

December 11, 1947

Mr. Thomas

Estimate of the probable

Mr. Knapp

gold inflow in 1948

We do not believe that the gold inflow into the United States will exceed 1 3/4 - 2 billion dollars in 1948, assuming that there is a reasonably adequate "Marshall Plan", and that Russia does not commence any large-scale sale of gold abroad.

Foreign official balances held at the Federal Reserve Bank of New York have already been reduced to more or less minimum working balances. Furthermore, if there are new loans on gold by the New York Bank (also equivalent to a gold inflow in their effect on member bank reserves) our estimate of the gold inflow would be correspondingly reduced.

Our estimate of the probable gold inflow in 1948 is based upon a country-by-country analysis of existing holdings and the flow of new production. It is substantially smaller than the inflow in 1947, which amounted to 2.7 billion dollars for the first eleven months, or perhaps nearly 3 billion dollars for the year as a whole. In round figures, this anticipated decline is principally attributable to the expected diminution of gold sales to this country by Argentina (estimated decline—600 million dollars) and by Canada, France, and Sweden (estimated decline—nearly 200 million dollars each).

Argentina will have sold us some 750 million dollars in gold during 1947; this reduces her gold holdings to only about 300 million dollars, and we have allowed for the further sale of about half of this during 1948.

Canada will have reduced its gold holdings from 550 million dollars to 250 million during 1947, and for 1948 we allow only for the sale of new production (100 million dollars).

France will have reduced its gold holdings from 870 million to less than 600 million dollars during 1947, and we allow only for an additional 100 million in 1948.

Sweden will have reduced its gold holdings from 380 million to around 100 million dollars during 1947, and we allow only for a further 50 million in 1948.

There are many other smaller differences between 1947 and 1948, but in no case do we find a country which is expected to sell a great deal more in 1948 than during the current year.

To: Mr. Thomas

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It may seem surprising that with total foreign gold holdings of nearly 13 billion dollars at the beginning of 1948, we should expect a net gold inflow from foreign gold reserves of only 1.3 billion dollars (maximum estimate of 2 billion for total gold inflow, minus 700 million dollars of new gold production abroad, outside the USSR). However, Russia, Switzerland, the United Kingdom, and South Africa hold more than half of this 13 billion dollars, and these countries are expected to lose only 400 million dollars of their reserves to the United States in 1948 (none by Russia or South Africa; 100 million dollars by Switzerland; and 300 million dollars by the United Kingdom). Hence the remaining countries, holding about 6.3 billion dollars of gold reserves, are expected to lose 900 million dollars; this amount represents a very severe drain upon them, especially in view of the fact that most of them have already reduced their gold holdings to "minimum" levels.

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