949	840	40	880	475	150	175	80
1950	865	35	900	410	135	150	205
1951	840	35	875	150	105	200	420
1952	865	30	895	310	125	150	310
1953	865	100	965	430	95	125	315
Total (23 yrs.)	21,055	2,145	23,200	18,590	1,845	-225	2,990

1/ 1931-1937, estimates of U.S. Mint; 1938-1952, estimates of U.S. Bureau of Mines; 1953, Fed. Res. Board estimate.
2/ Includes return of coin through 1939 and scrap (in U.S.,1931-1953 and other countries,1931-1936), plus net receipts from USSR,1931-1947 and 1953. Return of coin and scrap based partly on reported statistics and partly estimated. Net receipts from USSR based on reported U.S. receipts and incomplete data and estimates on receipts by other countries. Estimated outflow from USSR has been adjusted in 1938 to include receipt by USSR of $521 million of Spanish gold alleged by Bank of Spain to have been sent to the USSR.
3/ Estimates for 1931-1952 published by U.S. Mint; 1953, Fed. Res. Board estimate.
4/ Includes changes in private holdings of Western Countries, foreign industrial consumption, and errors and omissions.

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to other monetary authorities in 1947, but in 1953 around $75 million of Russian gold was reportedly received by a foreign central bank. Apart from these operations, which have been accounted for in estimating gold supplies, there have been indications of recent Russian sales in free markets, the extent of which cannot be accurately gauged. On the basis of press reports in the latter part of 1953, such sales may be placed in a range of between $50 and $100 million for that year, and perhaps they were somewhat lower in the few preceding years.

The changes in private demand -- The statistical and other information available thus leads to a conclusion that the net addition to the world's non-official gold holdings for the period 1931-1953 was around $3 billion.

The entire period may be divided into two phases. The first phase -- 1931 to 1943 -- was characterized by a massive liquidation of private holdings in Middle and Far East countries, substantial accretions to private holdings in other areas, and a moderate net liquidation on balance. The second phase -- 1945 to 1953 -- witnessed the unprecedented growth of private demand in both East and West. On balance, for the period as a whole, there seems to have been only little change in private Eastern holdings, so that the whole net addition to the world's non-monetary gold presumably accrued to private holdings outside the East -- principally in a few countries of Western Europe.

In the first phase, it is estimated that during the years 1931-1940 the liquidation of private gold holdings in the East reached almost $2 billion, while private holders in other areas accumulated about $1 billion of gold. In the first half of the thirties, when the fall of prices affected severely raw material producing countries and deteriorated their terms of trade vis-a-vis industrial countries, Eastern holders liquidated about $1.5 billion while other holders acquired about $2 billion of gold. From 1936 to 1940, as exchange regulations were tightened in European countries and a flight of "hot" money toward the United States ensued, liquidation of gold holdings became important in Europe -- reaching about $1 billion -- while it declined in the East to some half billion dollars.

Special circumstances appear to explain the substantial liquidation in the West indicated for 1939 and 1940. Many private holders in Europe presumably preferred to dispose of their gold in order to shift into overseas assets that seemed to afford greater security from risks of the war. In addition, various governments took measures requiring the surrender of gold held by their nationals, and the German forces requisitioned gold in occupied countries.

Results for the years 1941-1943 show revival of private demand in the East, and some further Western liquidation. The American, British, and Japanese Governments sold gold during those years to raise local currency funds in the Middle East, India and China without adding to inflationary pressures in those countries.

The second phase, from 1944 to 1953, was characterized by rapidly advancing inflationary pressures in the early postwar years and sharp changes in economic and monetary conditions over the rest of the period; it was not

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until 1952 that the process of stabilization appeared strengthened in most of the leading countries and in the world at large. During this entire period, it is estimated that around $3.6 billion of gold went into private holdings, representing the equivalent of around 50 per cent of new foreign production. The peak of private demand appears to have been reached in 1951, when 80 per cent of new foreign production went into industrial uses or private holdings, or was otherwise unaccounted for.

There have been a number of specific developments in these years which affected the supply and demand on gold markets. In a statement of June 1947 regarding transactions in gold at premium prices, the International Monetary Fund recommended that all of its members take effective action to prevent international transactions in gold at premium prices with other countries or with the nationals of other countries. In compliance with the Fund recommendations, there was a general tightening of controls on gold transactions by member as well as certain non-member countries.

Despite these measures, the amount of gold flowing into private holdings in 1948 reached the highest level in many years, and in the first half of 1949 the flow continued at about the same level. This higher demand was accompanied by a rising price until the end of June 1949, when the international dollar price reached $50 per ounce, as shown in the chart on the next page.

This was followed by a rapid decline in the price of gold, as supplies increased and demand showed a tendency to fall. The supply of gold was increased significantly by the decision of the Union of South Africa to permit the export of fabricated and semi-processed gold for sale on the free markets; by 1951 such sales reportedly amounted to about $160 million (based on 40 per cent of South African production). At about the same time, the demand from Chinese sources ceased. For several years China had imported large quantities of gold but in mid-1949, following the establishment of Communist control, the movement was reversed and some gold began to move out of the country. Demand for gold in other countries also declined sharply, after the world-wide currency adjustments which took place in September 1949. This combination of factors drove the price downward until May 1950, when it fell to around $36 per ounce.

With the outbreak of hostilities in Korea in mid-1950, there was an immediate and widespread renewed demand for gold. It is estimated that the amount of gold flowing into private holdings in the second half of 1950 was about $275 million, as compared with around $75 million in the first half. Correspondingly, the price rose until January 1951, when it was about $42 per ounce.

In 1951, as the amount of gold entering private channels reached a new high, its price fell, the sharpest drop taking place after September. At that time the International Monetary Fund announced that it would leave to member countries the decisions pertaining to the regulations of gold transactions in free markets. Following this announcement, the gold producers of Canada, Australia, Southern Rhodesia, and West Africa were given

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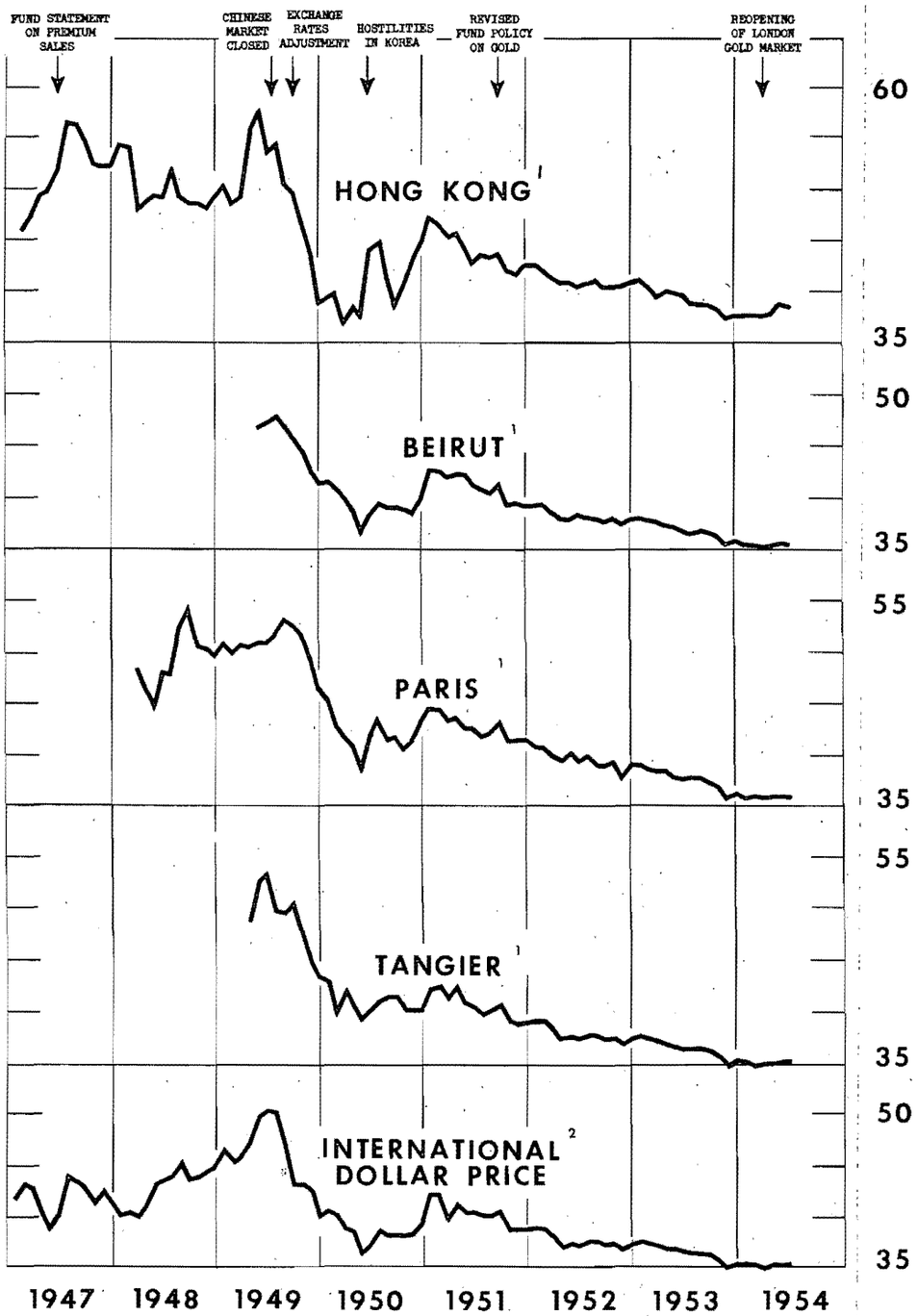
BAR GOLD PRICES

Dollars per fine ounce, End Of Month



1/ Quotations in local currency converted into dollar equivalents at "free" or "black" market rates; except Tangier -- beginning December 1950, direct quotation in dollars.

2/ Price at which gold was traded in various markets directly for dollars; beginning February 1953, price in Zurich.

SOURCE:
International Monetary Fund.

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permission by their respective governments to sell gold in processed form on free markets. There was no limit placed on the amount Canadian and Australian producers could sell; however, Canadian producers who elected to sell gold on the free market were to forego subsidies. Restrictions on sales by Southern Rhodesian and West African producers, who were limited to 40 per cent of their output, were removed in 1952. Furthermore, the provision that gold had to be in processed form was removed in Australia, Southern Rhodesia, and West Africa in 1952 and in South Africa and Canada in 1953, thus leaving producers free to sell gold in fine bar form.

The amount of gold entering private holdings in 1952 was substantially less than in the previous years. Demand was off throughout the East, particularly in India. Apparently there was also less demand for gold in France until the latter part of the year. In fact, some gold was released from private holdings in the latter country in connection with the Pinay gold loan; around 34 tons of gold ($38 million) was acquired by the French Government. Reflecting the decreased demand, the price of gold in the various markets also declined. After reaching a low point of $36.75 in November, the international dollar price for gold closed the year at around $37.50.

In the year 1953, private holders probably absorbed about the same amount of gold as in the previous year, but while in 1952 the rate of absorption was evenly distributed throughout the year, in 1953 demand was stronger in the first half and declined thereafter, and by the fourth quarter only about $50 million of gold apparently went into private holdings. As supplies increased and demand contracted, the dollar price of gold in European markets for the first time fell below the official dollar parity in November. By the end of the year, the price had increased to slightly above $35 an ounce, following the withdrawal of South African sales from the market.

Geographic distribution of private holdings

From available information, it appears that private demand for gold in the West has been largely concentrated in a few countries. From all indications, the greatest demand for gold apparently originated in France, and there has been evidence of persistent demand from Italy. For some years there was an active demand for gold by the Greek public, which was met through sales of sovereigns by the Bank of Greece. In London, gold has been customarily held by licensed banks and firms for the account of non-residents. Zurich and Amsterdam have also been important international gold centers. Gold is also held for the account of non-residents in Tangier. There is no statistical evidence of any significant demand for gold in other Western European or in Latin American countries.

Private holdings in Middle and Far Eastern countries are more widespread, since there have been few effective restrictions. From the end of World War II until the end of 1951, Egypt appeared as a leading importer of gold, but the imposition of restrictions in March 1952 resulted in cessation of open imports. In Saudi Arabia and few other countries in the Middle East gold coins are used principally as a medium of exchange. Until the middle of 1949, most of the gold entering the Eastern markets reportedly was destined for China and India. After the closing of the

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Chinese market in 1949, the main flow apparently was directed toward India, but this has gradually declined with the subsiding of inflationary pressures. . .

The sources of gold -- Gold entering private channels either for industrial consumption or other uses comes from two sources, new production or sales by monetary authorities from official reserves. Until the latter part of 1953, the Union of South Africa reportedly was selling about 40 per cent of its annual production of over $400 million on the market, but the amount of sales by producers in other Sterling Area countries and Canada has not been disclosed.

In the United States, somewhat more than the equivalent of new domestic production is used in industry and the arts. A substantial part of the production of Latin America and Asia has found its way into non-monetary uses through the United States. In the years 1948-1953, over 77,000 kilograms ($87 million) of gold-bearing materials was sent to this country, most of the refined gold being re-exported to Eastern countries.

There is very little information on sales of gold by monetary authorities. It is known that the Bank of Greece acquired gold sovereigns for sale to the public for a number of years, such sales being reported at around $70 million from 1946-1952. Gold sovereigns were also acquired by the Government of Saudi Arabia in payment of oil royalties; most of these sovereigns were exported for sale at a premium while some became part of the local currency in circulation. The payments of oil royalties may have amounted to $85 million in a few years up to the middle of 1950, when such payment began to be settled in dollars and other currencies. From time to time there have been reports of intervention by various central banks in local gold markets.

It is practically impossible to estimate accurately the movement of gold from one country to another. A few countries publish customs figures on gold movements, but there are so many gaps in the data that they are of limited value only. Furthermore, since many countries control strictly the import and export of gold, a considerable part of the movement is carried on in a clandestine manner. With these limitations, an attempt is made, on the basis of scattered data and information, to determine the general direction in which gold has been flowing in recent years.

The destination of gold: Western Europe -- Semi-processed gold from South Africa, the principal source of gold to free markets, appears to have moved largely to a few European countries. It would seem that France, Switzerland, and the Netherlands have been the immediate recipients and principal transit countries, and that in many cases the United Kingdom has been the country destination of such gold.

The United Kingdom publishes very little information on gold movements, but reports from other countries indicate that a substantial amount of unrefined and semi-processed gold moved into the United Kingdom. Gold imported for refining and processing could be exported, subject to license, to any country outside the Sterling Area provided the country permitted the

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import. Gold could be held in the United Kingdom for account of non-residents and such gold could be exported to any destination named by the foreign owner. Although there are no estimates available, it would appear that there is a considerable amount of gold held in London bank vaults for the account of foreigners.

Until the end of 1948, when controls on gold movements were instituted, Switzerland had been the principal transit center in the movement of gold from the West to the East. Since 1949, when South Africa began selling gold from new production on the markets, Switzerland has been associated with activity in the semi-processed and fabricated gold traffic, as shown by reported statistics. In 1952, the Swiss National Bank removed all controls over the import and export of gold, including bars and coins.

A free gold market has existed in France since early 1948 but legally the market is an internal one; only one is permitted to import and export gold without permission of the Bank of France. This reportedly has led to the clandestine movement of gold across the borders, but no estimates are available as to the volume of such traffic.

According to Italian statistics, a considerable quantity of gold coins were imported into Italy from the Netherlands and France in 1950 and 1951, and in 1952 a small amount was imported from the Netherlands and Belgium. According to statistics of other countries, semi-processed gold has also moved into Italy in considerable amounts. It is not possible to trace any movement of gold from Italy. Presumably gold was fabricated and re-exported, since it is reported that the Italian Government granted licenses only for the importation of industrial gold into the country for fabrication and re-export.

A market, although outside of, but closely related to, Europe, is that of Tangier. The exchange and gold markets in Tangier have remained completely free, and gold could be held there indefinitely without payment of duty. During the post-war years, an active gold market developed there with well-organized financial houses, adequate storage space, and diversified facilities for international transfer and settlement of gold transactions. From 1948 to 1953, net imports into Tangier for storage were about 53,000 kilograms ($60 million). Imports came mainly from France, the United Kingdom, and Switzerland.

The destination of gold: The Middle and Far East -- Since early 1949, Beirut has become a primary in-transit center in the movement of gold from West to East. At that time, the Government of Lebanon liberalized the transit of gold, permitting traders to keep gold there for a period up to four months, and to export the gold to any destination. In 1952 the period was extended to six months to aid Beirut gold traders who were having difficulty in moving their stocks owing to falling Indian demand. From 1950 on, an average of 75,000 kilograms ($85 million) of gold reportedly passed through Lebanon each year. The principal countries of origin were the Netherlands, France, the United Kingdom, and Switzerland, and it was indicated that most of the exports were destined for Kuwait.

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In the Far East, Macao served as the main distribution center and a point at which gold coming from Europe and the Western Hemisphere was converted into bars and shapes acceptable to local traders. Closely associated with the Macao market has traditionally been Hong Kong, which provides the facilities for arranging and financing the international gold transactions. Gold could be shipped to and from Macao with little restriction, but until recently imports and exports of gold from Hong Kong were prohibited; gold may now be imported under license for re-export to any destination in the world with the sole exception of Kuwait.

Prior to the middle of 1949, China was the principal market for gold imported to Macao. However, with the establishment of Communist control and the exodus of refugees, the movement was reversed and gold began moving out of China to Hong Kong and Macao. During the first half of 1950, there was less activity in the two markets, but with the outbreak of hostilities in Korea gold trading began to flourish again. According to estimates of Hong Kong bullion dealers, gold imports into Macao during the period 1948-1951 totaled almost 300,000 kilograms ($338 million) of which about one-third were imported in 1951. Imports declined somewhat in 1952, and in 1953 were only about 30,000 kilograms ($34 million). Gold was imported into Hong Kong from Macao and the Philippines. Until November 1952, Bangkok ranked along with Singapore as the principal destination for most of the gold exported from Hong Kong. Since then Burma, Indonesia, Indo-China, and Japan have replaced Bangkok as destinations.

Bangkok served as a transit point in the movement of gold and also as a center for gold redirected to India. Until 1952, the import and export of gold were illegal. In October of that year, a syndicate of Thai banks was granted permission to import up to 100,000 ounces ($3.5 million) of gold per month. Imports by private merchants continued to be officially forbidden. According to reports from Hong Kong, Europe has replaced Hong Kong as the principal gold supplier to Thailand.

Since March 1947, when the Reserve Bank of India suspended the granting of gold import licenses, the Indian market has been supplied by newly-mined domestic output (around $8 million annually) and smuggled gold. From all indications, it appears that sizeable amounts of gold reached India each year by clandestine channels. Gold moved into India through two principal ways -- through Beirut and Kuwait from the West, and through Hong Kong and Bangkok from the East. However, this illegal gold traffic apparently began to decrease somewhat at the beginning of March 1952. At that time, a slump in commodity prices was accompanied by a decline of around 15 per cent (to about 235 rupees per ounce) in the price of gold, leading to a settlement crisis in the local bullion exchange. 1/ Forward trading was suspended for two months and after the reopening of the exchange there was a further decline in the price through December, at which time it was about 215 rupees per ounce. In early 1953, the price recovered to 235 rupees and remained around that level until the latter part of the year when it again fell to about 215 rupees per ounce. This relative stability

1/ The official parity of exchange is 21 cents per rupee, but no attempt is made to convert into dollars the free market price of gold since there is no free exchange rate on which to base such conversion.

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of the Indian gold market has coincided with the tapering off of inflationary pressures over the past few years.

Current developments

In the first half of 1954, the price of gold in free markets has remained around $35 an ounce and in the first quarter of the year a movement of only a few million dollars of gold could be traced to private holdings. In the second quarter, a small dishoarding movement may be indicated, as European central banks reportedly have become net purchasers of gold from the market.

The most important development in the year has been the reopening of the London gold market on March 22. While the market had been closed since 1939, authorized gold dealers had been permitted for some time to act as agents in arranging transactions between non-residents. Since access of Sterling Area residents to the market continues to be restricted, the major effect of its reopening is to facilitate London's role as intermediary between foreign buyers and sellers.

The London bullion market consists of the same six firms as before the war. Anyone may now have access to the market through the medium of all banks in the United Kingdom, which have been appointed as authorized dealers in gold in addition to the six firms. Residents of the Sterling Area may freely sell gold only for resident (i.e., inconvertible) sterling; their purchases of gold are subject to permission of the Bank of England and may be settled in resident sterling only. Residents of all other countries may buy or sell gold freely provided payment is made in American account or Canadian account sterling, or in equivalent registered sterling.

South African gold production remains the most important factor in the supply of gold to markets. With the reopening of the London market, past arrangements whereby South African gold producers were permitted to sell part of their production in free markets, were discontinued. Sales of gold are now effected through the South African Reserve Bank which, according to the South African Minister of Finance, will sell as much gold as possible on the London market. It appears that the Exchange Equalization Account has recently intervened in the market as the purchaser of a considerable portion of this gold.

Private demand for gold is at the lowest point in many years. As a matter of fact, a reverse movement seems to be taking place since gold is now moving from private holdings into official reserves. In addition to United Kingdom official purchases, the French Exchange Stabilization Fund, according to press reports, has taken some fifty tons ($56 million) of gold from the market recently.

Activity in Eastern markets has also fallen off, particularly in Hong Kong. Furthermore, a smaller amount of gold has been moving into India, as the lower price reflects a declining demand and has made smuggling less attractive.

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The subsiding of the private demand for gold and the reopening of the London gold market have occurred along with significant moves by the United Kingdom toward restoration of convertibility for sterling. The result so far has been the maintenance of sterling prices for gold and exchange rates for sterling within the narrow margins from parity set forth by the International Monetary Fund. Should demand for gold revive to a point where premium prices would develop anew, they might have an unstabilizing effect on sterling, which foreigners could obtain at lower rates by offering gold to the market rather than by acquiring it with dollars or other currencies at the official fixed rate. Presumably the additional flow of gold to the market might be sufficient to depress its price and to correct any maladjustment of the sterling rate. On the other hand, the existence of twin markets might call for an active intervention of the authorities at times in order to maintain or re-establish orderly movements in gold prices and exchange rates.

Thus the possibility for restoration of currency convertibility is bringing about a situation, as in the thirties, where a free gold market operates along with the exchange market in influencing fluctuations of exchange rates, and creating or correcting temporary maladjustments. As the private demand for gold disappears, the monetary role of the metal emerges and gold is likely to be again, as in the past, an important factor in the course of international exchange developments.

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Private Demand for Gold

From 1930 through 1953 about $3 billion of gold was absorbed by private holdings outside the Soviet Union. This estimate is derived as the difference between $18.6 billion added to monetary reserves during the period and $21.1 billion of new production together with sales of $0.5 billion by the Soviet Union. Of the $3 billion absorbed by private holdings, about $840 million was accounted for by uses in industry and the arts in the United States; the remainder represented largely additions to private gold holdings in all forms in a few countries of Western Europe.

The private demand for gold in this period has fluctuated in response to a variety of factors. In the years 1931-35, the decline in world raw material prices and the depreciation of sterling provided a profitable opportunity to shift from gold to different types of investment, and Eastern holders may have liquidated about $1.5 billion of gold during these years, while private holders in other areas acquired nearly the same amount. Eastern liquidation declined to about $0.5 billion in the period 1936-40, while liquidation of private holdings in Western countries rose sharply, to over $1.0 billion, as holders attempted to shift into overseas assets that seemed to afford greater security from government controls and from the effects of war. In addition, in the later years various governments required the surrender of gold held by their nationals. In 1941-43, there was some further liquidation in the West but a revival of private demand in the East. The Allied and Japanese Governments sold gold during these years in the Middle Eastern, Indian, and Chinese markets to finance military operations.

During the years 1944-53, private demand for gold rose substantially in both East and West, absorbing (outside the United States) about $3.7 billion of gold; this was equal to about half of all foreign gold production in this period. Strong inflationary pressures in the early postwar years were a major factor affecting demand, and the supply of gold was augmented by a decision of the Union of South Africa in early 1949 to permit the export of fabricated and semiprocessed gold for private sale. This factor, together with the world-wide currency adjustments of September 1949, helped to reduce private interest in gold, but it was renewed with the outbreak of hostilities in Korea in mid-1950. In 1951, the amount of gold entering private channels reached a new high, but prices declined, the sharpest drop occurring after September, when the International Monetary Fund liberalized its position regarding the sale of gold on free markets. Substantially less gold entered private channels in 1952 and 1953; and

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File World Monetary Reserves

March 11, 1957

GOLD AND FOREIGN EXCHANGE COVER REQUIREMENTS OF SELECTED FOREIGN CENTRAL BANKS

Prepared in the Division of International Finance

Board of Governors of the Federal Reserve System

Since 1929, the staff of the Board of Governors of the Federal Reserve System has from time to time prepared tabulations of the legal requirements for the holding of gold or foreign exchange by selected foreign central banks. These tabulations were published in the Federal Reserve Bulletins for August 1930, July 1932, July 1936, and January 1948. On the basis of information supplied by the area sections of the Division of International Finance, the table has again been revised, and is appended hereto.

Apart from revisions necessitated by changes in requirements or in the status of requirements, and apart from the listing of a somewhat larger number of countries, the present tabulation differs slightly from previous versions in two respects. First, wherever the necessary information was readily at hand the descriptive notes identify the laws or executive orders under which the requirements indicated were established, and -- in cases where the latter are in suspense -- the laws or orders under which they were suspended. Second, because from time to time there is interest in the trend of legal "cover" requirements, the descriptive notes in many cases indicate the requirements which were in force prior to present requirements, if the requirements have been changed in recent years.

It is obvious that in some countries the relevant legislation is to some extent out of date, even where it is still in force on some basis. As was pointed out in the July 1936 Federal Reserve Bulletin (p. 541), "In those cases in which /the holding of foreign exchange as part of legal reserves/ is permitted, the fact that many of the statutes were adopted in a period when the international gold standard prevailed is reflected in the frequent requirement that exchange be gold exchange, i.e. exchange on a country where the currency is by law convertible into gold for export. Few currencies satisfy this definition today, however, and it is probable that the term 'gold exchange' is now broadly interpreted in practice." Similarly, the fact that in some cases the requirements relating to foreign exchange state that it shall be "convertible" (without specification of what it must be convertible into) is probably indicative that such requirements were drafted at a time when this term, as used in international finance, normally meant "convertible into gold," and before the period in which it has taken on a variety of possible meanings.

In a few cases, the real status and significance of legislation is uncertain; this is particularly so where the legislation has been suspended for a long period of time. In some cases, the relevant legislation has been suspended since the outbreak of World War II or shortly thereafter (as in Denmark, France, and Norway). In others, it has been suspended even longer: in Greece since 1932, and in Italy since 1935. It is true that the Netherlands

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has recently reestablished "cover" requirements, and that Belgium is in process of doing so; and this may indicate (or bring about) a general trend toward reactivation of such requirements. However, the longer a central bank operates with legal "cover" requirements in suspense, the more basis there is for regarding the country concerned as one which — in effect — follows the system of no minimum requirement of gold and foreign exchange cover.

Of the 77 countries listed, the central banks of 31, or 40 per cent, have no requirement — either in effect or in suspense — of minimum holdings of gold or foreign exchange;[1] see the synoptic table on the following page. In 8 other countries (6 in Western Europe), the statutory requirements are in suspense, or have never been put into force. If these 8 are regarded as countries whose central banks are not subject to legal minimum reserve requirements of gold or foreign exchange cover, about half of the 74 countries may be said not to have such requirements.

Of course the absence of a specific legal requirement of this kind does not normally mean that the central bank has no obligation to hold some reserves in gold and foreign exchange. The holding of some amounts of either or both is implicit in the central banking function, except where responsibility for maintaining adequate reserves of internationally-acceptable media of exchange is vested in a separate agency. For any country, the choice is never between legal minimum reserves in gold or foreign exchange and no such reserves, but between legally-fixed minimum holdings and holdings in an amount (probably varying from time to time) determined by discretionary authority. Of the 31 countries where there is no legally specified minimum, there are at least seven (Ceylon, Czechoslovakia, Ecuador, Guatemala, New Zealand, Paraguay, and the Philippines) in which the bank statute contains language which either specifically or by clear implication requires the central bank to maintain gold and foreign exchange reserves which are "reasonable," "adequate," etc.; but in the normal case an implicit responsibility for maintaining such reserves presumably rests upon the central bank whether the statute contains such language or not.

During the past five or six years, there have been changes in the statutory requirements of quite a few countries. In all cases but one (the Netherlands), the changes have been — in line with the long-term trend everywhere — largely in the direction of lowering (or in some way liberalizing) the required minimum holdings. The countries in which it is known from our information that such changes have occurred include: Cambodia,

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1/ The 31 group includes Egypt, where the central bank statute fixes no minimum holdings of gold or foreign exchange, but provides that minimum cover ratios shall be administratively determined by agreement between the central bank and the government; it also includes Hungary, where a similar provision exists. On the other hand, Sweden, where the gold cover requirement that exists no longer has any real significance (amounting to less than 3 per cent of notes outstanding), is classified as a country with a minimum cover requirement; and so is the United Kingdom, where gold has to be held only against notes in excess of a specified fiduciary issue.

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Foreign Central Bank Cover Requirements: Grouping of Countries
by Nature and Status of Requirements, and by Area

Area	No minimum requirements	Requirements in effect			Requirements suspended			Backing required against:1/	
		Gold only	Gold and foreign exchange2/	Gold or foreign exchange2/	Gold only	Gold and foreign exchange2/	Gold or foreign exchange2/	Notes only	Notes and certain other liabilities
North America3/	Canada								
Western Europe	Austria Germany Spain Turkey	Sweden4/ Switzerland United Kingdom	Portugal	Finland Iceland Ireland Netherlands	France Norway	Belgium Denmark	Greece Italy	Denmark Iceland Ireland Norway Sweden Switzerland United Kingdom	Belgium Finland France Greece Italy Netherlanc Portugal
Middle East and Africa	Egypt Israel Saudi Arabia Tunisia	South Africa	Iran Lebanon Morocco	Ethiopia5/ Iraq Libya Rhodesia Syria				Ethiopia Iran Iraq Lebanon Libya Morocco	Rhodesia South Africa Syria
Far East	Afghanistan Australia Ceylon China (Mainland) Japan Korea (South) Nepal New Zealand Philippines		India	Burma Cambodia Indonesia Laos Pakistan5/ Taiwan5/ Thailand Vietnam				Cambodia India Pakistan Taiwan Thailand	Burma Indonesia Laos Vietnam
Latin America	Chile Costa Rica Ecuador Guatemala Honduras Nicaragua Paraguay Uruguay	El Salvador	Colombia Cuba Dominican Republic Surinam Venezuela	Brazil Haiti Mexico5/		Argentina	Bolivia Peru	Bolivia Brazil Haiti	Argentina Colombia Cuba Dominican Republic El Salvador Mexico Peru Surinam Venezuela
Eastern Europe	Bulgaria Czechoslovakia Hungary Poland Yugoslavia	Roumania		U.S.S.R.6/				U.S.S.R.	Roumania

(Footnotes on next page)

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1/ Listing here includes countries with suspended requirements as well as countries with requirements in effect.

2/ "Gold and foreign exchange" means that there is a required total holding, of which a specified portion must be gold; "gold or foreign exchange" means that the required total holding may consist of gold and foreign exchange in any proportion (including zero for one or the other).

3/ Mexico is grouped with Latin America.

4/ Requirement practically negligible.

5/ Holdings may include some silver.

6/ Status uncertain.

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Colombia,1/ Egypt, Ethiopia, India, Indonesia, Iran, Israel, Laos, Rhodesia, South Africa, Thailand, Vietnam.2/ In addition, the change expected to be enacted soon in Belgium, while raising slightly the ratio of gold cover required to be held, in comparison with the ratio which was in effect prior to suspension of the requirements in 1944, would eliminate a higher percentage requirement of gold and foreign exchange together. Moreover, the nature of the systems in effect in certain countries, notably Finland and the United Kingdom, is such that the fiduciary note issue normally increases over time, and the effective cover in gold or foreign exchange declines or at any rate could legally decline.

It is also of interest that in 1952, Canada replaced by statute a system under which the suspension of cover requirements had periodically to be renewed by an Order in Council, with one under which there is no cover requirement unless an Order in Council is issued establishing such a requirement.

In the Netherlands, the normal requirement in effect prior to 1940 was 40 per cent in gold coin and bullion against notes and other current-account liabilities; this was suspended in 1940 and abrograted in 1945. By a Royal Decree of June 19, 1956, the Netherlands Bank is now required to hold in cover of all such liabilities 50 per cent in gold or foreign exchange convertible into gold. This increase in cover requirements, which seems out of line with the normal trend in most countries, may be due, at least in part, to the fact that in the Netherlands the cover ratio may be changed fairly easily, by Royal Decree, and to the fact that at the time the 50 per cent ratio was established, holdings of gold and convertible exchange by the Netherlands Bank were high, amounting to about 70 per cent of the relevant liabilities.

1/ In Colombia, the required gold or foreign exchange reserve against notes was lowered from 30 per cent to 25 per cent, while that against demand deposits was raised from 12-1/2 per cent to 15 per cent.

2/ In Laos, South Africa, and Vietnam, the cover requirement was extended to deposits, at the same time that the cover requirement percentage was reduced; but in the case of South Africa, the previous limitation of the cover obligation to notes alone was in effect only from 1944 to 1948, the cover requirement having formerly applied to deposits as well.

GOLD AND FOREIGN EXCHANGE REQUIREMENTS OF FOREIGN CENTRAL BANKS

Central bank of	Liabilities against which gold or foreign exchange reserves are required	Required reserves (per cent) In gold	Required reserves (per cent) In gold or foreign exchange	Status of reserve requirements; recent changes; qualifying provisions
Afghanistan	--	*	*	
Argentina	Notes and demand liabilities	20	25	Suspended since October 1949. Only net foreign exchange holdings may be included. Not more than 20 per cent of the required go and foreign exchange reserves against notes, nor more than 10 per cent of total gold and foreign exchange reserves, may consist of exchange "lacking a guaranteed gold content." Deposits held by member banks for account of central bank are not included as liabilities in computing central bank's reserve requirement.
Australia	—	*	*	
Austria	—	*	*	
Belgium	Notes and demand liabilities	30	40	Suspended since May 1, 1944. New draft legislation, submitted to Parliament in November 1956, would require 33-1/3 per cent gold cover of total sight liabilities, including notes in circulation and current accounts of central bank, and would eliminate larger requirement of gold plus foreign exchange.
Bolivia	Notes	—	50	Suspended by decree of February 25, 1954. Under the (suspended) requirements set forth in Articles 65 and 66 of the Reorganization Law of the Central Bank of Bolivia of December 20, 1945, reserves may consist of gold and of deposits abroad freely convertible into gold or other currencies. Upon authorization by Minister of Finance, such reserves may be lowered to: (a) minimum of 40 per cent whenever the value of exports for a period of six months drops 20 per cent below the half-yearly average for the best three consecutive year during the preceding 10 years; (b) minimum of 25 per cent whenever, under conditions specified in (a), value of exports drops 50 per cent.
Brazil	Notes	—	25	In effect (but note qualification). Basis of requirement significantly reduces ratio of cover of total outstanding notes. Currency is issued exclusively by Treasury, which can either put it into circulation directly itself, or under "general legislation," i.e. through Rediscount Department or the Bank Loan Fund of Bank of Brazil. Gold and foreign exchange cover requirement applies only to currency issued under latter of the two methods. A large part of notes in circulation was issued directly by the Treasury.
Bulgaria	—	*	*	No such requirements specified in the "Law Relating to Banks" of December 27, 1947, which established Bulgarian National Bank.

* No minimum requirement of gold or foreign exchange.

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Central bank of	Liabilities against which gold or foreign exchange reserves are required	Required reserves (per cent) In gold	Required reserves (per cent) In gold or foreign exchange	Status of reserve requirements; recent changes; qualifying provisions
Burma	Notes and deposits	—	25	In effect since establishment of central bank in 1952. Foreign exchange assets may be in form of: deposits in foreign central banks, Treasuries, or commercial banks; foreign government securities; or documents and instruments of types customarily used for international transfer of funds. In times of emergency the requirement may be temporarily suspended if the President of Burma gives prior approval; the suspension is void unless Parliament ratifies within 15 days.
Cambodia	Notes	—	33	In effect since January 1, 1955. From January 1, 1952, until January 1, 1955, when Cambodia formed part of Associated States Cambodia, Laos, and Vietnam, Institute of Issue cover requirement (applying also only to notes) was 50 per cent. Previously, under Article 3 of decree of May 31, 1930, central bank (Bank of Indochina) was required to hold gold and convertible foreign exchange in amount of at least one-third of total note circulation and demand deposits.
China Taiwan	Notes	—	No fixed ratio	In effect. 100 per cent reserve in gold, silver, or foreign exchange against the first 200 million New Taiwan dollars. Notes issued beyond this limit must be covered by gold, foreign exchange, or warehouse receipts for exportable commodities.
Mainland	—	*	*	
Canada	—	*	*	Unless the Governor in Council otherwise prescribes, Bank of Canada is not required to maintain gold or foreign exchange reserves in any minimum or fixed ratio to its liabilities. (Section 25 of Currency, Mint and Exchange Fund Act of 1952.) Section 26 of Bank of Canada Act of 1934 had specified reserve of not less than 25 per cent of note and deposit liabilities, to be held in gold coin or bullion, net amounts of specified types of foreign exchange, and specified quantities of newly-mined Canadian silver. This requirement was suspended from 1940 until 1952, when suspense procedure was superseded by Section 25 of Currency, Mint and Exchange Fund Act cited above.
Ceylon	—	*	*	
Chile	—	*	*	A requirement of gold or foreign exchange holdings equal to at least 50 per cent of total note and deposit liabilities was suspended on February 15, 1941. As no requirement is mentioned in subsequent banking legislation, especially that of 1953 and 1954, it would appear that the former requirement is now void, rather than in suspense.

* No minimum requirement of gold or foreign exchange.

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