

CONFIDENTIAL

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HOARDED GOLD IN WESTERN COUNTRIES

It is estimated that gold held in private hoards in the Western world amounts to about \$2,000,000,000, and that the addition of these hoards to central gold reserves of the world would increase these reserves by 9 percent. Such an increase would further strengthen the world's already strong reserve position but would not be likely to constitute a major factor in world economic conditions.

The process of putting this gold into use is likely to be gradual rather than rapid. The effect of dishoarding will depend to a considerable extent upon the countries to which the gold will flow. It would appear that dishoarding is likely to ease credit conditions in those countries which have recently belonged to the gold bloc and to increase further the excess reserves of the American banking system.

Gold hoarded since 1930

The gold hoards to which this memorandum is directed are the hoards that have resulted from the depression and the financial disturbances accompanying it. Hoards of this character may be expected to disappear as currency disturbances are brought under control and economic recovery proceeds. They are to be distinguished from the great accumulations of India and other countries where the precious metals have, for generations, been employed as a medium of saving. During the depression, however, India

has not only not increased its stock of gold but has dishoarded large amounts. Such gold is treated in this memorandum as similar to the gold which has come out of South Africa and other gold-producing areas. So also is the gold which has come out of Russia, the gold coin turned back to the Treasury in the United States from holdings that had been in existence for decades, and the scrap gold turned in. All such gold has been brought together in order to arrive at the total supply available for (1) industrial consumption, (2) reported gold reserves of central banks and governments, (3) unreported Government Funds, and (4) private hoards in western countries. What has not gone into industry or reported central holdings presumably has gone into unreported Government Funds or private hoards in Europe. This method has been applied to the entire period from 1931 when the international currency crisis and private gold hoarding on a large scale began. In 1932 the British Equalization Fund was established and gold began to disappear into its account. Later on other unreported Funds were created. For the entire period 1931-August 1936 it is estimated that \$3,200,000,000 of gold (at \$35 an ounce) disappeared into unreported Government Funds and private hoards in western countries. The major elements in this estimate are given by years in the table.

Just how much of the \$3,200,000,000 is now held in unreported Government Funds is not precisely known. There are several lines of evidence, however--some public, some highly confidential--which indicate that the gold held in unreported Government Funds at the end of August 1936 was in the neighborhood of \$1,000,000,000. If this amount be deducted, \$2,200,000,000 remains as the estimated amount of gold held by private interests in western countries on the eve of the new currency arrangement.

Location and ownership of the hoards

The location of the hoards by countries can be determined only in a very rough manner. How much gold has entered the chief countries is known with a fair degree of accuracy, although customs house figures in some foreign countries are wholly unreliable and the gold movement into these countries must be compiled from the figures of their more accurate neighbors. After the gold movement has been determined, however, the question remains as to whether gold imported represents a transfer home of gold previously held abroad by the central bank, or whether it is offset by changes in earmarks for foreign account, or whether it is for account of a Government Fund. Evidence exists on the basis of which many of these questions can be reasonably answered, but for no foreign country can the amount of hoarding be determined with anything approaching certainty.

On one point the evidence is sufficient, namely, that substantially more than half--probably two-thirds--of the hoarded gold is now located in London. Of the remainder about half is in France, and the rest is in Belgium, Switzerland, and the Netherlands in the order named.

Even if precise figures could be given regarding the physical location of gold hoards, they would not have much significance unless the ownership of the gold were known, and that it is impossible to determine. It seems safe to assume, however, that the gold located in the former gold-bloc countries--France, Switzerland, and the Netherlands--is owned largely by nationals of the gold-bloc group; but the gold in Brussels, and particularly that in London where the larger part of the hoards is located, is only in part held by Belgians and Englishmen. The London market has been regarded

throughout the crisis as the market most likely to remain free of gold embargoes or other limitations on free trading in gold. Consequently Frenchmen and the nationals of many other countries wishing to transfer their assets into gold have chosen to transport gold to London or to acquire it there. Belgium, since its devaluation, has also been regarded favorably by the French as a place to hold gold. It is possible that nationals in the gold-bloc countries hold as much gold in London and Brussels as they hold at home.

Flight from gold-bloc currencies, however, has not been the sole cause of the accumulation of gold hoards. Englishmen with large international interests and with ample funds awaiting investment have in many instances preferred to hold these funds in the form of gold rather than in currencies all of which were subject to changes in gold value. One case of this sort is known in which an Englishman with large South African investments accumulated some \$150,000,000 in gold pending investment in other parts of the world. Americans may have done likewise. Thus the building up of gold hoards in London was the outcome not only of flight from gold-bloc currencies but of the large and widespread volume of idle funds seeking a resting place safe from vagaries of currencies while awaiting opportunities for investment. That more than half the gold now hoarded in western countries is located in England, therefore, does not indicate that it is subject to English ownership or that its employment will bring about a reversion of the gold to the Bank of England or the British Fund. The Englishman who, as noted above, accumulated \$150,000,000 in gold pending investment was

somewhat later actively considering investment in the United States. Where the gold will go when it is dishoarded will depend more upon where the owner wishes to use his capital than where he happens to have been holding his hoard.

Dishoarding

The initial effect of the realignment of the gold-bloc currencies with a view to general world stabilization has been a dishoarding of more than \$100,000,000 of French-owned gold in London. It is anticipated that the current movement may reach \$150,000,000 and that the dishoarding of Swiss gold may also be fairly substantial. Much of the gold held in London by nationals of the former gold-bloc countries, however, will probably continue to be held awaiting proof of the enduring character of the new stabilization arrangement. Similarly, the gold held as a stable form of liquid funds for international investment will not come out overnight, although the strength imparted to the stock exchanges by the new currency arrangement should afford many attractive opportunities for investment. Dishoarding is usually a slow process, as is witnessed by the large amount of currency still hoarded in the United States, notwithstanding insurance of bank deposits and the general upswing of business activity. In the course of the next few years, however, if the pace of world recovery is materially quickened, and if confidence in the stability of currencies is reestablished, the bulk of the gold now hoarded may be attracted out and converted into usable funds. This would mean \$2,000,000,000 added to the basic reserves of the world.

Effect of dishoarded gold

The effects of such a dishoarding of gold will vary considerably according to the countries to which the gold flows. If it flows to the United States, it will increase the already large volume of excess reserves of member banks and will have the effect of making the problem of handling these excess reserves more difficult for the monetary authorities.

In England, however, an inflow of gold may have no effect on the money market. This results from the fact that the British Fund draws its resources not from the central bank, as do Funds created by revaluation of the bank's gold, but rather from the market itself. Whenever the British Fund buys gold, it sells Treasury bills; and the funds disbursed to the market in payment for the gold are simultaneously withdrawn from the market through the sale of bills. There is merely a transfer of funds within the market. Thus, neither gold inflow nor outflow has any effect on commercial bank reserves, except at those periods when the Fund chooses to engage in gold transactions with the Bank of England.

The Dutch Stabilization Fund has been created on the same principle as the British. Hence any easing of the Dutch money market must come from the Netherlands Bank and not from an inflow of gold (unless, as in the British case, the Fund chooses to deal through the Netherlands Bank). Both the English and the Dutch markets are largely insulated against gold movements.

The French and the Swiss Funds, however, have been created out of gold revaluations in the same manner as the American. If they operate in the same way, then to obtain francs they must sell gold to the central bank.

This gives them a balance at the central bank. When, thereupon, they buy gold from the market, they pay by a draft on their balance at the central bank and central bank funds are disbursed to the market. Commercial bank reserves are increased. Hence, in so far as the gold moves to France and Switzerland, commercial bank reserves will grow by a corresponding amount. This automatic increase of reserves and the lending power of the banks might well prove to be an aid to economic recovery in these countries.

The extent to which gold will in fact flow to these countries is difficult to determine. It is probable that the French and the Swiss own from a third to a half of the gold now hoarded in the world. It is possible that they own more. What is within the borders of France would come out more quickly if all the profits were not to be taxed away. What is abroad would come home more quickly if the political and financial fate of France were not still so uncertain. As it is, many of the funds of the former gold-bloc countries may find their way into the American stock market, as in fact a portion of them have been doing during October to date, instead of being repatriated. It is possible, however, that enough dishoarded gold will accrue to France and Switzerland during the next year to affect their financial situations. The reserves of the commercial banks, much depleted by the series of crises, might conceivably be doubled. An easing of credit conditions in the former gold-bloc countries, a general strengthening of central gold reserves, and a further accentuation of the excess reserve problem in the United States appear to be the probable effects to be anticipated from a large dishoarding movement.

Relative magnitudes

The effect on central gold reserves of possible dishoarding can best be thrown into perspective by comparing the maximum amount of funds that might be dishoarded with the growth of central gold reserves during the depression and with the current rate of gold production from the mines. The central gold reserves of the world at the end of 1929 at the then effective rate of \$20.67 an ounce were \$10,000,000,000. The central gold reserves of the world today, at today's effective rate of \$35 an ounce, are \$23,000,000,000 (if the estimated \$1,000,000,000 in unreported Government Funds be included). The \$2,000,000,000 of hoarded gold, if dishoarded, would increase this total by 9 percent. It would represent an increase about one-sixth as large as the growth that has already occurred during the depression. It would be the equivalent of about two years' production of gold from the world's mines.

No radical general effects, therefore, need be anticipated from the dishoarding of gold now privately held. It will represent a force tending to support the investment markets of the world--a source of investment funds drawn from "nowhere," constituting a net addition to the basic reserves of the world. And it may have important effects in a few countries. But it will not greatly alter the already enormous gold base--more than twice that of 1929--that is now available as a basis for financing the world's trade and industry.

ESTIMATE OF GOLD IN UNREPORTED GOVERNMENT FUNDS AND
PRIVATE HOARDS IN WESTERN COUNTRIES

(In millions of dollars with gold valued at \$35 an ounce)

	Total (1931- Aug. 1936)	1931	1932	1933	1934	1935	1936 Jan.-Aug.
A. Gold supplies							
Mine output (excluding U.S.S.R.)	4,624	722	776	794	828	877	627
Releases from:							
India	1,168	129	355	234	206	163	81
U.S.S.R.	368	100	79	68	86	25	10
Egypt and China	293	52	95	59	49	27	11
Straits Settlements	62	19	18	15	9	--	1
Return of coin	257	-68	-36	267	46	34	14
Return of scrap	681	105	163	147	137	85	44
Total	7,453	1,059	1,450	1,584	1,361	1,211	788
B. Gold uses (other than unreported Government Funds and hoarding)							
Reported increase in central gold reserves	3,780	500	64	-19	1,538	532	265
Industrial consumption	459	132	86	76	59	59	47
Total	4,239	632	1,050	57	1,597	591	312
C. Increase in unreported Government Funds and private hoards in western countries (A minus B)	3,214	427	400	1,527	-236	620	476