William McChesney Martin, Jr., Papers

Box 24/Folder 1

Series V, Subseries B

The Gold Standard, 1957

Note:

Two books on "gold" borrowed from R & S Library at time of Byrd hearing--returned to Library 2/12/58.

The Gold Standard in Theory & Practice by
R.G. Hawtrey

Gold and the Gold Standard by Edwin W. Kemmerer

COPY

July 30, 1957

Mr. Marget

Information on Gold Standard Experiences in the United States and Britain

Samuel I. Katz

In response to the request for information on the gold standard experiences in this country and in Britain for Chairman Martin, please find the following attached memoranda:

"Summary of United States Experience with the Gold Standard 1873-1933;" by Mr. Rau; and

"Summary of Britain's Experience Under the Gold Standard 1633-1931" by Mr. Westebbe.

For concise reviews in economic literature, Chapters II and III of "Gold and the Gold Standard" by Edwin W. Kemmerer and Chapters II, III and IV of "The Gold Standard in Theory and Practice" by R. G. Hawtrey may be cited.

Attachments 2

COPY

Allan F. Rau
July 30, 1957

Summary of United States Experience with the Gold Standard, 1879-1933

The United States adopted a gold standard in 1879, during the presidency of Rutherford B. Hayes.

At the end of 1861 the United States Government ceased to redeem its monetary issues in specie, and the nation went on an inconvertible paper standard. In the 1872 report of the Secretary of the Treasury, the secretary said: "In renewing the recommendations heretofore made for the passage of the mint bill, I suggest such alterations as will prohibit the coinage of silver for circulation in this country..." In 1873 a House-Senate conference committee presented a coinage bill that was so confused in its wording and provisions that even the committee members themselves were bewildered. Both houses promptly passed the measure, and it became the Coinage Law of February 12, 1873. The Law omitted the standard silver dollar from the list of coins. Thus, a return to a specie basis would place the country on a gold standard. The action, however, aroused no public attention as neither the Congress nor the general public had realized the significance of the action. Even if they had, there would not have been much opposition as the owners of silver rarely sold it to the mint. On the 11th of February, 1874, as shown in the Congressional Record of that day, Senator Stewart, of Nevada, stated in a speech: "I want the standard gold, and no paper money not redeemable in gold..."

The Resumption Act of 1875 provided for the future return of the dollar to a specie basis. By 1876 the market value of silver had fallen drastically, and the country was well aware of the monetary revolution worked by the Coinage Law of 1873. The "Do Something for Silver" movement forced concessions for silver. Under the Bland-Allison Act of 1878 the Treasury was required to purchase silver for monetary use. On January 1, 1879, the provision of the Resumption Act of 1875 requiring the return of the dollar to a specie basis went into effect, and the nation went on the gold standard. Eleven years later, the Sherman Silver Purchase Act of 1890 forced the Government into such extensive purchases of silver that the maintenance of a gold basis for the currency became seriously endangered. A succession of Presidents, however, were resolved to uphold this standard, and the United States remained on the gold standard until 1917. Not until the Gold Standard Act of 1900 and the final defeat of William Jennings Bryan were the silver advocates effectively restrained.

From 1917 to 1919 the United States was on an inconvertible paper standard. In 1919 the United States restored the full redeemability of its money in gold and remained on the gold standard until March 6, 1933.

Richard M. Westebbe
July 30, 1957.

Summary of Britain's Experience Under the Gold Standard, 1663-1931

In 1663, a new gold coin, called the guinea, was issued in England. Practically from the first, gold enjoyed a premium over silver and after the recoinage of 1696 to 1699 the value placed on gold in relation to silver in effect changed England's bimetallism to a monetary system dominated by gold. In 1717, a statutory value of 21 shillings was placed on the guinea which at a gold-silver ratio of 15.21 : 1 was higher than in the rest of Europe.

In 1774, Parliament placed limitations on the use of silver as legal tender, thus marking the first legal step away from bimetallism in England. From 1797 to 1821, England was in effect on a de facto depreciated paper-money standard. Heavy demands on the Bank of England to make advances to the Government, coupled with the drain of specie to France, caused the suspension of specie payments in the former year. In the Gold Standard Act of 1916, Parliament approved a monometallic gold standard. By 1821, the premium on gold had disappeared and cash payments at parity were resumed.

From 1821 through 1914, the payment, free coinage, and movement of gold were maintained without legal restriction. England successfully resisted international pressures to re-establish bimetallism at various times in the nineteenth century. In 1914, England practically alone amongst the belligerents maintained the convertibility of paper money into gold. However, the export of gold was, in practice, obstructed because of transport difficulties and official pressure so that the gold standard ceased to function. By 1919, the inflationary pressures of war finance led to a proclamation formally suspending the export of gold.

Great Britain returned to gold in 1925 when a gold bullion standard was established at the former gold parity and freedom to export gold was restored. The period was one of continuing depression in England. Establishing the pound at the pre-war parity undoubtedly overvalued British goods on the world market while the action of the Bank of England in successively raising Bank rate from 4 per cent in 1925 to 6-1/2 per cent in 1929 failed to check the outflow of gold, mainly to France, which was acquiring gold to back its growing note issue and deposits. In the Great Depression when prices fell rapidly, England continued to lose enormous amounts of gold. Credits from New York and Paris failed to stop the flow and the Bank of England was relieved of its obligation to sell gold at the coinage price on September 21, 1931.

COPY

August 8, 1957.

Mr. Anthony Harrigan,
The News and Courier,
Charleston, South Carolina.

Dear Mr. Harrigan:

This is in reply to your letter of July 30 concerning the amount of gold owned by the United States.

The gold stock of the United States (i.e., Treasury gold plus gold in the Exchange Stabilization Fund) amounted to $22.4 billion on March 31, 1957. The figure of $13 billion referred to in your letter represents the amount of foreign official and private short-term dollar holdings as of that date. Thus, the figure of $9 billion was derived by subtracting these dollar holdings from the gold stock of the United States. However, such a computation is not meaningful. While the United States Treasury is prepared to sell gold to foreign governments and central banks for legitimate monetary purposes, it does not extend this privilege to foreign private holders. Moreover, most of the holdings of foreign individuals and corporations, as well as a significant part of the holdings of foreign governments and central banks, represent working balances, which the holders need to make dollar payments.

Foreigners are holding dollar assets because of the general acceptability of the dollar in international transactions. As long as the stability of the value of the dollar is maintained, there is no reason to suppose that foreigners would attempt to convert their dollar holdings into gold on a scale that would involve a disturbance in our economy. Actually, since mid-1955 sales of gold to the United States by foreign monetary authorities have exceeded purchases.

At the end of March 1957 gold held under earmark at the Federal Reserve Banks for foreign and international accounts amounted to $6.3 billion. Gold under earmark is not included in the gold stock of the United States.

Sincerely yours,

Wm. McC. Martin, Jr.

June 26, 1957

Chairman Martin

Byrd Committee Hearings.

Arthur W. Marget

Appended hereto is a memorandum, prepared by Mr. Furth, in answer to your request of June 24, also attached hereto.

Attachment

June 26, 1957

Mr. Marget Gold

J. Herbert Furth

1. The role of gold in our economy today.

(i) The main function of gold in our economy today is to act as a residual means of payment in settlement of international balances.

The role of gold in the settlement of international balances has been recognized in:

The Gold Reserve Act of 1934 (Section 3), which authorizes the Secretary of the Treasury to issue regulations, with the approval of the President, that "prescribe the conditions under which gold may be acquired and held, transported, melted or traded, imported or exported, or earmarked . . . by the Federal Reserve banks for the purpose of settling international balances";

The Gold Regulations issued by the U. S. Treasury Department (paragraph 54.28), under which "the Federal Reserve banks may from time to time acquire from the United States . . . such amounts of gold bullion as, in the judgment of the Secretary of the Treasury, are necessary to settle international balances"; and in

Article IV, Section 4(b) of the Articles of Agreement of the International Monetary Fund, according to which "a member whose monetary authorities, for the settlement of international transactions, in fact freely buy and sell gold within the limits prescribed by the Fund . . . shall be deemed to be fulfilling" its obligation to maintain the par value of its currency.

The "residual" role of gold in the settlement of international balances follows from the fact that, in practice, most international transactions today are settled in either U. S. dollars or pounds sterling. However, the U. S. Treasury stands "ready to buy gold at the official price of $35 per fine troy ounce from all legal holders" (Annual Report of the Secretary of the Treasury for 1951,

p. 54); and gold can be freely sold for pounds sterling in the London gold market at a price which has deviated only by negligible fractions from the equivalent of $35 an ounce. Gold is thus a commodity which can be converted into the prevailing international currencies at fixed prices, and is as generally acceptable in international transactions as any internationally acceptable currency.

(ii) The second function of gold in our economy today is implicit in the statutory requirement (Federal Reserve Act, Section 16, paragraph 3) that "every Federal Reserve bank shall maintain reserves in gold certificates of not less than 25 per centum against its deposits and reserves in gold certificates of not less than 25 per centum against the Federal Reserve notes in actual circulation." This requirement obviously sets an upper limit to the expansion of Federal Reserve liabilities, and therefore to the money-creating power of the System. Actually, however, the combined reserve ratio maintained by the Federal Reserve Banks is at present (as of June 19, 1957) 46.9 per cent of their liabilities. If the Federal Reserve Banks were at this time to expand their liabilities so as to reduce the reserve ratio to the legal minimum of 25 per cent, these liabilities would be expanded by 80 per cent; needless to say, such an expansion would be equivalent to a very serious inflation. The function of gold as a brake upon the expansion of Federal Reserve liabilities is therefore not a factor of immediate economic importance. It may, however, regain such importance at a later time.

2. Description of the international gold bullion standard in use in the United States since 1934.

The international gold bullion standard may be defined as a system under which gold, at a fixed price, is freely used in the settlement of international balances (see above, l.i.), though not in the settlement of domestic transactions.

The United States thus adheres to the requirements of an international gold bullion standard "by buying and selling gold freely at a fixed price, $35 an ounce, in transactions with foreign governments and central banks for all legitimate monetary purposes" (statement of the Secretary of the Treasury, October 5, 1949). The fixed gold price of $35 per fine troy ounce was established by the Presidential Proclamation of January 31, 1934; it has become the basis of the par values of the currencies of all members of the International Monetary Fund by virtue of Article IV, Section 1(a) of the Articles of Agreement of the International Monetary Fund, according to which "the par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the U. S. dollar of the weight and fineness in effect on July 1, 1944"; and it has been given statutory recognition in the United States by the Bretton Woods Agreement Act, Section 5, according to which "unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States . . . propose or agree to any change in the par value of the U. S. dollar."

3. Gold inflow and outflow and adequacy of our present gold supply.

(i) At the end of 1946, the total U. S. gold stock (the gold stock of the U. S. Treasury plus gold in the Exchange Stabilization Fund) amounted to $20,706 million. In the following years, there was an inflow totaling $4,065 million (net after payment in 1947 of $688 million in gold as the U. S. gold subscription to the International Monetary Fund) so that by the end of August 1949 the gold stock reached an all-time peak of $24,771 million. An outflow of $2,844 million reduced the gold stock to $21,927 million by the end of the first quarter of 1951; an inflow of $1,606 million raised it again to $23,533 million at the end of the second quarter of 1952; a renewed outflow of $1,803 million lowered it to $21,730 million by the end of the second quarter of 1955; and a renewed inflow of $996 million brought it to $22,726 million at the end of May 1957. At present, the U. S. gold stock is therefore about $2 billion higher than at the end of 1946, and about $2 billion lower than at the end of August 1949.

(ii) The facts with respect to the adequacy of our present gold supply may be stated both in arithmetical and in economic terms.

The U. S. gold stock is equal to nearly 60 per cent of the estimated gold reserves of the entire free world. Even if the official dollar holdings of foreign countries (about $7.8 billion) are deducted from the U. S. gold stock in view of the willingness of the U. S. Treasury to redeem such balances in gold on demand, the remaining net gold holdings (about $14.9 billion) would represent nearly

40 per cent of the entire gold holdings of the free world. The ratio between U. S. gold holdings (gross or net) to annual U. S. merchandise imports ($12.7 billion in 1956) is much higher than the ratio between gold holdings and imports of any other major country of the free world. Similarly (as mentioned above, l. ii.), the ratio of gold to Federal Reserve liabilities is much higher than the statutory minimum.

From the point of view of economic analysis, however, these arithmetical relationships are not of decisive importance. In the days before the First World War, the United Kingdom acted as banker for virtually the entire world with a gold reserve that amounted to $165 million at the end of 1913. Although such a reserve would be considered woefully inadequate today, the United Kingdom did not then suffer from any balance of payments difficulties because it maintained financial stability and the world had unlimited confidence in the value of the pound sterling. More recently, at the end of 1950, not only did the Federal Republic of Germany have no gold at all, but its foreign exchange holdings of $274 million were exceeded by its foreign exchange liabilities of $432 million, so that its net foreign exchange reserves actually were a negative number. Nevertheless, the country was able to enter into a period of unprecedented expansion of domestic and international economic activity while maintaining financial stability, and by the end of April 1957 it had accumulated $1.8 billion in gold and $2.8 billion in net foreign exchange assets, to achieve the highest gold and dollar reserve of any country of the free world other than the United States. Even a small gold and foreign exchange reserve therefore can prove to be adequate if the country maintains financial stability and inspires domestic and international confidence in the maintenance of the value of its currency. On the other hand, the largest gold reserve can be dissipated within a short time if inflation leads to an excessive rise in imports, a sharp decline in exports, and the flight of capital.

If the United States continues to be reasonably successful in the struggle against inflationary pressure, and thereby maintains confidence at home and abroad in the value of the dollar, the present U. S. gold stock should be fully adequate for its needs. But if the United States were unsuccessful in its fight against inflation, even a much larger gold stock might well turn out to be inadequate.

COPY

August 8, 1957.

Mr. Anthony Harrigan,
The News and Courier,
Charleston, South Carolina.

Dear Mr. Harrigan:

This is in reply to your letter of July 30 concerning the amount of gold owned by the United States.

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Foreigners are holding dollar assets because of the general acceptability of the dollar in international transactions. As long as the stability of the value of the dollar is maintained, there is no reason to suppose that foreigners would attempt to convert their dollar holdings into gold on a scale that would involve a disturbance in our economy. Actually, since mid-1955 sales of gold to the United States by foreign monetary authorities have exceeded purchases.

At the end of March 1957 gold held under earmark at the Federal Reserve Banks for foreign and international accounts amounted to $6.3 billion. Gold under earmark is not included in the gold stock of the United States.

Sincerely yours,

Wm. McC. Martin, Jr.

From the desk of
WILLIAM McCHESNEY MARTIN, JR.

August 30

NOTE:

Annex A, referred to in this memorandum, returned to Mr. Marget.

This is a monthly statement and if Mr. Martin is called again to testify we will get the current statement for his use.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 6, 1957

To Chairman Martin

Subject:

From Arthur W. Marget

On the general principle of watching for questions asked in the Senate Finance Committee Hearings that might be repeated to you, I note two items in the questioning of Mr. Burgess by Senator Malone on August 3.

1. "Q. I was in South Africa. I had been hearing this business about gold selling for $60 or $70 an ounce in foreign markets. You have heard that?

"A. Yes. I know it is not so."

Somebody might pick up the fact that in a country such as India, the price for bar gold has been in fact around $60 an ounce (see the quotation for Bombay in the attached [Annex A] monthly report of the IMF). It is for this reason that we are careful to phrase our answers to inquiries on the point in such a way as to take care of this. I think that you have seen the letter which I sent to Senator Mansfield on this matter last week; but I am appending a copy in any case [Annex B].

2. On page 5 of our transcript of the testimony on August 3, there appears the following:

"Senator Malone . . . again asked whether foreigners were able to invest in the U. S. through the medium of Swiss bankers.

"Q. Is there enough of that money being moved into American business, is the rate of flow important enough to control certain corporations and businesses in this country?

"A. We have tried to make an estimate of that, and it is very baffling. We do not think the amount is large enough to control any company, unless possibly it were concentrated on some relatively small company. The amounts involved are not big enough."

This is a matter which keeps on popping up. You may want to check on what was said in Governor Balderston's replies to questions of the Subcommittee on Securities of the Senate Banking and Currency Committee, Questions 6 through 18 (pp. 95-7 of the printed version of the Subcommittee Hearings, May, 1957). In this connection, also, you may wish to remind yourself of the substance of Governor Balderston's letter of July 10, 1956, to Senator Dirksen, which involved the appearance, before a Senate Subcommittee, of Mr. Arthur Bloomfield, of the staff of the Federal Reserve Bank of New York. A copy of Governor Balderston's letter is also appended hereto, as Annex C.

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Attachments: Please Return Annex A only.

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July 31, 1957

The Honorable Mike Mansfield,
United States Senate,
Washington 25, D. C.

Dear Senator Mansfield:

This is in reply to your letter of July 29, which included a letter addressed to you by Mr. Frank B. Bryant, of Landusky, Montana, in which Mr. Bryant refers to the price of gold in major gold markets.

In the world's two leading international gold markets (London and Zurich), the price of bar gold at the present time is virtually identical with the price of $35 per ounce paid by the U. S. Treasury. In France, where the gold market is restricted to domestic transactions, the price of bar gold (converted at the free rate of exchange) has been around $36.25 per ounce in recent months. In some Asian countries, particularly India, where gold markets are to a considerable extent isolated from the world market and imports and exports are restricted, the price of bar gold primarily reflects local conditions.

The gold prices quoted by Mr. Bryant from the Engineering and Mining Journal for Buenos Aires and Paris appear to be those for gold coins and, therefore, are not comparable to the U. S. price for gold bullion. Coins customarily command a premium over bar gold.

In accordance with your request, I am returning Mr. Bryant's letter herewith.

Sincerely yours,

Arthur W. Marget,
Director,
Division of International Finance

Enclosure

B

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P
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July 10, 1956

The Honorable Everett McKinley Dirksen,
United States Senate,
Washington 25, D. C.

My dear Senator:

In the absence of Chairman Martin, I wish to thank you for your letters to him, dated June 26 and July 3, with respect to the matters raised in the letter of your correspondent of June 19. The delay in answering the June 26 letter was due to the fact that we wished to have the comments of the Federal Reserve Bank of New York, to which reference was made in your correspondent's letter.

With respect to the testimony of Mr. Arthur I. Bloomfield, of the Federal Reserve Bank of New York, which your correspondent mentions, we are informed that Mr. Bloomfield's name was called to the Subcommittee's attention by the Securities and Exchange Commission, which referred to Mr. Bloomfield's monograph on Speculative and Flight Movements of Capital in Postwar International Finance (Princeton, 1954). We are further informed that when Mr. Herbert Finzel, the Acting Counsel for the Subcommittee, asked Mr. Bloomfield to come down to Washington to testify on this subject on the basis of his monograph and to submit some statistical tables on total reported foreign assets in the United States, Mr. Bloomfield made it clear that he had no knowledge whatever as to the extent to which Communist money might be anonymously infiltrating American industry, since such capital inflows by their very nature would not be reported. Nevertheless, he agreed to testify.

It is our understanding that the transcript of Mr. Bloomfield's testimony, along with the subsequent testimony of other witnesses, will be published. In the meantime, you may be interested in Mr. Bloomfield's own summary of his testimony:

> "Although I had prepared no formal statement, I talked for about ten or fifteen minutes from notes which I had brought with me in which I emphasized, among other things, that: I was not a lawyer, tax expert, or practical operator in foreign exchange and that consequently I knew next to nothing about those particular hot money inflows in which the Subcommittee was most interested; that my purpose in testifying before the Subcommittee was solely to present some comments as an economist on the nature and mechanics of foreign money flows in general to the United States, especially those flows which illegally escape their countries of origin; that the United States, except for controls over Chinese and North Korean assets, imposes no controls over the inflow or outflow of capital and that consequently foreign money can come into and out of this country quite freely; and that, in the absence of such controls, our knowledge of foreign capital

c

flows has to be based almost entirely on reporting mechanisms. I then went on to describe briefly the motives for foreign money flows in general to this country -- emphasizing that the bulk of the increase in reported foreign dollar assets in the United States in recent years has been on official account and has occurred for perfectly "normal" reasons. I did point out that an apparently substantial part of the private foreign funds that has come to the United States over the postwar period as a whole has been of a "hot money" character designed to escape anticipated losses or impairment of capital because of political disturbance and high taxes abroad, etc., or to take advantage of expected devaluations of foreign currencies. I emphasized, however, that during the past four or five years the inflow of hot money has diminished very substantially. I made it clear that it is impossible to say how much "hot money" has come here in view of the facts that our statistics on private foreign capital inflows are obviously not classified by motivation and that a considerable part of these inflows in any case escape our statistical reporting system when the money involved is held in American names. I then summarized briefly some of the devious methods whereby foreigners are able to get money into this country by evading exchange controls abroad, e.g., over-invoicing of imports and under-invoicing of exports, black market deals, private compensation deals, smuggling out of bank notes and securities, etc. I also submitted to the Subcommittee, as requested, three statistical tables giving the aggregate amount of foreign dollar investments and assets by individual countries and by major types of investments and assets."

Since your correspondent suggests the possibility that the Federal Reserve System might be withholding information in its possession regarding the extent to which Communists and other foreign investors may have acquired shares of American corporations and indeed other dollar assets, I can only assure you that this is not the case. On the contrary, such statistical data as the Federal Reserve Banks, acting on behalf of the Treasury Department, collect on foreign assets and security purchases in the United States are regularly published on a monthly basis in the _Federal Reserve Bulletin_ and the _Treasury Bulletin_. To what extent the funds of individual foreign countries, including Russia, are held or invested in the United States anonymously -- through the use of American nominees or banks of third countries -- the Federal Reserve Banks would not know. It is clear, however, from the information that is available that the amount of such funds cannot be very large and cannot endanger the financial stability of the United States.

With respect to the question raised in your correspondent's letter regarding the possibility of a conversion of foreign dollar assets and investments into gold, your attention is invited to an article which appeared in the Federal Reserve Bulletin for March 1956 (a copy of which is enclosed), entitled "International Gold and Dollar Flows," especially pages 222 and 223.

Sincerely yours,

(Signed) C. C. BALDERSTON

C. Canby Balderston,
Vice Chairman.

Enclosure

International Gold and Dollar Flows

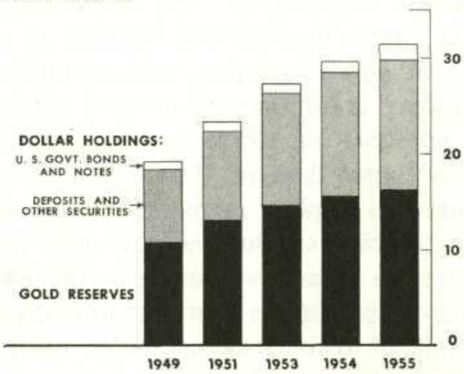
FURTHER GROWTH in gold reserves and dollar holdings of foreign countries and international institutions brought the total to \$31.4 billion at the end of 1955. The increase of \$1.8 billion for the year compared with \$2.2 billion in 1954 and \$2.6 billion in 1953. The tapering off in the rate of growth reflects a decline in foreigners' net receipts of gold and dollars through transactions with the United States.

During the three years 1953-55, foreign monetary authorities applied progressively less of their dollar receipts to the purchase of gold from the United States. In 1955 foreign gold transactions with this country were the smallest in many years, and the United States gold stock changed little.

Accumulation of dollar holdings by foreigners averaged more than \$1 billion annually during the past three years, but the form in which the added funds were held changed. The 1955 increase in such holdings was primarily in the form of United States Government securities, including—in addition to Treasury bills—unusually large amounts of bonds and notes.

Dollars are held by commercial banks and other private organizations and individuals as well as by foreign monetary authorities. Private dollar holdings generally represent business funds related to the current transactions of foreigners with this country. Growth in such holdings in recent years has accompanied expansion of United States trade and financial transactions with the rest of the world. While official dollar holdings are part of monetary reserves, which may be

FOREIGN GOLD RESERVES AND DOLLAR HOLDINGS
Billions of dollars



NOTE.—Year-end data. Includes international institutions. Other securities include primarily Treasury bills.

converted into gold through purchases from the United States Treasury, they represent in part active balances maintained for current exchange and other operations.

Gradual relaxation of exchange restrictions abroad and the restoration of freer conditions for world trade continued in 1955. This was reflected in a strengthening of exchange markets, as many countries continued to take steps toward broader intermarket relations and freer movement of short-term funds in adjusting the supply of and demand for foreign currencies.

FOREIGN TRANSACTIONS WITH THE UNITED STATES

Foreign countries and international institutions added \$1.3 billion to their gold reserves and dollar holdings in 1955 through transactions with the United States. This compares with an increase of \$1.6 billion in

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FOR MARCH 1956

1954 and $2.2 billion in 1953. The lower rate of accumulation in 1955 was accompanied, however, by a reduction in short- and medium-term foreign lending by United States banks. The net outflow of bank funds declined from $585 million in 1954, an unusual amount, to $360 million in 1955.

Balance of payments. The surplus in the United States international balance on account of goods, services, and remittances (excluding grant-financed military supplies and services) in 1955 was $1.4 billion, slightly larger than in 1954. While both exports and imports increased sharply last year, the trade surplus widened only moderately; this change was offset by increased military expenditures abroad, primarily as a result of disbursements under offshore procurement contracts.

Apart from these current account transactions, the outflow of United States Government nonmilitary grants and capital last year was $635 million larger than in 1954. This reflected increases in grant-aid disbursements during the first half of the year, and

SELECTED COMPONENTS OF UNITED STATES BALANCE OF PAYMENTS
[In millions of dollars]

Component	1954 First half	1954 Second half	1955 First half	1955 Second half
Surplus on goods, services, and remittances	383	929	711	732
Net outflow of capital and U. S. Govt. grants:				
U. S. private capital	684	937	400	548
U. S. Govt. capital and grants	648	837	1,293	827
Net transfers of gold and dollars to foreigners	706	904	575	680

NOTE.—Department of Commerce data, except transfer of gold and dollars to foreigners, which are Federal Reserve data. Grant-financed military supplies and services are not included. Data for the second half of 1955 are preliminary.

in acquisitions of foreign currencies by the United States Government through sale of surplus agricultural commodities over the year. On the other hand, there were small net repayments on medium- and long-term loans held by the Export-Import Bank.

The net outflow of private capital, including funds of United States banks, was smaller last year than in 1954. The interest of United States investors in acquiring foreign stocks, primarily European and Canadian, which had appeared in 1954, continued in 1955. Flotations of dollar bonds by Norway and South Africa extended the gradual widening of the foreign bond market in this country that began with Australian and Belgian issues in late 1954. These foreign portfolio investments were offset, to some extent, by net redemptions of Canadian bonds in this country, as interest rates here rose relative to Canadian rates.

Private direct investments abroad in 1955 in branches and subsidiaries of domestic corporations continued within the range of $700-$800 million that has prevailed in recent years. Foreign net purchases of United States corporate stocks totaled $130 million, about the same as in 1954.

Lending by United States banks. The net outflow of funds of United States banks (including Federal Reserve Banks) to foreigners in 1955 was smaller than in 1954. This coincided with repayments by foreign central banks on short-term Federal Reserve gold loans. Net disbursements on such loans during 1954, principally to Brazil, were $120 million. In late 1954, however, Brazil obtained a medium-term gold loan from United States commercial banks and drew on this loan over the ensuing months to liquidate its indebtedness to the Federal Reserve System.

Claims on foreigners reported by commercial banks increased $495 million in 1955, slightly more than in the preceding year, partly as a result of the shift in Brazil's indebtedness. Over the past two years commercial banks expanded their purchases of the early maturities of International Bank loans, without the Bank's guarantee, and increased their disbursements on loans guaranteed by the Export-Import Bank.

Claims of commercial banks on the United Kingdom declined $65 million in 1955, in contrast with an increase of $100 million the year before. Most of last year's decline occurred in the first quarter, when there was a return flow of funds that had been placed in deposit accounts or short-term securities in the United Kingdom during December 1954. In December 1955 a similar flow of such bank funds to the United Kingdom amounted to $35 million.

GOLD MOVEMENTS

Additions to foreign gold holdings have diminished steadily in recent years. Last year foreigners purchased (net) only $68 million of gold from the United States, compared with $327 million the year before and $1.2 billion in 1953, as the accompanying table shows. Meanwhile, additions to foreign gold reserves through net purchases out of new production and from other sources, which amounted to about $420 million in 1953, totaled about $600 million in each of the past two years.

Foreign gold production (excluding the U.S.S.R.) last year rose about $50 million to an estimated $900 million, largely because of increased South African output. Most of the South African production was disposed of through the London market. The part of new foreign production not absorbed into official reserves—about one-

INCREASE IN FOREIGN GOLD RESERVES AND DOLLAR HOLDINGS, BY SOURCE
[In millions of dollars]

Source	1953	1954	1955
From the United States:			
Increase in dollar holdings[1]	1,020	1,283	1,187
Net gold purchases	1,164	327	68
Net acquisitions of gold from new production and other sources[2]	417	616	590
Total increase in foreign gold and dollar holdings	2,601	2,226	1,845

[1] Includes principally deposits and U. S. Govt. securities.
[2] Estimated. Includes net purchases from private holders and the U. S. S. R.

third last year—goes to meet gold requirements in the arts and industry as well as other private demand.

Transactions with the United States. In 1955 the only significant gold transactions with the United States were purchases by France ($68 million) and Germany ($10 million) in the first half of the year and a sale by Uruguay ($11 million) in the third quarter. Net purchases from domestic production partly offset sales abroad, and throughout the year the United States gold stock fluctuated close to $21.8 billion.

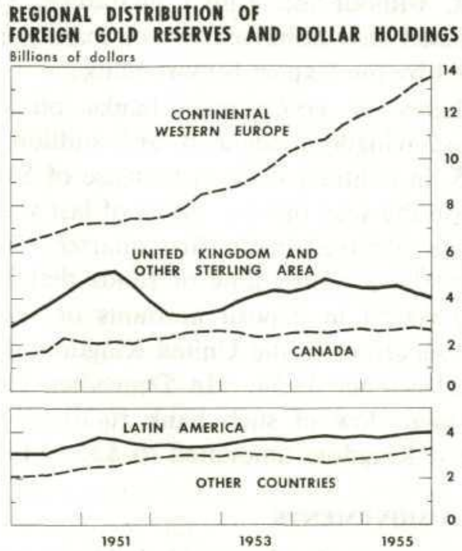
Transactions among foreign countries. In contrast with the decline in foreign gold transactions with this country, gold transactions among foreign monetary authorities (other than purchases of newly produced gold) appear to have increased, in part as a result of the reopening of the London market in 1954 and the relatively favorable gold price in foreign markets. The estimated volume of such transactions exceeded half a billion dollars during 1955.

The price of gold in London during the latter part of 1955 fell slightly below the dollar parity of $35 an ounce. This encouraged use of gold rather than dollars in settlement of international obligations. During that period gold was employed extensively to settle debts with the European Payments Union, and European central banks were reported to have purchased gold in London. Also, some countries used gold to repurchase their own currencies from the International Monetary Fund.

REGIONAL CHANGES

Changes in gold reserves and dollar holdings of individual foreign countries varied in 1955, reflecting transactions with the United States, acquisitions from new gold production, and gold and dollar transfers among foreign countries and international institutions. Continental Western European countries added $1.7 billion to their holdings, about the same as in 1953 and 1954. On the other hand, the sterling area's holdings declined $465 million, in contrast with an increase of $175 million in 1954. Canadian holdings declined $100 million, while Latin American holdings increased $165 million. Aggregate holdings of the non-sterling countries of Asia rose about $400 million, following declines in 1953 and 1954.

Within Continental Western Europe, changes varied widely by country. Holdings of France increased nearly $650 million, more than double the 1954 growth, as its position in the European Payments Union improved and there was further improvement in its over-all balance of payments with the United States, which included large dollar receipts from aid, offshore procurement, and military expenditures. The increase in German holdings, $385 million, was about half that of 1954, reflecting primarily increased imports from the dollar area; United States Government military expenditures continued to be a major source of dollars. All other Continental Western European countries, except Austria and Denmark, increased their holdings. The amounts were largest for Italy, Switzerland, and Belgium.



NOTE.—End-of-quarter data.

Holdings of the United Kingdom, which maintains the central gold and dollar reserve for the sterling area, declined about $530 million in 1955. This compares with a reduction of $642 million in British official reserves—gold and United States and Canadian dollars. Increased private dollar holdings partly offset the decline in reserves. Gold and dollar holdings of other sterling countries rose about $65 million.

Among Latin American countries gold and dollar holdings increased in Mexico and Venezuela, by relatively large amounts, and declined in Colombia, Uruguay, and Argentina. Colombia's indebtedness to United States banks increased during the first half of the year. Japan and Indonesia, mainly because of improved trade positions, accounted for most of the rise in holdings of other foreign countries.

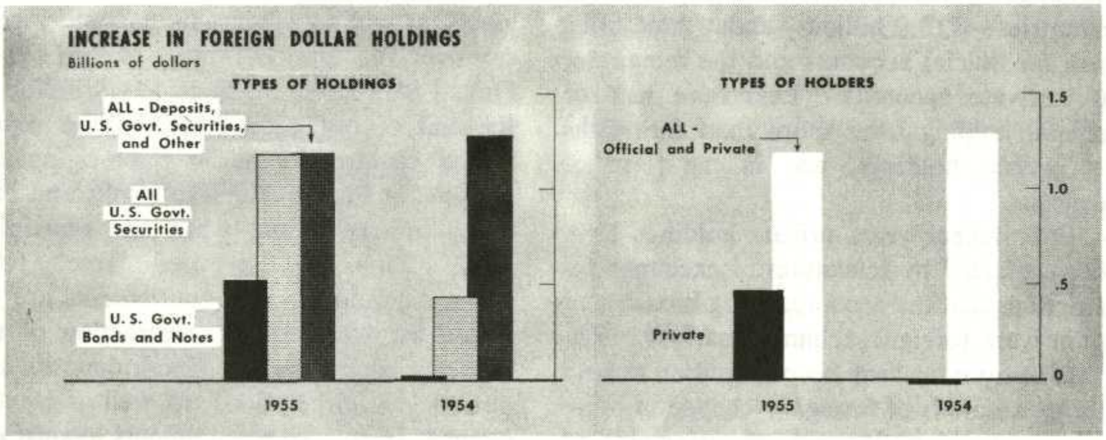
Gold reserves and dollar holdings of international institutions increased nearly $150 million in 1955. Several countries repurchased their own currencies from the International Monetary Fund, with gold or dollars; the largest repurchases were made by France, Japan, and India. Dollar loan repayments and sales out of its portfolio enabled the International Bank to maintain disbursements without issuing new dollar bonds.

COMPOSITION OF DOLLAR HOLDINGS

Additions to foreign dollar holdings were maintained at a high level over the past three years. The increase of $1.2 billion in 1955 was only slightly below that of the preceding year. Last year foreigners invested $530 million of the total in United States Government bonds and notes, as the accompanying chart shows. Practically all of the 1954 net addition was in short-term forms—deposits and short-term Government securities. Also in contrast with 1954, last year's increase was not solely in official accounts; private holdings rose $450 million, with most countries participating in the expansion.

Investment in United States Government bonds and notes. Information on the amount and country distribution of foreign holdings of United States Government bonds and notes—defined to include all securities with an original maturity of more than one year—was obtained for the first time last year through a special survey conducted by the Federal Reserve System. Except for partial amounts, Government bonds and notes previously had not been included in published data on foreign gold and dollar holdings.

In May 1955 selected banks in the United States reported the amounts of United States Government bonds and notes held for foreign and international accounts. These figures, together with regular monthly statistics on security transactions, provided a basis for estimating outstanding holdings of each foreign country for the period since 1949. The estimates are included in all statistics on dollar holdings shown in this article; in



NOTE.—Includes international institutions. Private holdings include Japanese holdings that are reported as private, but are mostly official in character. For some U. S. Govt. bonds and notes, which are not reported by type of holder, a breakdown is estimated. Other holdings include bankers' acceptances and miscellaneous short-term paper.

the table published regularly, on page 295; and in the special tables on pages 303-305, one showing back figures and the other changes during 1955.

The new figures fill an important gap in information on foreign dollar holdings as well as on the ownership of United States Government securities. Foreign and international institution holdings of United States Government bonds and notes were estimated at $1.6 billion on December 31, 1955; this represented more than 10 per cent of their total dollar holdings. The amount held for official institutions was estimated at more than $1 billion, of which about $450 million was purchased during 1955.

Foreign holdings of United States Government bonds and notes appear to include for the most part relatively short maturities. Available information indicates that about one-third of these securities will mature within one year and three-fourths within three years.

Private holdings. Foreign countries and international institutions maintained $15.2 billion in dollar accounts at the end of 1955, almost half of their total gold and dollar holdings. Of the dollar holdings of foreign countries—$13.0 billion—about three-fifths was for official accounts and the remainder for private accounts. Less than half of official holdings, but more than four-fifths of private holdings, was in the form of deposits.

Over recent years private holdings have been affected by relaxation of exchange restrictions and the accompanying broadening of private foreign exchange markets. Private institutions have been permitted to hold larger amounts of foreign exchange in order to accommodate demands of customers and to undertake short-term foreign exchange operations. As a result, private holdings are coming to assume somewhat greater importance relative to official reserves.

Private holdings are a supplement to official reserves. Under relatively stable conditions and with free exchange markets, an adverse balance of payments may be reflected in declining private holdings and, similarly, a favorable balance of payments may lead to increased private balances. The adequacy of a country's foreign exchange holdings tends to depend not only on its official reserves but also on the availability of foreign funds in the market.

ROLE OF DOLLAR HOLDINGS

The net dollar receipts of the rest of the world, which reflect the over-all balance of payments of foreign countries with the United States, may be held in deposit accounts or in securities or may be used to purchase gold from this country. The form in which net dollar receipts are held depends, among other things, on the type of holder, the purpose for which assets are held, and preferences for interest-earning assets.

The outstanding amount of foreign-held dollars is a potential claim against goods and services produced in this country, or other assets, as well as against the monetary gold stock of the United States. Of the total United States gold stock of $21.8 billion at the end of last year, $12.0 billion represented required domestic reserves against deposits at Federal Reserve Banks and currency in circulation, while the remaining $9.8 billion was so-called "free" gold. Domestic gold reserve requirements are affected by expansion or contraction of the domestic money supply (bank deposits and currency in circulation), as well as by any changes in reserve requirements against deposits or currency. The level of "free" gold is affected by these factors as well as by gold transactions with foreigners and by any net domestic production or consumption of gold.

Foreign dollar holdings have grown along with the increased importance of the United States in world trade and finance and with the emergence of the dollar as the leading currency of the world. Thus the greater part of foreign dollar holdings represents funds needed by their holders for carrying out international transactions.

Foreign private dollar holdings, which totaled $5.3 billion at the end of last year, by and large represent operating funds of commercial banks and business firms, which need these assets for their normal trade and financial operations with the United States. These groups may not purchase gold from the United States Treasury, although they may dispose of their dollar holdings to foreign monetary authorities. Similarly, international institutions do not have the alternative of converting their dollars into gold. The holdings of these institutions, $2.2 billion on December 31, 1955, may be used only in connection with their operations, which, however, might conceivably add to the dollar holdings of foreign countries.

Other foreign dollar holdings—$7.7 billion at the end of 1955—represent assets of monetary authorities, including foreign central banks and governments, which the authorities may freely use to purchase gold from the United States Treasury. These funds, however, include operating balances which these institutions maintain to meet current exchange requirements, to intervene in foreign exchange markets, or to undertake transactions on behalf of their governments.

During the postwar period, foreign monetary authorities have at times bought unusually large amounts of gold from the United States. Purchases have been made for the most part with currently accruing dollars. Although the experience of individual countries has varied, at no time in this period have foreign countries as a group reduced their dollar holdings significantly to purchase gold. The extent to which gold has been purchased has depended in large measure on which country was earning dollars, since some countries have shown a high propensity to hold their reserves in gold while others have shown very little or no preference for gold as compared with dollars. The greater part of outstanding official dollar holdings belongs to countries that in the postwar period have converted a relatively small portion of their net dollar receipts into gold.

In general, foreign holdings of dollars, in the form of deposits or other liquid assets, contribute to stability of foreign currencies and to the maintenance of high levels of world trade. Because of the general acceptability of the dollar as a means of international settlement, the ready availability of dollar funds helps foreign countries in adjusting to abrupt shifts in their international accounts. Also, the fact that a foreign monetary authority has large dollar balances at its immediate disposal contributes to confidence, and thus tends to mitigate balance-of-payment crises.

The dollar liquidity of foreign countries also facilitates international financing. Foreign lending by United States banks has expanded over recent years along with the increase in foreign dollar holdings. The ready availability of dollar funds to foreigners sustains the foreign trade of the United States and the rest of the world.

ESTIMATED GOLD RESERVES AND DOLLAR HOLDINGS OF FOREIGN COUNTRIES AND INTERNATIONAL INSTITUTIONS

[In millions of dollars]

Area and country	Dec. 31, 1953		Dec. 31, 1954		Mar. 31, 1955		June 30, 1955		Sept. 30, 1955		Dec. 31, 1955[p]	
	Gold & short-term dollars	U. S. Govt. bonds & notes	Gold & short-term dollars	U. S. Govt. bonds & notes	Gold & short-term dollars	U. S. Govt. bonds & notes	Gold & short-term dollars	U. S. Govt. bonds & notes	Gold & short-term dollars	U. S. Govt. bonds & notes	Gold & short-term dollars	U. S. Govt. bonds & notes
Continental Western Europe:												
Austria	238	8	329	12	331	12	325	12	341	12	324	10
Belgium-Luxembourg (and Belgian Congo)	1,098	9	1,039	10	1,087	9	1,108	10	1,146	10	1,197	10
Denmark	127	6	102	7	100	7	85	6	95	6	91	6
Finland	64	1	72	3	69	3	69	5	73	5	84	5
France (and dependencies)[1]	1,049	158	1,328	161	1,362	161	1,397	160	1,593	161	[2]1,986	151
Germany (Federal Republic of)	1,225	(3)	1,999	(3)	2,125	(3)	2,155	3	2,250	5	2,374	8
Greece	112	(3)	124	(3)	141	(3)	138	(3)	145	(3)	185	(3)
Italy	812	9	925	10	957	5	992	2	1,105	2	1,131	2
Netherlands (and Netherlands West Indies and Surinam)	1,055	7	1,118	5	1,089	26	1,072	41	1,074	41	1,100	44
Norway	171	5	148	6	109	14	116	36	113	53	124	53
Portugal (and dependencies)	469	(3)	560	(3)	570	(3)	571	(3)	580	(3)	600	(3)
Spain (and dependencies)	150	3	188	4	209	4	225	3	237	3	221	3
Sweden	335	1	406	1	386	1	383	....	411	....	429	(3)
Switzerland	2,133	41	2,185	38	2,149	42	2,170	42	2,197	44	2,348	44
Turkey	157	....	152	....	154	....	156	....	153	(3)	153	(3)
Other[4]	887	4	947	3	1,016	1	1,242	4	1,273	3	857	3
Total	10,082	252	11,622	260	11,854	285	12,204	324	12,786	345	13,204	339
Sterling Area:												
United Kingdom	3,009	232	3,190	216	3,137	249	3,139	280	2,800	286	2,593	282
United Kingdom dependencies	108	5	103	5	103	5	102	5	100	12	88	12
India	346	1	334	1	334	1	344	1	339	1	320	1
Union of South Africa	214	1	232	1	236	1	242	1	251	1	265	1
Other	373	3	381	3	395	3	405	3	421	3	433	4
Total	4,050	242	4,240	226	4,205	259	4,232	290	3,911	303	3,699	300
Canada	2,292	227	2,616	93	2,418	182	2,381	262	2,320	397	2,172	437
Latin America:												
Argentina	501	2	531	(3)	523	(3)	528	(3)	536	(3)	509	(3)
Bolivia	40	....	32	(3)	26	(3)	28	(3)	26	(3)	26	(3)
Brazil	423	2	442	2	417	2	442	2	469	2	466	2
Chile	121	1	112	1	118	1	136	1	129	(3)	139	(3)
Colombia	236	(3)	308	(3)	183	(3)	188	(3)	184	(3)	217	(3)
Cuba	527	43	423	124	420	149	431	149	423	169	389	169
Dominican Republic	51	(3)	72	(3)	75	(3)	83	(3)	82	(3)	77	(3)
Guatemala	65	(3)	62	....	72	....	78	....	70	....	72	....
Mexico	341	4	391	4	427	4	419	4	481	4	556	4
Panama, Republic of	90	1	74	1	79	1	84	2	85	1	86	1
Peru	104	(3)	118	(3)	114	(3)	118	(3)	124	(3)	127	(3)
El Salvador	56	....	59	....	72	....	79	....	61	....	52	....
Uruguay	337	1	317	1	308	1	291	1	277	1	281	1
Venezuela	595	2	597	3	591	3	664	3	662	3	668	3
Other	130	5	135	10	140	11	138	12	140	14	124	15
Total	3,617	61	3,673	146	3,565	172	3,707	174	3,749	194	3,789	195
Asia:												
Indonesia	184	(3)	181	(3)	179	15	196	15	201	15	255	15
Iran	181	(3)	169	(3)	178	(3)	190	(3)	174	(3)	173	(3)
Japan	951	2	851	3	841	3	884	3	992	3	1,029	4
Philippines	304	8	266	6	264	6	263	6	266	6	263	6
Thailand	281	(3)	236	(3)	245	1	243	1	235	1	250	1
Other	401	6	520	6	551	4	601	3	620	2	643	3
Total	2,302	16	2,223	15	2,258	29	2,377	28	2,488	27	2,613	29
Eastern Europe[5]	306	6	309	6	309	6	311	7	307	7	308	7
All other:												
Egypt	217	(3)	221	(3)	228	(3)	224	(3)	234	(3)	246	(3)
Other	67	2	68	....	72	....	84	....	87	1	77	1
Total	284	2	289	(3)	300	(3)	308	(3)	321	1	323	1
Total foreign countries	22,933	806	24,972	746	24,909	933	25,520	1,085	25,882	1,274	26,108	1,308
International[6]	3,331	285	3,510	353	3,557	362	3,599	317	3,595	320	3,689	321
Grand total	26,264	1,091	28,482	1,099	28,466	1,295	29,119	1,402	29,477	1,594	29,797	1,629

p Preliminary.

1 Includes gold reserves of Bank of France and French dependencies only.

2 Reflects publication by France of certain previously unpublished French gold reserves, which are included for earlier dates in Continental Western Europe—Other.

3 Less than $500,000.

4 Includes Yugoslavia, Bank for International Settlements (both for its own and European Payments Union account), gold to be distributed by the Tripartite Commission for Restitution of Monetary Gold, and unpublished gold reserves of certain Western European countries.

5 Excludes gold reserves of the U. S. S. R.

6 Includes International Bank for Reconstruction and Development, International Monetary Fund, and United Nations and other international organizations.

NOTE.—This table has been revised to show figures on holdings of U. S. Govt. securities with original maturities of more than one year. Gold and short-term dollars include reported and estimated gold reserves of central banks, governments, and international institutions, and official and private dollar holdings as shown in Short-term Liabilities to Foreigners Reported by Banks in the United States, by Countries (Tables 1 and 1a–1d of the preceding section). U. S. Govt. bonds and notes represent estimated official and private holdings of such securities with original maturities of more than one year; these estimates are based on a survey of selected U. S. banks and on monthly reports of security transactions. For back figures see pp. 304–05 of this BULLETIN.

ESTIMATED CHANGES IN FOREIGN AND INTERNATIONAL GOLD RESERVES AND DOLLAR HOLDINGS DURING 1955

[In millions of dollars]

Area and country	Holdings, Dec. 31, 1954			Increase or decrease (−), 1955: January-June			July-December[p]			Holdings, Dec. 31, 1955[p]		
	Gold reserves	Short-term dollars	U. S. Govt. bonds & notes	Gold reserves	Short-term dollars	U. S. Govt. bonds & notes	Gold reserves	Short-term dollars	U. S. Govt. bonds & notes	Gold reserves	Short-term dollars	U. S. Govt. bonds & notes
Continental Western Europe:												
Austria	56	273	12	......	−4	......	5	−6	−2	61	263	10
Belgium-Luxembourg (and Belgian Congo)	891	148	10	63	6	......	92	−3	......	1,046	151	10
Denmark	31	71	7	......	−17	−1	......	6	......	31	60	6
Finland	31	41	3	......	−3	2	4	11	......	35	49	5
France (and dependencies)	[1] 596	732	161	......	69	−1	285	304	−9	[1] 881	1,105	151
Germany (Federal Republic of)	626	1,373	(2)	132	24	3	162	57	5	920	1,454	8
Greece	11	113	(2)	......	14	......	......	47	......	11	174	(2)
Italy	346	579	10	......	67	−8	......	139	......	346	785	2
Netherlands (and Netherlands West Indies and Surinam)	820	298	5	8	−54	36	61	−33	3	889	211	44
Norway	45	103	6	......	−32	30	......	8	17	45	79	53
Portugal (and dependencies)	458	102	(2)	8	3	......	−6	35	......	460	140	(2)
Spain (and dependencies)	116	72	4	......	37	−1	......	−4	......	116	105	3
Sweden	265	141	1	−1	−22	−1	12	34	......	276	153	(2)
Switzerland	1,513	672	38	−28	13	4	112	66	2	1,597	751	44
Turkey	144	8	......	......	4	......	......	−3	(2)	144	9	(2)
Other[3]	616	331	3	290	5	1	−229	−156	−1	677	180	3
Total	6,565	5,057	260	472	110	64	498	502	15	7,535	5,669	339
Sterling Area:												
United Kingdom	[4] 2,550	640	216	−100	49	64	−400	−146	2	[4] 2,050	543	282
United Kingdom dependencies	......	103	5	......	−1	......	......	−14	7	......	88	12
India	247	87	1	......	10	......	......	−24	......	247	73	1
Union of South Africa	199	33	1	13	−3	......	......	23	......	212	53	1
Other	244	137	3	2	22	......	8	20	1	254	179	4
Total	3,240	1,000	226	−85	77	64	−392	−141	10	2,763	936	300
Canada	1,080	1,536	93	32	−267	169	29	−238	175	1,141	1,031	437
Latin America:												
Argentina	371	160	(2)	......	−3	......	......	−19	......	371	138	(2)
Bolivia	3	29	(2)	−3	−1	......	......	−2	......	(2)	26	(2)
Brazil	322	120	2	......	......	......	1	23	......	323	143	2
Chile	42	70	1	......	24	......	2	1	−1	44	95	(2)
Colombia	86	222	(2)	......	−120	......	......	29	......	86	131	(2)
Cuba	186	237	124	......	8	25	−50	8	20	136	253	169
Dominican Republic	12	60	(2)	......	11	......	......	−6	......	12	65	(2)
Guatemala	27	35	......	......	16	......	......	−6	......	27	45	......
Mexico	62	329	4	16	12	......	64	73	......	142	414	4
Panama, Republic of	......	74	1	......	10	1	......	2	−1	......	86	1
Peru	35	83	(2)	......	......	......	......	9	......	35	92	(2)
El Salvador	29	30	......	......	20	......	−1	−26	......	28	24	......
Uruguay	227	90	1	......	−26	......	−11	1	......	216	65	1
Venezuela	403	194	3	......	67	......	......	4	......	403	265	3
Other	30	105	10	......	3	2	......	−14	3	30	94	15
Total	1,835	1,838	146	13	21	28	5	77	21	1,853	1,936	195
Asia:												
Indonesia	81	100	(2)	......	15	15	......	59	......	81	174	15
Iran	138	31	(2)	......	21	......	......	−17	......	138	35	(2)
Japan	126	725	3	1	32	......	1	144	1	128	901	4
Philippines	9	257	6	2	−5	......	5	−5	......	16	247	6
Thailand	113	123	(2)	......	7	1	−1	8	......	112	138	1
Other	164	356	6	4	77	−3	7	35	......	175	468	3
Total	631	1,592	15	7	147	13	12	224	1	650	1,963	29
Eastern Europe[5]	290	19	6	−1	3	1	......	−3	......	289	19	7
All other:												
Egypt	174	47	(2)	......	3	......	......	22	......	174	72	(2)
Other	4	64	......	......	16	......	......	−7	1	4	73	1
Total	178	111	(2)	......	19	......	......	15	1	178	145	1
Total foreign countries	13,819	11,153	746	438	110	339	152	436	223	14,409	11,699	1,308
International[6]	1,740	1,770	353	5	84	−36	63	27	4	1,808	1,881	321
Grand total	15,559	12,923	1,099	443	194	303	215	463	227	16,217	13,580	1,629

[p] Preliminary.

[1] Includes gold reserves of Bank of France and French dependencies only. Figure for end of 1955 reflects publication by France of certain previously unpublished French gold reserves, which are included for earlier dates in Continental Western Europe—Other.

[2] Less than $500,000.

[3] Includes Yugoslavia, Bank for International Settlements (both for its own and European Payments Union account), gold to be distributed by the Tripartite Commission for Restitution of Monetary Gold, and unpublished gold reserves of certain Western European countries.

[4] Estimated gold holdings of British Exchange Equalization Account, based on the figure for total holdings of gold and of United States and Canadian dollars, as reported by British Government.

[5] Excludes gold reserves of the U. S. S. R.

[6] Includes International Bank for Reconstruction and Development, International Monetary Fund, and United Nations and other international organizations.

See also NOTE on second page following.

ESTIMATED GOLD RESERVES AND DOLLAR HOLDINGS OF FOREIGN COUNTRIES AND INTERNATIONAL INSTITUTIONS

[in millions of dollars]

Area and country	Dec. 31, 1949		Dec. 31, 1950		June 30, 1951		Dec. 31, 1951		June 30, 1952		Dec. 31, 1952	
	Gold & short-term dollars	U. S. Govt. bonds & notes	Gold & short-term dollars	U. S. Govt. bonds & notes	Gold & short-term dollars	U. S. Govt. bonds & notes	Gold & short-term dollars	U. S. Govt. bonds & notes	Gold & short-term dollars	U. S. Govt. bonds & notes	Gold & short-term dollars	U. S. Govt. bonds & notes
Continental Western Europe:												
Austria	92	....	92	18	94	11	107	6	102	6	143	6
Belgium-Luxembourg (and Belgian Congo)	912	....	848	12	844	11	898	9	969	8	1,035	6
Denmark	70	5	76	4	76	4	76	4	65	4	101	4
Finland	31	....	30	....	43	....	53	....	47	....	55	....
France (and dependencies)[1]	739	18	834	217	845	250	896	211	906	208	967	208
Germany (Federal Republic of)	149	(2)	222	(2)	357	(2)	434	(2)	545	(2)	691	(2)
Greece	36	....	36	....	43	....	49	....	51	(2)	57	(2)
Italy	554	10	571	9	533	9	633	10	613	10	655	10
Netherlands (and Netherlands West Indies and Surinam)	415	9	559	8	495	8	524	7	603	7	815	9
Norway	120	7	94	43	110	33	150	4	145	4	160	10
Portugal (and dependencies)	234	(2)	257	(2)	282	(2)	331	(2)	342	(2)	374	(2)
Spain (and dependencies)	127	5	132	4	129	4	128	4	129	4	130	4
Sweden	160	1	205	1	228	1	224	1	281	1	275	1
Switzerland	2,016	51	2,023	58	1,960	55	1,973	43	2,009	42	2,053	46
Turkey	164	....	164	....	162	....	165	....	171	....	151	....
Other[3]	352	3	689	15	640	15	477	3	664	4	712	5
Total	6,171	109	6,832	389	6,841	401	7,118	302	7,642	298	8,374	309
Sterling Area:												
United Kingdom	1,924	103	3,557	132	4,145	121	2,843	105	2,218	125	2,318	196
United Kingdom dependencies	103	3	120	3	95	3	100	4	103	5	113	5
India	310	2	303	2	327	1	309	1	306	1	312	1
Union of South Africa	134	....	241	(2)	227	(2)	197	(2)	159	(2)	194	1
Other	255	4	232	10	253	9	324	4	348	5	347	3
Total	2,726	112	4,453	147	5,047	134	3,773	114	3,134	136	3,284	206
Canada	1,365	161	1,489	654	1,616	497	2,157	100	2,396	117	2,317	310
Latin America:												
Argentina	417	1	518	(2)	632	(2)	518	1	415	1	427	1
Bolivia	37	....	43	....	48	....	51	....	47	....	45	....
Brazil	510	(2)	543	....	529	1	417	1	398	1	390	2
Chile	101	....	120	(2)	115	(2)	99	(2)	96	(2)	121	(2)
Colombia	138	....	127	(2)	125	(2)	154	(2)	138	(2)	194	(2)
Cuba	463	....	530	25	609	28	575	28	635	28	515	28
Dominican Republic	39	2	47	2	59	2	58	2	62	2	56	2
Guatemala	51	2	52	2	57	2	54	2	65	2	61	2
Mexico	267	3	415	2	329	3	366	5	266	4	375	5
Panama, Republic of	74	12	59	15	58	15	68	14	74	8	81	8
Peru	81	1	91	(2)	100	1	93	(2)	103	(2)	107	(2)
El Salvador	45	....	39	11	77	....	54	....	67	....	55	....
Uruguay	236	....	311	1	355	2	306	2	309	1	301	1
Venezuela	516	1	458	....	449	1	445	1	503	2	519	2
Other	81	....	91	3	113	1	102	3	123	5	132	2
Total	3,056	22	3,444	61	3,655	56	3,360	59	3,301	54	3,379	53
Asia:												
Indonesia	194	(2)	324	....	365	15	421	(2)	456	(2)	296	(2)
Iran	157	....	160	(2)	165	(2)	163	(2)	159	(2)	157	(2)
Japan	377	16	587	2	471	2	729	2	849	2	929	2
Philippines	298	18	377	19	409	20	337	19	341	15	324	8
Thailand	143	(2)	166	(2)	181	(2)	210	(2)	240	(2)	294	(2)
Other	341	6	256	7	328	7	325	6	310	6	360	6
Total	1,510	40	1,870	28	1,919	44	2,185	27	2,355	23	2,360	16
Eastern Europe[4]	380	(2)	344	(2)	320	6	309	6	307	6	307	6
All other:												
Egypt	115	(2)	173	(2)	232	(2)	285	(2)	292	(2)	234	....
Other	24	2	28	2	38	....	43	2	38	1	49	3
Total	139	2	201	2	270	(2)	328	2	330	1	283	3
Total foreign countries	15,347	446	18,633	1,281	19,668	1,138	19,230	610	19,465	635	20,304	903
International[5]	3,109	162	3,022	271	3,053	295	3,171	261	3,150	258	3,277	270
Grand total	18,456	608	21,655	1,552	22,721	1,433	22,401	871	22,615	893	23,581	1,173

[1] Includes gold reserves of Bank of France and French dependencies only.

[2] Less than $500,000.

[3] Includes Yugoslavia, Bank for International Settlements (both for its own and European Payments Union account), gold to be distributed by the Tripartite Commission for Restitution of Monetary Gold, and unpublished gold reserves of certain Western European countries.

[4] Excludes gold reserves of the U. S. S. R.

[5] Includes International Bank for Reconstruction and Development, International Monetary Fund, and United Nations and other international organizations.

See also NOTE on opposite page.

ESTIMATED GOLD RESERVES AND DOLLAR HOLDINGS OF FOREIGN COUNTRIES AND INTERNATIONAL INSTITUTIONS—Continued

[In millions of dollars]

Area and country	June 30, 1953		Dec. 31, 1953		Mar. 31, 1954		June 30, 1954		Sept. 30, 1954		Dec. 31, 1954	
	Gold & short-term dollars	U. S. Govt. bonds & notes	Gold & short-term dollars	U. S. Govt. bonds & notes	Gold & short-term dollars	U. S. Govt. bonds & notes	Gold & short-term dollars	U. S. Govt. bonds & notes	Gold & short-term dollars	U. S. Govt. bonds & notes	Gold & short-term dollars	U. S. Govt. bonds & notes
Continental Western Europe:												
Austria	166	6	238	8	267	8	289	11	335	11	329	12
Belgium-Luxembourg (and Belgian Congo)	1,044	6	1,098	9	1,124	9	1,055	10	1,024	10	1,039	10
Denmark	102	5	127	6	133	7	124	7	107	7	102	7
Finland	60	......	64	1	71	3	73	3	69	3	72	3
France (and dependencies)[1]	926	208	1,049	158	1,040	153	1,062	187	1,094	187	1,328	161
Germany (Federal Republic of)	893	(2)	1,225	(2)	1,381	(2)	1,503	(2)	1,822	(2)	1,999	(2)
Greece	82	(2)	112	(2)	123	(2)	125	(2)	105	(2)	124	(2)
Italy	660	10	812	9	841	9	802	9	874	10	925	10
Netherlands (and Netherlands West Indies and Surinam)	952	9	1,055	7	1,064	6	1,125	6	1,118	5	1,118	5
Norway	164	4	171	5	169	5	178	5	177	5	148	6
Portugal (and dependencies)	413	(2)	469	(2)	499	(2)	516	(2)	537	(2)	560	(2)
Spain (and dependencies)	134	3	150	3	136	3	142	3	174	3	188	4
Sweden	280	1	335	1	337	1	342	1	399	1	406	1
Switzerland	2,091	45	2,133	41	2,134	38	2,105	36	2,172	33	2,185	38
Turkey	152	......	157	......	153	......	151	......	150	......	152	......
Other[3]	794	4	887	4	972	5	1,004	4	928	15	947	3
Total	8,913	301	10,082	252	10,444	247	10,596	282	11,085	290	11,622	260
Sterling Area:												
United Kingdom	2,886	212	3,009	232	3,198	250	3,536	239	3,388	234	3,190	216
United Kingdom dependencies	109	5	108	5	105	5	105	5	104	5	103	5
India	334	1	346	1	329	1	338	1	320	1	334	1
Union of South Africa	212	1	214	1	221	1	225	1	234	1	232	1
Other	369	4	373	3	371	3	373	3	371	3	381	3
Total	3,910	223	4,050	242	4,224	260	4,577	249	4,417	244	4,240	226
Canada	2,063	306	2,292	227	2,362	230	2,363	202	2,443	198	2,616	93
Latin America:												
Argentina	519	2	501	2	541	(2)	548	(2)	576	(2)	531	(2)
Bolivia	47	......	40	......	35	......	36	......	35	......	32	(2)
Brazil	451	2	423	2	431	2	417	2	413	2	442	2
Chile	129	(2)	121	1	102	1	103	1	117	1	112	1
Colombia	197	(2)	236	(2)	247	(2)	317	(2)	254	(2)	308	(2)
Cuba	579	29	527	43	548	42	532	80	477	104	423	124
Dominican Republic	59	(2)	51	(2)	61	(2)	68	(2)	73	(2)	72	(2)
Guatemala	72	2	65	(2)	80	(2)	75	......	64	......	62	......
Mexico	339	5	341	4	329	4	258	6	315	6	391	4
Panama, Republic of	97	5	90	1	93	1	88	(2)	77	(2)	74	1
Peru	109	(2)	104	(2)	109	(2)	103	(2)	110	(2)	118	(2)
El Salvador	74	......	56	......	76	4	71	4	54	4	59	......
Uruguay	311	2	337	1	329	1	335	1	329	1	317	1
Venezuela	530	2	595	2	562	2	621	3	614	3	597	3
Other	159	3	130	5	163	6	145	5	147	8	135	10
Total	3,672	52	3,617	61	3,706	63	3,717	102	3,655	129	3,673	146
Asia:												
Indonesia	246	(2)	184	(2)	166	(2)	140	(2)	168	(2)	181	(2)
Iran	155	(2)	181	(2)	185	(2)	172	(2)	164	(2)	169	(2)
Japan	1,015	2	951	2	800	2	740	3	794	3	851	3
Philippines	316	8	304	8	319	8	308	7	318	7	266	6
Thailand	311	(2)	281	(2)	268	(2)	243	(2)	238	......	236	(2)
Other	363	6	401	6	451	6	444	6	465	6	520	6
Total	2,406	16	2,302	16	2,189	16	2,047	16	2,147	16	2,223	15
Eastern Europe[4]	306	6	306	6	308	6	309	6	308	6	309	6
All other:												
Egypt	229	(2)	217	(2)	224	(2)	226	(2)	219	(2)	221	(2)
Other	61	2	67	2	74	......	67	......	70	......	68	......
Total	290	2	284	2	298	(2)	293	(2)	289	(2)	289	(2)
Total foreign countries	21,560	906	22,933	806	23,531	822	23,902	857	24,344	883	24,972	746
International[5]	3,227	311	3,331	285	3,401	285	3,364	306	3,536	341	3,510	353
Grand total	24,787	1,217	26,264	1,091	26,932	1,107	27,266	1,163	27,880	1,224	28,482	1,099

For other footnotes see opposite page.

NOTE.—Gold and short-term dollars include reported and estimated gold reserves of central banks, governments, and international institutions, and official and private dollar holdings as shown in Short-term Liabilities to Foreigners Reported by Banks in the United States, by Countries (Tables 1 and 1a–1d, pp. 288–289). U. S. Govt. bonds and notes represent estimated official and private holdings of such securities with original maturities of more than one year; these estimates are based on a survey of selected U. S. banks and on monthly reports of security transactions.

July 26

Mr. Katz --

Herewith the information Mr. Martin would like to have re the "gold standard". Thanks very much for your help.

For England - he asked only when they went on the single standard--but I think a brief summary of "why" would be helpful.

For the United States --

1. When did we go on the gold standard (1873?)

2. Who was President at the time?

3. Gist of any public announcements made.

4. Summary of the historical period.

5. A good "reference" to the history of the gold standard period which Mr. Martin could read.

And that should do it.

I am sending along the books the R & S Library sent to me.

Margaret Muehlhaus

From the desk of
WILLIAM McCHESNEY MARTIN, JR.

By Messenger

July 29, 1957.

Senator Robertson--

Herewith a statement prepared in our International Division which might be of interest to you in connection with our telephone conversation this morning.

WMM

Attachment

Gold inflow and outflow and adequacy of our present gold supply.

(1) At the end of 1946, the total U. S. gold stock (the gold stock of the U. S. Treasury plus gold in the Exchange Stabilization Fund) amounted to $20,706 million. In the following years, there was an inflow totaling $4,065 million (net after payment in 1947 of $688 million in gold as the U. S. gold subscription to the International Monetary Fund) so that by the end of August 1949 the gold stock reached an all-time peak of $24,771 million. An outflow of $2,844 million reduced the gold stock to $21,927 million by the end of the first quarter of 1951; an inflow of $1,606 million raised it again to $23,533 million at the end of the second quarter of 1952; a renewed outflow of $1,803 million lowered it to $21,730 million by the end of the second quarter of 1955; and a renewed inflow of $996 million brought it to $22,726 million at the end of May 1957. At present, the U. S. gold stock is therefore about $2 billion higher than at the end of 1946, and about $2 billion lower than at the end of August 1949.

(2) The facts with respect to the adequacy of our present gold supply may be stated both in arithmetical and in economic terms.

The U. S. gold stock is equal to nearly 60 per cent of the estimated gold reserves of the entire free world. Even if the official dollar holdings of foreign countries (about $7.8 billion) are deducted from the U. S. gold stock in view of the willingness of the U. S. Treasury to redeem such balances in gold on demand, the remaining net gold holdings (about $14.9 billion) would represent nearly 40 per cent of the entire gold holdings of the free world. The ratio between U. S. gold holdings (gross or net) to annual U. S. merchandise imports ($12.7 billion in 1956) is much higher than the ratio between gold holdings and imports of any other major country of the free world. Similarly (as mentioned above), the ratio of gold to Federal Reserve liabilities is much higher than the statutory minimum.

From the point of view of economic analysis, however, these arithmetical relationships are not of decisive importance. In the days before the First World War, the United Kingdom acted as banker for virtually the entire world with a gold reserve that amounted to $165 million at the end of 1913. Although such a reserve would be considered woefully inadequate today, the United Kingdom did not then suffer from any balance of payments difficulties because it maintained financial stability and the world had unlimited confidence in the value of the pound sterling. More recently, at the end of 1950, not only did the Federal Republic of Germany have no gold at all, but its foreign exchange holdings of $274 million were exceeded by its foreign exchange liabilities of $432 million, so that its net foreign exchange reserves actually were a negative number. Nevertheless, the country was able to enter into a period of unprecedented expansion of domestic and international economic activity while maintaining financial stability, and by the end of April 1957 it had accumulated $1.8 billion in gold and $2.8 billion in net foreign exchange assets, to achieve the highest gold and dollar reserve of any country of the free world other than the United States. Even a small gold and foreign exchange reserve therefore can prove to be adequate if the country maintains financial stability and inspires domestic and international confidence in the maintenance of the value of its currency. On the other hand, the largest gold reserve can be dissipated within a short time if inflation leads to an excessive rise in imports, a sharp decline in exports, and the flight of capital.

If the United States continues to be reasonably successful in the struggle against inflationary pressure, and thereby maintains confidence at home and abroad in the value of the dollar, the present U. S. gold stock should be fully adequate for its needs. But if the United States were unsuccessful in its fight against inflation, even a much larger gold stock might well turn out to be inadequate.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 11, 1957

To Chairman Martin

Subject: Material re price of gold and re silver coinage and currency

From Mr. Shay

JS

It is understood that during Secretary Humphrey's recent appearance before the Byrd Committee, questions were raised concerning the authority of the Secretary of the Treasury to change the price of gold and concerning silver coinage and currency.

Attached are memoranda on each of these two points. You will note that a Treasury Department press statement is also attached concerning the price of gold.

Attachments 3

AUTHORITY TO CHANGE THE PRICE OF GOLD

The President was authorized to change the weight of the gold dollar by section 43 of the so-called Thomas Amendment of May 12, 1933, as amended by section 12 of the Gold Reserve Act of 1934. The fixed gold price of $35 per fine troy ounce was established under that authority by Presidential Proclamation of January 31, 1934. That authority of the President, however, was in effect only for a tempory period and terminated on June 30, 1943.

Sections 8 and 9 of the Gold Reserve Act of 1934 contain authority under which the Secretary of the Treasury may purchase and sell gold at home or abroad "at such rates and upon such terms and conditions as he may deem most advantageous to the public interest." In addition, the Secretary is authorized by section 10 of the Gold Reserve Act, with the approval of the President, "to deal in gold" for the account of the exchange stabilization fund established by that section. These powers of the Secretary, however, are effectively limited by provisions of the Bretton Woods Agreements Act of 1945 and the Articles of Agreement of the International Monetary Fund.

The Articles of Agreement of the Fund, which the United States has accepted under the Bretton Woods Agreements Act, provide that no member of the Fund shall buy gold at more, or sell gold at less, than par value, plus or minus a margin or charge which the Fund is authorized to prescribe and which has been set at 1/4 of 1 per cent. Thus, the United States, as a member country, may not purchase gold at a price greater, or sell gold at a price less, than par value in relation to the dollar, plus or minus the prescribed margin. Moreover, the par value of the dollar cannot be changed without the consent of Congress, since section 5 of the Bretton Woods Agreements Act provides that "neither the President nor any person or agency shall on behalf of the United States . . . propose or agree to any change in the par value of the United States dollar" unless such action is authorized by Congress.

Under section 14(a) of the Federal Reserve Act, the Federal Reserve Banks are authorized "to deal in gold" at home or abroad. However, this authority must also be read in connection with the provisions of the Articles of Agreement of the International Monetary Fund and the Bretton Woods Agreements Act mentioned above, as well as the provisions of the Gold Reserve Act of 1934.

A further discussion of the authority of the Secretary of the Treasury to deal in gold is contained in his answer of February 12, 1952, to question D-12 of the questionnaire submitted to him by the (Patman) Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report. The matter is discussed also in a memorandum to the press issued by the Secretary of the Treasury on October 5, 1949, a copy of which is attached.

Attachment

July 9, 1957

TREASURY DEPARTMENT

Washington

MEMORANDUM FOR THE PRESS

The following statement was issued in response to inquiries at Secretary Snyder's press conference of Wednesday, October 5, 1949, concerning the legal authority to change the gold content of the dollar and the Treasury's price for gold. The Secretary again stated that he had no intention of proposing a change in the dollar price of gold. He reiterated what he had said on many occasions that he does not perceive any considerations which would justify such an action.

(a) The gold content of the dollar

Only an Act of Congress can now alter the statutory gold content of the dollar.

The gold content of the dollar, and hence the statutory monetary value of gold in terms of the United States dollar, was defined by the Presidential Proclamation of January 31, 1934, issued under authority of Title III, Section 43, of the Act approved May 12, 1933, as amended. The weight of the gold dollar was fixed by this Proclamation at 15-5/21 grains of gold 9/10ths fine, that is, 1/35 of a troy ounce of pure gold (technically referred to as gold 1000 parts fine). The monetary or statutory value of gold in the United States is therefore $35 per fine troy ounce. After several extensions the authority of the President by proclamation further to change the gold content of the dollar expired on June 30, 1943.

(b) The price of gold

The Secretary of the Treasury has authority under Sections 8 and 9 of the Gold Reserve Act of 1934, as amended, with the approval of the President, to purchase and sell gold at such rates and upon such terms and conditions as he may deem most advantageous to the public interest.

The authority of the Secretary of the Treasury in this respect, however, is limited by a number of factors. First is the obligation undertaken by the United States as a member of the International Monetary Fund. Article IV, Section 2 of the Articles of Agreement of the International Monetary Fund provides:

"The Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin or sell gold at a price below par value minus the prescribed margin."

The Fund has prescribed a margin of 1/4 of 1% above and below the par value for purchases and sales of gold. Accordingly, the United States has an obligation to the International Monetary Fund not to purchase gold at more or sell gold at less, than $35 plus or minus the prescribed margin so long as the par value of the dollar declared to the Fund remains unchanged. The par value of the dollar can be changed only pursuant to the provisions of the Articles of Agreement and the Bretton Woods Agreements Act, which requires the approval of Congress for any such change. Section 5 of that Act provides that neither the President nor any person or agency shall propose to the International Monetary Fund any change in the par value of the United States dollar or approve any general change in par values unless Congress by law authorizes such action.

Even without the legal obligation to the International Monetary Fund there are important considerations of policy which, in effect, circumscribe the discretion of the Secretary of the Treasury to change the price of gold. The gold policy of the United States has been directed primarily to maintaining a stable relation between gold and the dollar.

Since 1934 the United States has firmly adhered to the requirements of an international gold bullion standard. We have done so by buying and selling gold freely at a fixed price, $35 an ounce, in transactions with foreign governments and central banks for all legitimate monetary purposes.

The importance which the United States attributes to the maintenance of a stable dollar price for gold is demonstrated by other legislative provisions. The gold parity statutes contained in the Gold Standard Act of 1900 and the Act of May 12, 1933, provide that the gold dollar "shall be the standard unit of value and all forms of money issued or coined by the United States shall be maintained at a parity with this standard and it shall be the duty of the Secretary of the Treasury to maintain such parity."

-oOo-

SILVER COINAGE AND CURRENCY

Under the Acts of July 6, 1939, and July 31, 1946, the United States mints are required to receive domestically mined silver tendered by the owner within 1 year after the month in which the ore was mined. Since July 1, 1946, the law has specified that 30 per cent of the monetary value of any such silver shall be retained by the mints as seigniorage (i.e., the difference between the monetary value and the amount paid to the owner) for the services performed by the Government relative to the silver. Since the monetary value of silver is fixed under law at $1.2929+ per fine troy ounce, the net return to the person delivering the silver to the mint amounts to 90.5 cents per fine troy ounce.

The Treasury is required by law (the Silver Purchase Act of 1934 and the two Acts referred to above) to monetize silver to the extent necessary to pay the person offering it to the Government. Thus, an ounce of silver purchased for 90.5 cents has a monetized value of $1.2929+ when coined into standard silver dollars; and the Treasury apparently may issue silver certificates against any standard silver dollars or other silver held by the Treasury against which silver certificates are not already outstanding. And, when silver certificates are received in the Treasury on any account (except for redemption in standard silver dollars) they may be reissued. The 30 per cent deducted as seigniorage is required to be retained as bullion, coined into silver dollars or used as other silver belonging to the Treasury; and it is understood that a principal use has been for subsidiary coinage.

It is understood that the 90.5 cents price for domestic silver generally has been higher than the open-market price, so that substantially all domestic silver production has been directed to the Treasury.

It may be noted that the Silver Purchase Act of 1934 declared it to be the policy of the United States that the proportion of silver to gold in the Government's monetary stocks should be increased with the ultimate objective of having and maintaining one-fourth of the monetary value of such stock in silver. In furtherance of this policy and objective, the Treasury was authorized, if deemed to be in the public interest, to purchase both domestic and foreign silver. Apparently, the ultimate objective of the 1934 Act has never been attained.

As to domestic purchases, the situation as modified by the 1939 and 1946 Acts, has been discussed above.

As to any purchases of foreign silver, the price which the Treasury may pay seems to be limited only by the monetary value ($1.2929+); and, apparently such purchases would have to be monetized through issuance of silver certificates in an amount not less than the cost of the foreign silver purchased. However, foreign silver seems not to have been obtainable with any frequency on terms considered advantageous to the public interest.

Further discussions of these matters are contained in the answers of February12, 1952, of the Secretary of the Treasury to questions D-12 and D-13 of the questionnaire submitted to him by the (Patman) Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report, and in the testimony of Treasury Department representatives at the hearings of the (Douglas) Subcommittee of the Senate Committee on Banking and Currency in July 1955 on S. 1427, which would have repealed the Acts discussed above.

June 26, 1957

Chairman Martin | Byrd Committee Hearings.

Arthur W. Marget

Appended hereto is a memorandum, prepared by Mr. Furth, in answer to your request of June 24, also attached hereto.

Attachment

June 26, 1957

Mr. Marget Gold

J. Herbert Furth

1. The role of gold in our economy today.

(i) The main function of gold in our economy today is to act as a residual means of payment in settlement of international balances.

The role of gold in the settlement of international balances has been recognized in:

The Gold Reserve Act of 1934 (Section 3), which authorizes the Secretary of the Treasury to issue regulations, with the approval of the President, that "prescribe the conditions under which gold may be acquired and held, transported, melted or traded, imported or exported, or earmarked . . . by the Federal Reserve banks for the purpose of settling international balances";

The Gold Regulations issued by the U. S. Treasury Department (paragraph 54.28), under which "the Federal Reserve banks may from time to time acquire from the United States . . . such amounts of gold bullion as, in the judgment of the Secretary of the Treasury, are necessary to settle international balances"; and in

Article IV, Section 4(b) of the Articles of Agreement of the International Monetary Fund, according to which "a member whose monetary authorities, for the settlement of international transactions, in fact freely buy and sell gold within the limits prescribed by the Fund . . . shall be deemed to be fulfilling" its obligation to maintain the par value of its currency.

The "residual" role of gold in the settlement of international balances follows from the fact that, in practice, most international transactions today are settled in either U. S. dollars or pounds sterling. However, the U. S. Treasury stands "ready to buy gold at the official price of $35 per fine troy ounce from all legal holders" (Annual Report of the Secretary of the Treasury for 1951,

p. 54); and gold can be freely sold for pounds sterling in the London gold market at a price which has deviated only by negligible fractions from the equivalent of $35 an ounce. Gold is thus a commodity which can be converted into the prevailing international currencies at fixed prices, and is as generally acceptable in international transactions as any internationally acceptable currency.

(ii) The second function of gold in our economy today is implicit in the statutory requirement (Federal Reserve Act, Section 16, paragraph 3) that "every Federal Reserve bank shall maintain reserves in gold certificates of not less than 25 per centum against its deposits and reserves in gold certificates of not less than 25 per centum against the Federal Reserve notes in actual circulation." This requirement obviously sets an upper limit to the expansion of Federal Reserve liabilities, and therefore to the money-creating power of the System. Actually, however, the combined reserve ratio maintained by the Federal Reserve Banks is at present (as of June 19, 1957) 46.9 per cent of their liabilities. If the Federal Reserve Banks were at this time to expand their liabilities so as to reduce the reserve ratio to the legal minimum of 25 per cent, these liabilities would be expanded by 80 per cent; needless to say, such an expansion would be equivalent to a very serious inflation. The function of gold as a brake upon the expansion of Federal Reserve liabilities is therefore not a factor of immediate economic importance. It may, however, regain such importance at a later time.

2. Description of the international gold bullion standard in use in the United States since 1934.

The international gold bullion standard may be defined as a system under which gold, at a fixed price, is freely used in the settlement of international balances (see above, 1.i.), though not in the settlement of domestic transactions.

The United States thus adheres to the requirements of an international gold bullion standard "by buying and selling gold freely at a fixed price, $35 an ounce, in transactions with foreign governments and central banks for all legitimate monetary purposes" (statement of the Secretary of the Treasury, October 5, 1949). The fixed gold price of $35 per fine troy ounce was established by the Presidential Proclamation of January 31, 1934; it has become the basis of the par values of the currencies of all members of the International Monetary Fund by virtue of Article IV, Section 1(a) of the Articles of Agreement of the International Monetary Fund, according to which "the par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the U. S. dollar of the weight and fineness in effect on July 1, 1944"; and it has been given statutory recognition in the United States by the Bretton Woods Agreement Act, Section 5, according to which "unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States . . . propose or agree to any change in the par value of the U. S. dollar."

3. Gold inflow and outflow and adequacy of our present gold supply.

(i) At the end of 1946, the total U. S. gold stock (the gold stock of the U. S. Treasury plus gold in the Exchange Stabilization Fund) amounted to $20,706 million. In the following years, there was an inflow totaling $4,065 million (net after payment in 1947 of $688 million in gold as the U. S. gold subscription to the International Monetary Fund) so that by the end of August 1949 the gold stock reached an all-time peak of $24,771 million. An outflow of $2,844 million reduced the gold stock to $21,927 million by the end of the first quarter of 1951; an inflow of $1,606 million raised it again to $23,533 million at the end of the second quarter of 1952; a renewed outflow of $1,803 million lowered it to $21,730 million by the end of the second quarter of 1955; and a renewed inflow of $996 million brought it to $22,726 million at the end of May 1957. At present, the U. S. gold stock is therefore about $2 billion higher than at the end of 1946, and about $2 billion lower than at the end of August 1949.

(ii) The facts with respect to the adequacy of our present gold supply may be stated both in arithmetical and in economic terms.

The U. S. gold stock is equal to nearly 60 per cent of the estimated gold reserves of the entire free world. Even if the official dollar holdings of foreign countries (about $7.8 billion) are deducted from the U. S. gold stock in view of the willingness of the U. S. Treasury to redeem such balances in gold on demand, the remaining net gold holdings (about $14.9 billion) would represent nearly

40 per cent of the entire gold holdings of the free world. The ratio between U. S. gold holdings (gross or net) to annual U. S. merchandise imports ($12.7 billion in 1956) is much higher than the ratio between gold holdings and imports of any other major country of the free world. Similarly (as mentioned above, l. ii.), the ratio of gold to Federal Reserve liabilities is much higher than the statutory minimum.

From the point of view of economic analysis, however, these arithmetical relationships are not of decisive importance. In the days before the First World War, the United Kingdom acted as banker for virtually the entire world with a gold reserve that amounted to $165 million at the end of 1913. Although such a reserve would be considered woefully inadequate today, the United Kingdom did not then suffer from any balance of payments difficulties because it maintained financial stability and the world had unlimited confidence in the value of the pound sterling. More recently, at the end of 1950, not only did the Federal Republic of Germany have no gold at all, but its foreign exchange holdings of $274 million were exceeded by its foreign exchange liabilities of $432 million, so that its net foreign exchange reserves actually were a negative number. Nevertheless, the country was able to enter into a period of unprecedented expansion of domestic and international economic activity while maintaining financial stability, and by the end of April 1957 it had accumulated $1.8 billion in gold and $2.8 billion in net foreign exchange assets, to achieve the highest gold and dollar reserve of any country of the free world other than the United States. Even a small gold and foreign exchange reserve therefore can prove to be adequate if the country maintains financial stability and inspires domestic and international confidence in the maintenance of the value of its currency. On the other hand, the largest gold reserve can be dissipated within a short time if inflation leads to an excessive rise in imports, a sharp decline in exports, and the flight of capital.

If the United States continues to be reasonably successful in the struggle against inflationary pressure, and thereby maintains confidence at home and abroad in the value of the dollar, the present U. S. gold stock should be fully adequate for its needs. But if the United States were unsuccessful in its fight against inflation, even a much larger gold stock might well turn out to be inadequate.

June 24, 1957

Mr. Marget

Chairman Martin

In connection with the Byrd Committee hearings, will you have someone prepare brief answers to the following questions:

(1) What is the role of gold in our economy today?

(2) Describe the international gold bullion standard in use in the United States since 1933.

(3) Give a brief summary of our gold inflow and outflow over the last 10 years and comment as to the adequacy of our present supply.

Miss Muehlhaus

July 11, 1957

Chairman Martin | Material re price of gold and

Mr. Shay | re silver coinage and currency

It is understood that during Secretary Humphrey's recent appearance before the Byrd Committee, questions were raised concerning the authority of the Secretary of the Treasury to change the price of gold and concerning silver coinage and currency.

Attaned are memoranda on each of these two points. You will note that a Treasury Department press statement is also attached concerning the price of gold.

Attachments 3

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AUTHORITY TO CHANGE THE PRICE OF GOLD

The President was authorized to change the weight of the gold dollar by section 43 of the so-called Thomas Amendment of May 12, 1933, as amended by section 12 of the Gold Reserve Act of 1934. The fixed gold price of $35 per fine troy ounce was established under that authority by Presidential Proclamation of January 31, 1934. That authority of the President, however, was in effect only for a tempory period and terminated on June 30, 1943.

Sections 8 and 9 of the Gold Reserve Act of 1934 contain authority under which the Secretary of the Treasury may purchase and sell gold at home or abroad "at such rates and upon such terms and conditions as he may deem most advantageous to the public interest." In addition, the Secretary is authorized by section 10 of the Gold Reserve Act, with the approval of the President, "to deal in gold" for the account of the exchange stabilization fund established by that section. These powers of the Secretary, however, are effectively limited by provisions of the Bretton Woods Agreements Act of 1945 and the Articles of Agreement of the International Monetary Fund.

The Articles of Agreement of the Fund, which the United States has accepted under the Bretton Woods Agreements Act, provide that no member of the Fund shall buy gold at more, or sell gold at less, than par value, plus or minus a margin or charge which the Fund is authorized to prescribe and which has been set at 1/4 of 1 per cent. Thus, the United States, as a member country, may not purchase gold at a price greater, or sell gold at a price less, than par value in relation to the dollar, plus or minus the prescribed margin. Moreover, the par value of the dollar cannot be changed without the consent of Congress, since section 5 of the Bretton Woods Agreements Act provides that "neither the President nor any person or agency shall on behalf of the United States . . . propose or agree to any change in the par value of the United States dollar" unless such action is authorized by Congress.

Under section 14(a) of the Federal Reserve Act, the Federal Reserve Banks are authorized "to deal in gold" at home or abroad. However, this authority must also be read in connection with the provisions of the Articles of Agreement of the International Monetary Fund and the Bretton Woods Agreements Act mentioned above, as well as the provisions of the Gold Reserve Act of 1934.

A further discussion of the authority of the Secretary of the Treasury to deal in gold is contained in his answer of February 12, 1952, to question D-12 of the questionnaire submitted to him by the (Patman) Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report. The matter is discussed also in a memorandum to the press issued by the Secretary of the Treasury on October 5, 1949, a copy of which is attached.

Attachment

RMS:rm July 9, 1957

TREASURY DEPARTMENT

Washington

MEMORANDUM FOR THE PRESS

The following statement was issued in response to inquiries at Secretary Snyder's press conference of Wednesday, October 5, 1949, concerning the legal authority to change the gold content of the dollar and the Treasury's price for gold. The Secretary again stated that he had no intention of proposing a change in the dollar price of gold. He reiterated what he had said on many occasions that he does not perceive any considerations which would justify such an action.

(a) The gold content of the dollar

Only an Act of Congress can now alter the statutory gold content of the dollar.

The gold content of the dollar, and hence the statutory monetary value of gold in terms of the United States dollar, was defined by the Presidential Proclamation of January 31, 1934, issued under authority of Title III, Section 43, of the Act approved May 12, 1933, as amended. The weight of the gold dollar was fixed by this Proclamation at 15-5/21 grains of gold 9/10ths fine, that is, 1/35 of a troy ounce of pure gold (technically referred to as gold 1000 parts fine). The monetary or statutory value of gold in the United States is therefore $35 per fine troy ounce. After several extensions the authority of the President by proclamation further to change the gold content of the dollar expired on June 30, 1943.

(b) The price of gold

The Secretary of the Treasury has authority under Sections 8 and 9 of the Gold Reserve Act of 1934, as amended, with the approval of the President, to purchase and sell gold at such rates and upon such terms and conditions as he may deem most advantageous to the public interest.

The authority of the Secretary of the Treasury in this respect, however, is limited by a number of factors. First is the obligation undertaken by the United States as a member of the International Monetary Fund. Article IV, Section 2 of the Articles of Agreement of the International Monetary Fund provides:

> "The Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin or sell gold at a price below par value minus the prescribed margin."

The Fund has prescribed a margin of 1/4 of 1% above and below the par value for purchases and sales of gold. Accordingly, the United States has an obligation to the International Monetary Fund not to purchase gold at more or sell gold at less, than $35 plus or minus the prescribed margin so long as the par value of the dollar declared to the Fund remains unchanged. The par value of the dollar can be changed only pursuant to the provisions of the Articles of Agreement and the Bretton Woods Agreements Act, which requires the approval of Congress for any such change. Section 5 of that Act provides that neither the President nor any person or agency shall propose to the International Monetary Fund any change in the par value of the United States dollar or approve any general change in par values unless Congress by law authorizes such action.

Even without the legal obligation to the International Monetary Fund there are important considerations of policy which, in effect, circumscribe the discretion of the Secretary of the Treasury to change the price of gold. The gold policy of the United States has been directed primarily to maintaining a stable relation between gold and the dollar.

Since 1934 the United States has firmly adhered to the requirements of an international gold bullion standard. We have done so by buying and selling gold freely at a fixed price, $35 an ounce, in transactions with foreign governments and central banks for all legitimate monetary purposes.

The importance which the United States attributes to the maintenance of a stable dollar price for gold is demonstrated by other legislative provisions. The gold parity statutes contained in the Gold Standard Act of 1900 and the Act of May 12, 1933, provide that the gold dollar "shall be the standard unit of value and all forms of money issued or coined by the United States shall be maintained at a parity with this standard and it shall be the duty of the Secretary of the Treasury to maintain such parity."

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SILVER COINAGE AND CURRENCY

Under the Acts of July 6, 1939, and July 31, 1946, the United States mints are required to receive domestically mined silver tendered by the owner within 1 year after the month in which the ore was mined. Since July 1, 1946, the law has specified that 30 per cent of the monetary value of any such silver shall be retained by the mints as seigniorage (i.e., the difference between the monetary value and the amount paid to the owner) for the services performed by the Government relative to the silver. Since the monetary value of silver is fixed under law at \$1.2929¢ per fine troy ounce, the net return to the person delivering the silver to the mint amounts to 90.5 cents per fine troy ounce.

The Treasury is required by law (the Silver Purchase Act of 1934 and the two Acts referred to above) to monetize silver to the extent necessary to pay the person offering it to the Government. Thus, an ounce of silver purchased for 90.5 cents has a monetized value of \$1.2929¢ when coined into standard silver dollars; and the Treasury apparently may issue silver certificates against any standard silver dollars or other silver held by the Treasury against which silver certificates are not already outstanding. And, when silver certificates are received in the Treasury on any account (except for redemption in standard silver dollars) they may be reissued. The 30 per cent deducted as seigniorage is required to be retained as bullion, coined into silver dollars or used as other silver belonging to the Treasury; and it is understood that a principal use has been for subsidiary coinage.

It is understood that the 90.5 cents price for domestic silver generally has been higher than the open-market price, so that substantially all domestic silver production has been directed to the Treasury.

It may be noted that the Silver Purchase Act of 1934 declared it to be the policy of the United States that the proportion of silver to gold in the Government's monetary stocks should be increased with the ultimate objective of having and maintaining one-fourth of the monetary value of such stock in silver. In furtherance of this policy and objective, the Treasury was authorized, if deemed to be in the public interest, to purchase both domestic and foreign silver. Apparently, the ultimate objective of the 1934 Act has never been attained.

As to domestic purchases, the situation as modified by the 1939 and 1946 Acts, has been discussed above.

As to any purchases of foreign silver, the price which the Treasury may pay seems to be limited only by the monetary value (\$1.2929¢); and, apparently such purchases would have to be monetized through issuance of silver certificates in an amount not less than the cost of the foreign silver purchased. However, foreign silver seems not to have been obtainable with any frequency on terms considered advantageous to the public interest.

Further discussions of these matters are contained in the answers of February12, 1952, of the Secretary of the Treasury to questions D-12 and D-13 of the questionnaire submitted to him by the (Patman) Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report, and in the testimony of Treasury Department representatives at the hearings of the (Douglas) Subcommittee of the Senate Committee on Banking and Currency in July 1955 on S. 1427, which would have repealed the Acts discussed above.

JWS:rw
7-11-57