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INTERNATIONAL GOLD AND CAPITAL MOVEMENTS

The current movement of gold from Europe to the United States began early in September with small shipments from London. On September 17 the first gold arrived from France, and on September 23 shipments were received from the Netherlands. In the five weeks ending October 21 about $370,000,000 of gold arrived in the United States, and $50,000,000 more is scheduled to arrive during the next ten days. Of this $420,000,000 France has shipped $195,000,000, England $125,000,000 and the Netherlands $55,000,000. The remainder has come largely from India and Canada.

This heavy movement of gold does not reflect an excess of payments due to the United States on ordinary transactions with the world. Recently this country's merchandise exports have exceeded its imports by only a small amount. Largely because of agricultural developments the surplus of exports has been cut down from an average of $32,000,000 a month for the first eight months of 1934 to less than $4,000,000 a month in 1935. This small excess, together with income from foreign investments, has been more than balanced in 1935 by tourist expenditures abroad, immigrants' remittances, and freight payments to foreign vessels. That gold nevertheless has flowed to the United States during the year is attributable to the heavy movement of capital to this country. The volume of gold imports has been held below the inward movement of capital by purchases of silver abroad for account of the United States Treasury.

During the crisis in the gold bloc countries last spring, the movement of capital was largely in the form of short-term balances. Speculative and flight funds were being transferred from these countries to New York. There was also a large return of New York funds from London, where the discount on forward sterling made the continued holding of balances unprofitable. During the summer forward quotations on sterling and gold bloc currencies continued to be at a discount, and there was little return to Europe of funds that had come here in the spring crisis. There was, in fact, a considerable net inflow of short-term funds, reflecting liquidation of German short-term indebtedness to the United States, and a movement of balances to this country from Latin America and the Far East. In addition there was a large movement of European resources into the New York security market. Purchases were mostly of American rather than foreign securities.

From the end of the spring crisis until September the greater part of this inward movement of capital was offset by purchases of silver abroad for account of the United States Treasury. There were, however, imports of gold amounting to about $60,000,000 during July and August, half of which was shipped from the Netherlands during the week in which the Dutch Cabinet was overturned. The movement ceased with the passing of the Cabinet crisis.

Aside from the Dutch shipments Europe lost little gold to the United States during the summer months, but losses in reserves suffered by commercial banks in Paris and Amsterdam during the outward movement of gold in the spring were not restored and these centers continued to carry the indebtedness incurred at their central banks at that time. Early in September, when the current gold movement began, reserves were still at the lowest level reached since the international crisis in 1931 and indebtedness was near the spring peak. The cost of this indebtedness has been lowered in France, however, by successive reductions in the rate charged by the Bank of France. From 6 percent on June 20 the bank had lowered its rate by August 9 to 3 percent. The Netherlands Bank, after reducing its rate three times, raised it from 3 to 6 percent during the crisis in July and thereafter reduced it to 5 percent. On September 17, in the face of the renewed gold outflow, the rate was again raised to 6 percent. In view of the substantial volume of indebtedness to the central banks, the course of central bank rates has largely determined the course of open-market rates in Paris and Amsterdam.

The fact that the current movement of gold to the United States led only the Netherlands Bank to raise its discount rate is attributable to several peculiarities in the situation. Pressure on European currencies developed toward the end of August as silver purchases abroad by the United States Treasury diminished in volume. During September there was little further activity of the Treasury in foreign markets and consequently the movement of capital had its full effect upon the movement of gold. The direct shifts in capital between countries, however, did not correspond with the flow of gold. Throughout the month funds continued to be transferred to New York for Far Eastern account; and, although gold began moving in heavy volume from the Netherlands and France, the transfer of funds on Continental account was largely for Switzerland and the smaller European countries. It appears that the Japanese, Swiss, and others who moved balances to this country were for the most part transferring London balances to New York. In addition the British themselves were building up balances and buying securities in New York. As a result the pressure of the capital movement was concentrated on London. The British Fund transferred this pressure to France by selling francs obtained through the release of gold earmarked in Paris. The sale of francs depressed the franc to the gold export point and nearly half the gold received in the United States has consequently come from France. But it has come, not from reserves of the Bank of France which have increased during the movement, but from holdings of the British Fund. In addition substantial amounts of gold reaching the London bullion market from South African mines, Indian hoards, and other private holdings have been transferred direct to the United States. Recently there has been some evidence that the Fund itself has been selling gold in London. It is in the nature of the Fund's operations, however, that they cannot affect either the reserve position of the Bank of England or of the London clearing banks, for its gold transactions are automatically compensated by its purchases or sales of Treasury bills. Hence not only has the Paris money market been unaffected by the gold flow from France to the United States but the London market has also been unaffected by the heavy outward movement of balances and gold together.

The movement of balances from London to New York appears to reflect the disturbing possibilities of the existing situation in Europe and the prominent rôle played in it by England. On the other hand there is little evidence that the movement of gold from the Netherlands in September was attributable to the same cause. Dutch exports of gold began on the eve of the reconvening of Parliament when there was considerable chance that the Catholic Party might withdraw its cooperation with the Government and overthrow the economy program. When the Catholic Party failed to develop a program of its own and voted for most of the Government's measures designed to balance the budget, the gold outflow practically ceased. Dutch shipments of gold to this country during October have been negligible, and the Netherlands Bank has been able to replace through purchases in Paris some of the gold lost in September. On October 17 it reduced its discount rate to 5 percent.

Gold has continued to flow to the United States, however, from England and France. The movement has been moderated somewhat by renewed purchases of silver abroad for account of the United States Treasury.