

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 18, 1947

To Chairman Eccles

Subject: The Foreign Situation

From Mr. Knapp

Miss Egbert has relayed to me your request for a memorandum on "the foreign situation". I am not sure what this request is supposed to cover, but perhaps the best approach to the subject is to give you some comments upon the outlook for the U.S. balance of payments in 1947.

Attached is a reprint of the Review of the Month in last December's Bulletin, which gives a full description of the international transactions of the United States in the year following V-J day. I would call your attention to page 1 which summarizes the balance of payments of the United States during that 12-month period, the section on pages 9 to 13 which describes the postwar foreign lending program of the United States, and the section on pages 13 and 14 presenting the prospects for 1947.

Also attached is a press release from the Department of Commerce giving balance of payments estimates for the year 1946 and forecasts for 1947. Their forecast for 1947 is very similar to ours made last December. Further notes on the prospects for this year follow:

Exports. The outlook is for a record level of exports, with volume being limited mainly by our physical capacity to produce. Exports exceeded 1.1 billion dollars in January and again in February, and the present estimate of 12 billion dollars for the year as a whole begins to look conservative.

The distribution of exports by commodities and by countries will probably not differ greatly from the first postwar year (see tables on page 3 of the Bulletin article). In that period, half our exports took the form of finished manufactures, one-quarter were foodstuffs, and one-quarter crude materials and semimanufactures. In 1947, the predominance of finished manufactures will probably become even more marked. In the first postwar year, 45 per cent of exports went to Europe, 25 per cent to North America (Canada, Mexico, and the Carribean), 10 per cent to Latin America, and 20 per cent to the rest of the world. Europe will continue to be much the largest purchaser of American exports in 1947, but the relative share of South America and of the Far East may well increase significantly.

Imports. Imports are also expected to reach high levels, although the first two months of this year have not produced anything exciting. They should exceed 6 billion dollars for the year as a whole. As in the first postwar year (see table on page 4 of Bulletin article), over 60 per cent of our imports will probably take the form of crude materials and foodstuffs, with less than 20 per cent left for semimanufactures and for finished manufactures, respectively. About half

of our imports will probably come from this Hemisphere, and less than 20 per cent from Europe.

Services. Total services (including interest and dividends) will provide the United States with a net credit of around 1 billion dollars in its international balance of payments in 1947. We are still earning tremendous revenues from shipping, and expenditures abroad by American tourists, although large by comparison with prewar experience, will not yet have reached the high levels anticipated for the postwar period.

Net Surplus on Current Account. After allowing for 1 billion dollars of unrecorded exports (civilian supplies to occupied areas and sales of surplus property located abroad) and shipment to the United States of some 750 million dollars of newly-mined foreign gold, the net amount owing to the United States in 1947 may come to some 7 billion dollars. We anticipate that this may be covered by 2-1/2 billion dollars of donations, 3-1/2 billion dollars of loans, and 1 billion dollars of liquidation of existing foreign gold and dollar assets.

Donations. These include roughly 500 million dollars of wind-up UNRRA shipments, 600 million dollars of civilian supplies to occupied areas (theoretically a loan but classified as a donation), 500 million dollars of post-UNRRA U.S. relief assistance plus special aid to Greece and Turkey (some of the latter may be in loan form), 600 million dollars of private relief and remittances, and some special aid to the Philippines.

Loans. Around 1-1/2 billion dollars may be drawn during 1947 on the British line of credit, leaving about 1.7 billion dollars for subsequent years; this amount in 1947 will probably be close to the total British deficit, British transactions with other countries roughly canceling out. In addition, the Export-Import Bank will disburse at least a billion dollars (without allowing for any activation of the 500 million dollar commitment to China); about half of this will be disbursed to France and the remaining amount to various European and Latin American countries. The International Fund and Bank may disburse something like 200 million and 400 million dollars, respectively in 1947 (the International Bank loan of 250 million dollars to France, all of which will probably be drawn in 1947, will be the main item). The remaining half a billion dollars of the anticipated 3-1/2 billion of loans will come from scattered sources (Maritime Commission, War Assets Administration, Office of the Foreign Liquidation Commissioner, and private foreign investment (public issues in this market and direct investment abroad by American corporations)).

Use of Existing Foreign Gold and Dollar Resources. The above estimates would leave a residual amount owing to this country in 1947 of

around 1 billion dollars to be met by drafts upon existing foreign gold and dollar resources. This would be moderate in relation to the 19 billion dollars of gold and dollar reserves held by foreign countries at the beginning of the year. Some 600 million in gold had to be used by foreign countries in March to make contributions to the International Monetary Fund, but clearly large sums remain available to be spent during 1947 by countries holding large reserves and having special postwar import requirements. Several Latin American countries and such countries as Sweden, Switzerland, and Canada, will probably be the principal losers of gold and dollar reserves in 1946. For your confidential information, the following is a rough breakdown of the 19 billion dollars of total foreign gold and dollar reserves held at the beginning of the year. Such major holders as the United Kingdom, Russia, Canada, and Argentina, do not publish their current reserve position.

(billions of dollars)

United Kingdom	2.5
Russia	2.0
Switzerland	1.5
France	1.0
Belgium	0.8
Other Europe	3.0
Canada	1.2
South Africa	1.0
Argentina	1.1
Brazil	0.5
Other Latin America	1.4
China	0.5
Philippine Islands	0.4
Miscellaneous	2.0

Attachments 2