FEDERAL RESERVE BULLETIN

VOLUME 34 April 1948 NUMBER 4

THE POSTWAR DRAIN ON FOREIGN GOLD AND DOLLAR RESERVES

Foreign gold and dollar reserves were built up to an unprecedentedly high level during the war, when Lend-Lease operations were taking care of a large proportion of foreign requirements, especially in Europe, and when many countries in the Western Hemisphere and elsewhere found it impossible to spend their current dollar earnings because of supply shortages. Since the end of 1945, however, these reserves have had to be liquidated on a large scale, mainly to pay for United States exports which could not be financed in other ways. Total foreign holdings of central gold reserves and of banking funds in the United States, which increased from 15 billion dollars to nearly 23 billion during 1939-45, declined again during 1946 and 1947 to around 18 billion.

Although still larger in money terms than before the war, in terms of purchasing power foreign holdings of gold and dollars at the end of 1947 were less than half what they had been in 1938. Furthermore, the large concentration of reserves among a few countries, from which the world was already suffering before the war, has been accentuated in some respects by war and postwar developments. Despite the additional source of funds which has been provided to foreign countries through the creation of the International Monetary Fund, most of the world finds itself very inadequately equipped with liquid gold and dollar resources. Only a few countries now hold gold and dollar reserves in an amount sufficient to provide them with reasonable liquidity in their international transactions.

The gold inflow into the United States and the liquidation of foreign dollar balances in the United States have had significant expansionary effects upon the domestic monetary and credit situation.

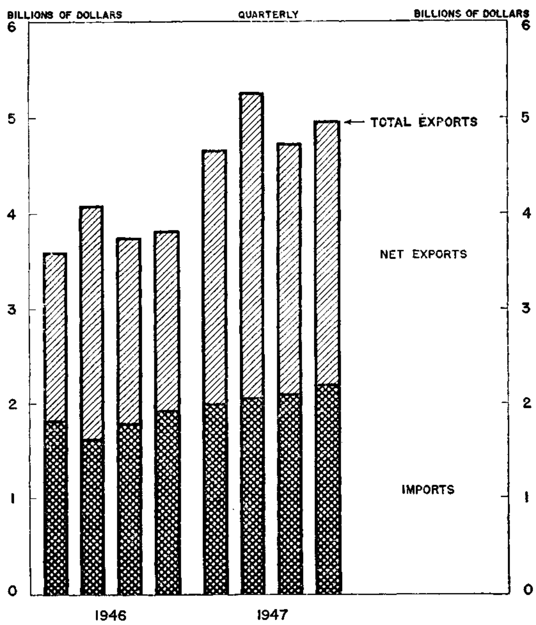
United States Exports and Sources of Financing

Since the end of the war foreign countries have had to rely upon the United States to an unprecedented degree as a source of supply for food, raw materials, and manufactured equipment and supplies. United States exports of goods and services amounted to 15 billion dollars in 1946 and reached 20 billion in 1947. Relief and reconstruction in large areas of Europe and the Far East have absorbed immense quantities of these exports. In addition, countries which escaped war damage and disruption, notably those in the Western Hemisphere, have made heavy demands upon United States production because of their high levels of domestic income, their large deferred demands for many products, and the slow recovery of other sources of supply.

Less than half of total exports could be paid for currently by funds derived from foreign sales of goods and services to the United States. The balance, amounting to over 19 billion dollars during the two-year period, placed a heavy strain upon the various sources of dollar financing available to foreign countries. A summary table of the international transactions of foreign countries in 1946-47 affecting their gold and dollar holdings is given at the end of this article (p. 381).

United States exports, imports, and the export surplus in the eight quarters of 1946 and 1947 are shown in the accompanying chart. Exports of goods and services were 28 per cent larger in 1947 than in 1946. At the peak in the second quarter of 1947, they were moving at an annual rate of 21 billion dollars.

UNITED STATES EXPORTS AND IMPORTS OF GOODS AND SERVICES

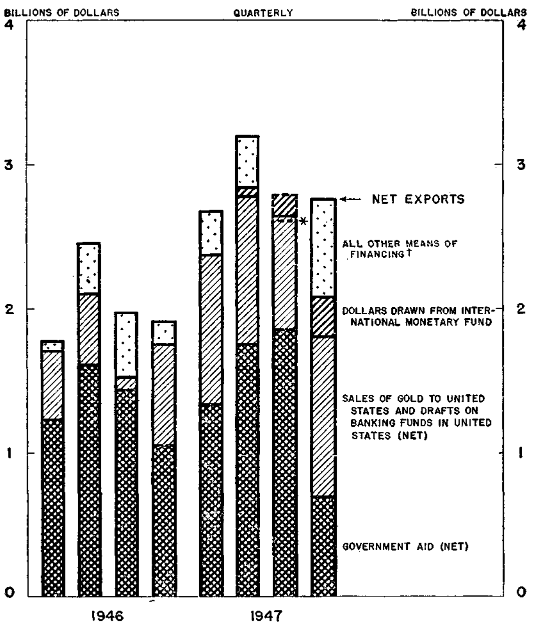


SOURCE.—Department of Commerce.

The marked increase in the dollar volume of merchandise exports last year was made possible by the expanded physical capacity of the United States to produce for export, but it also reflected a substantial rise in export prices. Merchandise imports, on the other hand, were only slightly larger in 1947 than in 1946, and the entire growth was accounted for by increased import prices. In relation to national income, imports into the United States have been much smaller than before the war. This lag in imports is primarily a reflection of production and supply difficulties abroad, particularly in Europe. Merchandise imports from Europe, which in the interwar years accounted for between 40 and 50 per cent of all imports of goods by the United States, amounted to only 15 per cent of the total in 1947.

The export surplus has been financed in large part by grants and credits extended by the United States Government, as may be seen in the chart on the following page. In fact, Government aid programs covered nearly one-third of *total* United States exports during the two years 1946-47. Of the net exports not financed from this source, some part has been paid for by an outflow of private gifts and investments from the United States; by loans from the International Bank, which commenced active operations in 1947; and by the liquidation of miscellaneous foreign-owned assets in the United States. Much the larger part, however, has necessitated drafts upon the gold and dollar reserves of foreign countries: i.e. their central gold reserves, their holdings (both official and private) of banking funds in the United States, and—since early in 1947—their drawing rights upon the International Monetary Fund. The drafts upon these reserves may be regarded, from the point of view of foreign countries, as the final balancing item in their transactions with the United States. In addition, foreign countries have had to make drafts upon their gold reserves in the process of setting up the Fund and establishing their drawing rights upon that institution.

MEANS OF FINANCING UNITED STATES NET EXPORTS OF GOODS AND SERVICES



* The broken horizontal line in the third quarter of 1947 indicates net exports for the quarter. In this quarter, the estimated net drafts by foreign countries upon various sources of dollar financing considerably exceeded estimated United States net exports.

† Includes private United States donations and investments abroad, disbursements on International Bank loans, liquidation of other foreign assets in the United States, and errors and omissions.

Source.—Based largely upon Department of Commerce data.

Nature of Foreign Gold and Dollar Reserves

The specific categories of resources included in "foreign gold and dollar reserves" form a convenient grouping for purposes of analysis even though they cannot be sharply distinguished from other types of gold and dollar assets.

Central gold reserves, i.e. gold holdings of foreign monetary authorities, may be supplemented in some cases by private gold hoards. Under present conditions, however, foreign countries can scarcely rely upon such hoards as a potential resource for making international payments, and in any case reliable data regarding them are not available.

Foreign banking funds in the United States represent a regularly reported statistical series covering all short-term claims, i.e. deposits, short-term commercial paper, Treasury bills, etc., held by foreign residents with banks in the United States. They comprise both official funds (those held by foreign central banks and governments, including as a special item certain foreign government deposits with the United States Treasury) and funds held for private foreign account. While private banking funds may not always be readily available to a foreign country for the settlement of international payments, most countries are at present enforcing exchange controls which in effect accomplish this purpose. In any case, it is necessary to combine official and private funds for purposes of the present survey since these categories are not shown separately for individual countries in the regularly published data.

In addition to banking funds in the United States, foreigners hold relatively small amounts of other short-term claims upon this country, e.g. advances to Government corporations and private enterprises, balances with brokers and security dealers, and holdings of actual United States currency. Private citizens abroad also hold large long-term investments in this country, some of which could be mobilized by foreign countries in case of need to settle balances with the United States. Ordinarily, however, foreign countries are most reluctant to requisition and liquidate such assets, especially since they are the source of current dollar income to the individual owners and to the country concerned.

The advent of the International Monetary Fund as an operating institution early in

1947 established a new category of international reserves, the conditional drawing rights of member countries upon the resources of the Fund. One of the basic purposes of the Fund as expressed in its Articles of Agreement is "to give confidence to members by making resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity." Hence, each country which becomes formally eligible to use the Fund's resources—i.e. which fixes the parity of its currency in agreement with the Fund, and thereupon pays up its subscription to the institution—is given a qualified right to purchase exchange from the Fund against payment in its own currency.

These "drawing rights" are subject to specified limitations upon the total amount of each country's purchases and the rate at which they can be made. Even within these quantitative limitations, access to the Fund's resources is not automatic. In the words of an official interpretation issued by the Fund's Executive Board, drawings should be limited "to use in accordance with its [the Fund's] purposes to give temporary assistance in financing balance of payments deficits on current account for monetary stabilization purposes." Thus drawings are expected to be made only if they can be repaid within a reasonable period of time. Subject to these various qualifications, the drawing rights of member countries upon the Fund constitute a contingent international reserve supplementing their independent holdings of gold and foreign exchange.

It should also be noted that the Fund's ability to supply *dollars* to its members is limited to the amount of dollars—and gold, which could be converted into dollars in case of need—subscribed by member countries. Total dollar and gold subscriptions so far amount to about 3.4 billion dollars, including 2,750 million in dollars and gold from the United States and about 670 million in gold from other member countries. This sum is substantially smaller than the maximum theoretical drawing rights of the foreign members now formally eligible to use the Fund's resources. Further amounts of gold may be subscribed in due course by new members or by existing members that have not yet established the parity of their currencies, but in such case drawing rights upon the Fund will also increase. Hence aggregate drawing rights for dollars will always exceed the Fund's ability to supply that currency. Nonetheless, the Fund's gold and dollar resources are certain to last under any circumstances for a period of several years, if only because of the quantitative limitations upon the *rate* of drawings by individual member countries. While these limitations can be waived in specific cases by the Executive Board of the Fund, such waivers are likely to be granted only in exceptional circumstances.

Gold Inflow and Foreign Gold Reserves

Net sales of gold by foreign countries to the United States, as may be seen from the table on the following page, amounted to more than 3.5 billion dollars in the two years 1946-47. The inflow remained moderate during 1946, when Government aid programs alone covered two-thirds of United States net exports. In 1947, however, with the export surplus greatly expanding and with Government aid programs providing only half of the necessary financing (or about the same absolute amount as in 1946), net sales of gold to the United States approximated in each quarter the entire amount received in the previous calendar year. By the end of the year several countries which had been large sellers of gold were approaching exhaustion of their holdings. As a result, the inflow slackened considerably in the first quarter of 1948.

Almost all gold transactions between the United States and foreign countries are conducted through official channels and consequently are reflected in changes in the central gold reserves of foreign countries. The gold holdings of foreign monetary authorities are also affected, however, by new gold production, industrial consumption, and movements in private hoards in foreign countries. In addition, there was in 1947 the special factor of foreign gold subscriptions to the International Monetary Fund.

NET SALES OF GOLD BY FOREIGN COUNTRIES TO UNITED STATES, 1946-1947

[In millions of dollars]

Period	Amount
1946—Jan.-Mar.	269
Apr.-June	46
July-Sept.	94
Oct.-Dec.	295
Total, 1946	705
1947—Jan.-Mar.	632
Apr.-June	778
July-Sept.	663
Oct.-Dec.	763
Total, 1947	2,836
Total, 1946-47	3,541
1948—Jan.-Mar.	[1] 344

[1] Partly estimated.

NOTE.—Net sales of gold by foreign countries to the United States can usually be measured with reasonable accuracy by adjusting the reported net imports of gold into the United States for (a) changes in gold under earmark for foreign account at the Federal Reserve Banks; and (b) gold transactions between the United States and the International Monetary Fund, which have so far consisted solely of the payment of the United States gold subscription to the Fund in February 1947. The reported import and export data include gold consigned to, and shipped by, the Fund; but the figures for gold under earmark also include gold owned by the Fund, so that gold transactions by foreign countries with the Fund, or shifts of gold by the Fund between its depositories in this country and abroad, cancel out in this calculation.

This method has been followed in deriving the figures in this table, except that a special adjustment has been made in the figures for the last quarter of 1946 and the first quarter of 1947 to correct an unusually large distortion arising at that time from lags in the reported statistics.

The aggregate gold holdings of foreign monetary authorities amounted to 16 billion dollars at the end of 1945, but to only 12.9 billion by the end of 1947, reflecting a net loss of 3.1 billion within the space of two years. During the same period foreign countries derived about 1.8 billion dollars in gold from new production, so that there is a gross loss of 4.9 billion to account for. Net sales of gold to the United States came to 3,540 million dollars, and foreign gold contributions to the International Monetary Fund amounted to 670 million. The remaining sum of around 700 million presumably represents net industrial consumption and accretions to private hoards in foreign countries, but this is a residual figure for which no degree of precision can be claimed.

At the end of 1945, when the total central gold reserves of the world amounted to about 36 billion dollars, some 55 per cent was held by the United States and about 45 per cent by foreign monetary authorities. At the end of 1947, the total figure had reached more than 37 billion dollars. Over 60 per cent was then held by the United States, 35 per cent by foreign monetary authorities, and 4 per cent by the International Monetary Fund.

The recent pattern of world gold transactions has been dominated by direct transfers from foreign central reserves to the United States. Hence, although data for sales of gold to the United States are not published by countries, the principal foreign sellers can be readily identified from changes in the gold holdings of individual foreign countries. The table on the following page presents data showing the changing distribution of foreign gold reserves during the past two years.

In 1946 France was the only country that sustained a major loss of gold, and this was largely offset by gains on the part of the United Kingdom and Canada. Other scattered changes, including losses by Mexico, Sweden, and others which were relatively severe for the countries concerned, resulted in a net loss from foreign central reserves of some 225 million dollars during the year.

CHANGE IN FOREIGN CENTRAL GOLD RESERVES, 1946-1947[1]

[In millions of dollars]

Area and country	Gold reserve at the end of 1945	Increase or decrease (−) 1946	Increase or decrease (−) 1947[2]	Gold reserve at the end of 1947
Countries participating in European Recovery Program (other than United Kingdom):				
France (and dependencies)	1,577	−688	−319	570
Switzerland	1,342	88	−74	1,356
Belgium (and Belgian Congo)	749	2	−138	613
Sweden	482	−101	−276	105
Netherlands (and N. W. Indies)	421	−5	−161	255
Norway	100	−9	−19	72
Other ERP countries	1,036	−3	−251	782
Total	5,707	−716	−1,238	3,753
U.S.S.R.[3]	2,250	150	175	2,575
Other Continental Europe	690	2	−4	688
United Kingdom[4]	1,966	445	−386	2,025
Union of South Africa	914	−26	−177	762
Other sterling area[5]	471	−26	1	446
Canada	361	182	−249	294
Latin America:				
Argentina	1,197	−125	−783	289
Brazil	354	....	....	354
Mexico	294	−113	−81	100
Cuba	191	35	53	279
Other Latin America	732	22	−123	631
Total	2,768	−181	−934	1,653
Rest of world[6]	828	−107	−36	685
Total for countries with net gains during year	......	997	273	....
Total for countries with net losses during year	....	−1,223	−3,121	....
Net total	15,955	−226	−2,848	12,881

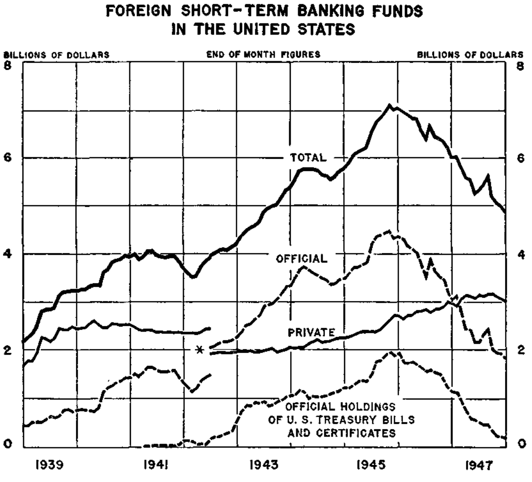
[1] Data have been partly estimated in the case of some countries which do not issue full reports concerning their gold holdings.
[2] Decreases in 1947 include nearly 670 million dollars of foreign gold contributions to the International Monetary Fund, including 210 million by the United Kingdom, 80 million by France, 74 million by Canada, 69 million by the Netherlands, and 56 million by Belgium.
[3] All the data for the U.S.S.R. are conjectural. Russian gold reserves at the middle of 1947 were estimated very roughly at 2.5 billion dollars in a recent report to the Senate Committee on Finance by the National Advisory Council (see BULLETIN for February 1948, p. 164). The figures in this table have been derived from this base, making allowance for estimated new domestic production and for such exports of gold from the U.S.S.R. as have been reported.
[4] The gold reserves of the United Kingdom have been estimated by deducting from British reports concerning their combined official holdings of gold and United States dollars, the amount of British official dollar balances as reported by banks in the United States.
[5] Includes Egypt throughout, although Egypt withdrew from the sterling area in July 1947.
[6] China is known to have been the principal loser of gold reserves in this group in 1946-47, as a result of gold sales in its domestic market. There are no published reports concerning China's central gold holdings, but these holdings at the end of 1947 were estimated at 96.5 million dollars in a report submitted to the Congress by the Department of State on Feb. 20, 1948, in connection with the proposal for a Chinese aid program.

There was a sharp acceleration of foreign gold losses early in 1947, with gold subscriptions to the International Monetary Fund contributing to the movement. The losses during the year were very widespread; only the U.S.S.R., as a result of the retention of most of its new domestic production, registered any substantial gain. Over 1.2 billion dollars was lost by the countries of Continental Europe which are scheduled to participate in the European Recovery Program; this amount included a further large loss by France, which brought that country's total liquidation of gold during 1946-47 to more than a billion dollars. The United Kingdom, South Africa, and Canada all became losers of gold in 1947, in contrast to their gains in the previous year, accounting together for losses of over 800 million dollars. Argentina, which sustained only a minor loss of gold in 1946, experienced a major gold outflow in 1947, none of which represented a contribution to the International Monetary Fund since Argentina is not a member of that institution. Other losses in Latin America, notably by Mexico, Colombia, and Uruguay, partly offset by a relatively substantial gain on the part of Cuba, brought total gold losses by that area during the year to nearly a billion dollars.

In summary, the major changes in the distribution of foreign gold reserves in the past two calendar years have been the displacement of France and Argentina from their status as major gold holders in the world, and relatively heavy encroachments on the reserves of other countries, including notably Sweden, the Netherlands, and Mexico. On the other hand, the U.S.S.R. added moderately to its stocks during the two-year period, while the two other principal gold holders outside the United States—the United Kingdom and Switzerland—showed little change over the period as a whole. Whereas at the end of 1945 these three countries had held only about 35 per cent of foreign central gold reserves, by the end of 1947 they held 46 per cent of a substantially smaller total.

Liquidation of Foreign Banking Funds in United States

Concurrent with the net flow of foreign gold to the United States, foreign countries as a whole have been making steady and substantial drafts upon the dollar balances which they accumulated during the war in the form of banking funds in the United States. As may be seen in the accompanying chart, official funds (those held by foreign monetary authorities) declined by 2.5 billion dollars, or 58 per cent, during the two years 1946-47. The aggregate amount of private dollar banking funds, on the other hand, has continued a moderate expansion, so that the net loss in total foreign banking funds in the United States came to only about 2.2 billion dollars in 1946-47 (something over one billion in each year).



* Beginning June 1942, official funds include all short-term funds held with banks and bankers in the United States by foreign central banks and governments and their agencies, part of which had previously been included in private funds.

Most of the countries in the world liquidated dollar balances during the two years, but these losses were partly offset by gains on the part of a few countries. As shown in the table on the following page, Canada alone accounted for around 30 per cent of the losses; the other principal losers were China, the United Kingdom, and France. These four countries accounted for the entire net loss; smaller gains and losses by other individual countries were mutually offsetting. At the same time, many of the smaller changes were relatively very important to the countries concerned, e.g. the losses by Sweden, the Netherlands, and Norway, and the gain by Cuba. It may be noted that the changes shown in the table on the following page are roughly representative of movements in official balances. The increase in private balances during 1946-47 was diffused throughout the world and hence did not greatly affect the position of any individual country.[1]

If the drafts on foreign banking funds are considered in conjunction with the changes in gold reserves in 1946-47, the main new point which emerges is that Canada and the United Kingdom, while avoiding net drafts on their gold holdings during the period as a whole, did find it necessary to resort to heavy liquidation of dollar balances. The same was true of Brazil and the Philippines. France and China, on the other hand, along with Sweden, Norway, and the Netherlands, found it necessary to liquidate relatively substantial amounts of dollar balances in

[1] While data are not ordinarily published showing the distribution of official and private balances, separately, by countries, an exception was made in a report presented to the Senate Committee on Finance by the National Advisory Council on Dec. 18, 1947. A table contained in that report shows the distribution of these balances for all foreign countries holding significant amounts as of June 30, 1947 (see Bulletin for February 1948, p. 164).

addition to gold during this period. Switzerland, Cuba, and Argentina made the largest net gains in dollar holdings over the two-year period 1946-47; the first two countries also gained some gold, but in the case of Argentina the increase in dollar balances constituted a partial offset to a very heavy loss of gold.

CHANGE IN FOREIGN BANKING FUNDS IN THE UNITED STATES, 1946-1947[1]

[In millions of dollars]

Area and country	Holdings at end of 1945	Increase or decrease (−) 1946	Increase or decrease (−) 1947	Holdings at end of 1947
Countries participating in European Recovery Program (other than United Kingdom):				
France (and dependencies)	[2] 518	−223	−100	195
Switzerland	304	69	73	446
Belgium-Luxemburg (and Belgian Congo)	247	−36	−43	168
Sweden	210	−37	−114	59
Netherlands (and N. W. Indies)	310	−69	−83	158
Norway	216	−92	−68	56
Other ERP countries	275	211	−61	425
Total	2,080	−177	−396	1,507
U.S.S.R.	28	32	14	74
Other Continental Europe	77	49	27	153
United Kingdom (and dependencies)	755	−217	−139	399
Union of South Africa	6	41	−1	46
Other sterling area[3]	106	40	7	153
Canada and Newfoundland	[2] 1,366	−432	−524	410
Latin America:				
Argentina	77	36	123	236
Brazil	195	−21	−69	105
Mexico	116	36	−13	139
Cuba	128	25	82	235
Other Latin America	492	−4	−9	479
Total	1,008	72	114	1,194
Philippine Republic	629	[4] −182	42	489
China	[5] 768	−336	−202	230
Rest of world	246	48	−97	197
Total for countries with net gains during year	......	720	554	...
Total for countries with net losses during year	....	−1,782	−1,709	....
Net total	7,069	−1,062	−1,155	4,852

[1] For more complete information concerning the movement of foreign banking funds in the United States, see regular tables on pp. 480-81 of this BULLETIN.
[2] The regularly reported figures for Canada and France at the end of 1945 have been adjusted to allow for the fact that on that date certain special funds were being held by Canada on behalf of France. This arrangement was terminated during 1946.
[3] Includes Egypt throughout, although Egypt withdrew from the sterling area in July 1947.
[4] Includes the use of 111 million dollars during 1946 for redemption of excess stocks of Philippine currency held by the United States armed forces in the Philippines. To this extent the decline in dollar reserves was matched by a reduction in the foreign liabilities of the Philippines.
[5] The regularly reported figure for China at the end of 1945 has been adjusted to include official Chinese holdings on that date of 186 million dollars of United States Government securities maturing in slightly more than one year and therefore falling outside the strict definition of "short-term" banking funds. These holdings were converted into "short-term" United States Government securities during 1946.

Considering gold and dollar balances together, France and Canada were the heaviest losers in 1946-47, accounting for 1.3 billion and 1.0 billion dollars, respectively. Argentina followed with a loss of three-quarters of a billion, and Sweden and China with over half a billion each. The countries scheduled to participate in the European Recovery Program, other than the United Kingdom and Switzerland, accounted together for about half of the net foreign losses of gold and dollar balances during the two-year period. At the end of 1945 this group held over one-quarter of the outside world's central gold reserves and dollar banking funds, but by the end of 1947 it held less than one-fifth of a substantially smaller total.

DOLLAR DRAWINGS UPON THE INTERNATIONAL MONETARY FUND

The International Monetary Fund became an operating financial institution on March 1, 1947, the date upon which it became ready to engage in exchange transactions with member countries. The following table lists the dollar drawings that were made upon the Fund during the remaining ten months of the year.

DOLLAR DRAWINGS ON INTERNATIONAL MONETARY FUND

[In millions of dollars]

Country	Maximum drawing right in any twelve-month period	Amount drawn in 1947
United Kingdom	325.0	240.0
France	131.3	125.0
Netherlands	68.8	46.0
Belgium	56.3	11.0
Mexico	22.5	22.5
Denmark	17.0	3.4
Chile	12.5	8.8
Turkey	10.8	5.0
Total	....	[1] 461.7

[1] The only non-dollar transaction in which the Fund engaged during the year was the sale to the Netherlands of 1.5 million pounds sterling (equivalent to 6.0 million dollars).

The principal drafts, amounting to more than half the total, were made by the United Kingdom. These occurred during the last months of the year, when the United Kingdom found itself under particular pressure as a result of the temporary suspension of drawings upon its credit with the United States Treasury. Large drawings were also made by France, which has had to resort to a wide variety of sources for dollar financing during the past two years. Mexico, although its drawings were relatively small, was the only country that exercised its maximum drawing right during 1947.

In general, the scale of foreign drafts upon the Fund's resources may be said to have been moderate during 1947. After allowing for member countries that remained ineligible to draw upon the Fund because of the lack of an agreed exchange rate, the remaining foreign members could have drawn about one billion dollars during the year without exceeding the quantitative limitations to which each is subject. But of the 27 member countries that were formally eligible to draw during 1947, only eight actually resorted to the Fund's resources. This may be taken as evidence both of self-restraint on the part of foreign members and of vigilance on the part of the Fund's Executive Board in seeing that the Fund's resources are used only for purposes consistent with the Fund's Articles of Agreement.

It may be added that during the first quarter of 1948 total dollar drawings from the Fund amounted to a further 132 million dollars, of which 60 million was taken by the United Kingdom. Although by now a few individual countries, notably the United Kingdom and France, have made drawings on the Fund in excess of their initial gold subscriptions, foreign countries as a whole have still drawn fewer dollars than the amount represented by their gold subscriptions. Hence the Fund's gold and dollar resources still exceed the amount initially contributed by the United States.

Effects upon Monetary Factors in the United States

The liquidation of foreign gold and dollar reserves in partial payment for United States exports has had certain direct expansionary effects upon monetary factors in the United States.

The most obvious example is the net purchase of 3.5 billion dollars in gold from foreign countries in the two years 1946-47. This newly-acquired gold was "monetized" through the issuance of gold certificates to the account of the Federal Reserve Banks, and had the effect of expanding by a corresponding amount the reserves of the Federal Reserve Banks, the reserves of commercial banks, and the deposits of commercial banks. The result was to add substantially to the capacity of the banking system to extend credit.

The net reduction in foreign banking funds in the United States over the two years 1946-47 may be accounted for entirely by the decline of about half a billion dollars in deposits held by foreign central banks and governments with the Federal Reserve Banks and by the liquidation of about 1.7 billion in foreign holdings of short-term United States Government securities. Movements in other types of foreign banking funds were small and mutually offsetting.

A decline in foreign deposits with the Federal Reserve Banks has the same expansionary effects upon the commercial banking system as an inflow of gold which becomes monetized by the Treasury. Commercial bank reserves and deposits increase by an equal amount, and a further multiple expansion of bank credit becomes possible. In the case of foreign liquidation of short-term United States Government securities, the results to be anticipated are less clear-cut. As in the case of sales by domestic holders, the effect upon bank reserves and deposits depends upon whether the net purchasers in the market are the Federal Reserve Banks, commercial banks, or other holders. In general, foreign sales during the past two years have probably necessitated on most occasions additional purchases by the Federal Reserve Banks, resulting in further expansion of the credit base.

Finally, dollar drawings by foreign countries upon the International Monetary Fund have hitherto been financed by the Fund through the redemption of demand notes of the United States Treasury, in which the bulk of its dollar funds are invested. The Treasury has therefore had correspondingly less funds available to retire marketable debt, particularly that held by the Reserve Banks, with the result that commercial bank reserves and deposits have tended to remain higher than might otherwise have been the case. If and when the Fund exhausts the supply of dollars which it derived from the United States subscription (something over 2 billion dollars), it could meet further dollar drawings by its members only by selling gold to the United States. Hence in the future the Fund may become the source of an additional gold inflow into this country.

Altogether it is clear that the liquidation of gold and dollar reserves by foreign countries has had important effects upon monetary factors in the United States. It has served to reduce the effectiveness of fiscal and monetary policies directed to absorbing bank deposits and reserves and to curbing inflationary pressures originating in monetary sources.

THE POSTWAR DRAIN ON FOREIGN GOLD AND DOLLAR RESERVES

International Transactions Affecting Foreign Gold Reserves and Banking Funds in United States, 1946-1947

[In billions of dollars]

Item	Total		1947		1946	
Net purchases of goods and services from United States by foreign countries:						
United States exports:						
Goods	28.2		16.0		12.1	
Services	6.7		3.6		3.1	
Total		34.9		19.6		15.
United States imports:						
Goods	11.3		6.0		5.3	
Services	4.1		2.3		1.9	
Total		15.5		8.3		7.1
Net purchases by foreign countries		19.4		11.3		8.1
Sources of financing utilized by foreign countries for these net purchases:						
United States Government (net):						
Credits	7.0		4.0		2.9	
Donations	4.2		1.7		2.4	
Total		11.1		5.8		5
United States—private (net):						
Foreign investment (long- and short-term)	0.7		0.6		....	
Donations	1.4		0.7		0.7	
Total		2.0		1.3		
International institutions (net):						
Dollars disbursed by International Bank	0.3		0.3		...	
Dollars drawn from International Monetary Fund	0.5		0.5		...	
Total		0.8		0.8		
Foreign countries' own capital assets (net):						
Sales of gold to United States	3.5		2.8		0.7	
Reduction of banking funds in United States	2.2		1.2		1.1	
Liquidation of other assets in United States (long- and short-term)	0.9		0.5		0.4	
Total		6.7		4.5		2.2
Total sources of financing		20.6		12.3		8.3
Errors and omissions		−1.2		−1.1		−0.1
Net gold losses of foreign countries in international transactions:						
Net sales of gold to United States by foreign countries (repeated from table above)	3.5		2.8		0.7	
Foreign subscriptions in gold to International Monetary Fund	0.7		0.7		....	
Total		4.2		3.5		0.7

Note.—This table is derived largely from United States balance of payments data compiled by the Department of Commerce. It omits, however, transactions between the United States and the International Fund and Bank, which for balance of payments purposes must be regarded as international areas external to the United States as well as to foreign countries, and it includes gold and dollar transactions between the Fund and the Bank and foreign countries. Hence in the main table the Fund and the Bank are shown among the sources of dollars to which foreign countries have resorted in order to pay for net exports from the United States; and in the supplementary table foreign subscriptions in gold to the International Monetary Fund are listed along with net sales of gold to the United States to show the net gold losses of foreign countries in international transactions. (This presentation ignores the 22 million dollars in gold and 75 million in United States dollars paid by foreign countries during 1946–47 upon their subscriptions to the International Bank.)