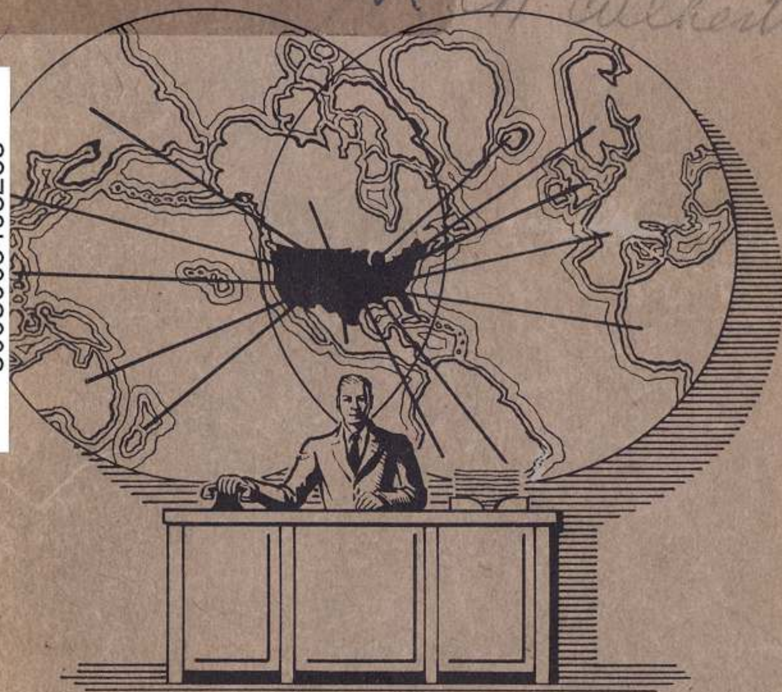
NATIONAL TRANSACTIONS
of the United States
DURING THE WAR

1940-1945

~~Robert L. Sammons~~
Culbertson



DEPARTMENT OF COMMERCE · UNITED STATES OF AMERICA

U. S. DEPARTMENT OF COMMERCE

UNITED STATES DEPARTMENT OF COMMERCE

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International Transactions of The United States During the War, 1940-45

Prepared in the International Economics Division
Under the Direction of
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Foreword

This volume is the latest in the series of studies on the international transactions of the United States initiated by the Department of Commerce in 1922. It is an analysis of the transactions of the United States with the rest of the world during the recent war years, a period during most of which the requirements of Government were equal to virtually half the national output of goods and services. The enormous demands made upon our national economy by the combined needs of the countries engaged in the war against the Axis powers are reflected in the large items of goods and services which make up our wartime international accounts. Moreover, the exigencies of global war necessitated such a high degree of industrial conversion for the production of war materials and such a broad system of governmental controls over the civilian economy that virtually all international transactions, commercial and financial, resulted from basic national policy decisions rather than from the free action of private business.

The international accounts of the United States during the war years, therefore, do not fall into the usual pattern. The preponderance of goods and services transferred in accordance with mutual-aid agreements and in connection with the various emergency-aid operations undertaken by governmental agencies and international organizations during the period covered have given so-called unilateral transactions an unprecedented significance in our balance of international payments.

At the time the Department initiated its balance-of-payments studies after World War I, the Secretary of Commerce stated that "no sound conclusion can be made concerning the effect of foreign-trade movements upon our credit structure or upon the ability of foreign countries to purchase our commodities or to pay their debts, or upon exchange rates, or upon the movement of gold, or the ultimate trend of price levels compared with those of other nations without some comprehensive balance sheet including the invisible items." As a consequence of World War I the United States had shifted from a net debtor to a net creditor position. The shift implied a reorientation of national thinking with respect to the place this country would henceforth occupy in the international economy. The appraisal of the country's international balance sheet placed in bold relief the importance of our "invisible" trade. The abundant reservoir of dollars available to foreigners throughout the twenties, thanks to a steady stream of foreign investment, somewhat obscured the real implications of the basic trends in our international transactions.

The significance of these developments became clearer as the world moved deeper and deeper into depression during the early thirties. In 1942, while the world was again at war, the Department of Commerce undertook an over-all appraisal of its international transactions during the interwar period and, a year later, published a comprehensive study entitled, "The United States in the World Economy." The conclusion that emerged most emphatically was the fundamental importance of "maintaining conditions conducive to a more stable and ample flow of dollars in our transactions with other countries."

Developments since 1943 have provided further confirmation of the conclusions expressed in "The United States in the World Economy." Foreign postwar demand for United States goods pressed on the economy at the same time that the accumulated domestic demand made itself felt. The impact of a total demand substantially in excess of available supplies when wartime controls were removed has resulted in a sharp price rise, leading to an undue depletion of the dollar exchange resources of foreign countries. As a result of the recent war the balance of economic power has passed to the United States to a degree which makes a world program of multilateral trade of paramount importance. It carries with it a degree of responsibility for world recovery that permits no indifference to the rest of the world's dollar buying power.

The present study brings down to the end of 1945, the last war year, the statistics on the international transactions of the United States. It combines into a single analysis the developments of a period in which the whole world was impressed by the production potentialities of the United States. Its conclusions fortify those of the earlier report.

Current estimates, on a quarterly basis, of the international transactions of the United States appear regularly in the Survey of Current Business.

International Transactions of the United States During the War, 1940–45 was prepared in the International Economics Division, Office of Business Economics, under the direction of Robert L. Sammons, Chief of the Division. The study was initiated and much of the basic statistical work performed under the direction of Hal B. Lary, who was chief of the Division until June 1946.

The text of the study was the work of various members of the Division's staff. Walther Lederer prepared the first draft of chapters I and V and Nancy F. Culbertson, the over-all balance-of-payments.

AMOS E. TAYLOR,
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[In millions of dollars]

Item	1940	1941	1942	1943	1944	1945				
						Total	First quarter	Second quarter	Third quarter	Fourth quarter
I. Receipts, total	5,780	7,210	13,077	21,716	24,485	19,249	5,517	6,235	4,030	3,467
A. Goods and services, total	5,355	6,896	11,769	19,134	21,438	16,073	4,382	4,997	3,450	3,244
1. Goods	4,124	5,343	9,187	15,115	16,969	12,222	3,455	3,906	2,543	2,318
2. Income on investments	564	544	514	508	572	555	129	147	129	150
3. Other services	667	1,009	2,068	3,511	3,897	3,296	798	944	778	776
B. Unilateral transfers	59	43	1,002	2,137	2,407	2,591	1,039	995	493	64
C. Long-term capital, total	366	271	306	445	640	585	96	243	87	159
1. Movements of United States capital invested abroad	209	193	219	402	406	555	96	213	87	159
2. Movements of foreign capital invested in United States	157	78	87	43	234	30	----------	30	----------	----------
II. Payments, total	4,344	6,578	13,159	23,732	26,154	21,009	6,110	6,813	4,539	3,547
A. Goods and services, total	3,636	4,486	5,356	8,096	8,986	9,424	2,689	2,925	2,082	1,728
1. Goods	2,713	3,486	3,965	5,427	5,589	5,829	1,519	1,681	1,414	1,215
2. Income on investments	210	187	159	155	161	168	35	39	39	55
3. Other services	713	813	1,232	2,514	3,236	3,427	1,135	1,205	629	458
B. Unilateral transfers	269	1,179	7,338	15,044	16,549	9,628	3,137	3,617	1,746	1,128
C. Long-term capital, total	439	913	465	592	619	1,957	284	271	711	691
1. Movements of United States capital invested abroad	192	508	294	486	560	1,803	190	265	679	669
2. Movements of foreign capital invested in United States	247	405	171	106	59	154	94	6	32	22
III. Excess of receipts (+) or payments (—), total	+1,436	+632	−82	−2,016	−1,669	−1,760	−593	−578	−509	−80
A. Goods and services	+1,719	+2,410	+6,413	+11,038	+12,452	+6,649	+1,693	+2,072	+1,368	+1,516
B. Unilateral transfers	−210	−1,136	−6,336	−12,907	−14,142	−7,037	−2,098	−2,622	−1,253	−1,064
Net goods and services and unilateral transfers	+1,509	+1,274	+77	−1,869	−1,690	−388	−405	−550	+115	+452
C. Long-term capital	−73	−642	−159	−147	+21	−1,372	−188	−28	−624	−532
V. Net inflow (+) or outflow (−) of funds on gold and short-term capital account, total	−2,713	−1,108	+90	+1,982	+1,706	+1,888	+620	+631	+582	+55
A. Net increase (−) or decrease (+) in United States gold stock	−4,243	−719	+23	+757	+1,350	+548	+180	+157	+201	+10
B. Net movement of United States short-term capital abroad	+177	+11	−115	+3	−153	−313	−9	−120	+21	−205
C. Net movement of foreign short-term capital in United States	+1,353	−400	+182	+1,222	+509	+1,653	+449	+594	+360	+250
V. Errors and omissions	+1,277	+476	−8	+34	−37	−128	−27	−53	−73	+25

Chapter I

Review of the War Period

The international transactions of the United States during the war like those of other countries, were conducted almost entirely under Government direction or control. The primary objective of these controls was the winning of the war with a minimum of disturbance to the existing social structure.

The account that follows is more narrative than analytical in character, except for a concluding chapter on implications for the future, wherein an attempt is made to foresee possible solutions to some of the economic problems facing the world as a result of 6 years of global conflict.

The entire 6-year period, 1940–45, from the point of view of our international transactions, may be divided into three parts. The *first*, comprising roughly the years 1940 and 1941, was characterized by the transition from "cash and carry" neutrality to the first stage of the development of this country as the "Arsenal of Democracy." The Lend-Lease Act was passed in March 1941, but it was not until the second half of that year that lend-lease transfers assumed a large volume. Until that time, dollars needed to pay for rapidly rising exports, and for advance payments on orders and other financial assistance to American manufacturers of munitions by Allied countries, had to be obtained through (1) the liquidation of foreign assets in this country, (2) sales of gold, and (3) some advance payments and loans by the United States Government.

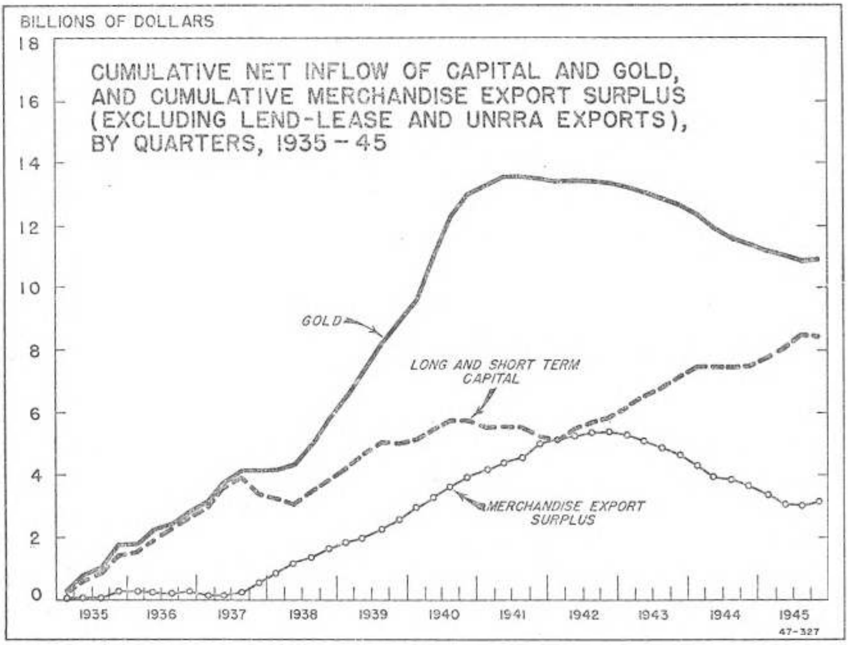
The *second* part of the period covers actual United States participation in the war. For reasons of statistical convenience, it was taken to comprise the years 1942 through 1944 and the first 6 months of 1945. It was characterized by sharply rising exports and still greater increases of lend-lease assistance. Exports of goods and services for which we received payment declined and were actually smaller than our obligations for imports. Consequently, during this time foreign countries as a group either increased their dollar balances or bought gold in the United States.

The *third* part of the period covers the second half of the year 1945, and therefore the transition from war to the postwar era. During that half year both exports and imports declined—the latter only slightly—and lend-lease as a means of financing exports was partly replaced by contributions through UNRRA and by loans. Because of continued limitations on our domestic production and exports of civilian goods, certain foreign countries continued to accumulate dollar balances and to buy gold, but in diminishing quantities, as the year ended.

From Neutrality to Belligerency, 1940–41

The closing years of the thirties found the United States in a so-called strong balance-of-payments position. Business recession in 1938 had greatly reduced our demand for foreign goods and services, while relatively less depressed conditions abroad coupled with increased preparation for war in Europe served to keep our exports high.[1] The positive trade balance (based on "recorded" figures), which had reached a low point of $33 million in 1936, rose to $1,134 million in 1938 and receded to $859 million in 1939. The resulting pressure on foreign exchange reserves was intensified by net inward capital movements—practically all going into deposits and other liquid balances—of approximately $2 billion during the 18 months ended with the close of 1939. Both the export surplus [2] and the inflow of capital were made possible through gold imports which amounted to $4.5 billion in the same period (see chart 1).

Chart 1



Note.—The series used in this chart are unadjusted and do not correspond to those employed in the balance-of-payments tables. Gold movements include exports, imports, and earmarking only; capital movements are unadjusted Treasury Department figures; and the merchandise export surplus is based on recorded trade data, excluding lend-lease and UNRRA exports.

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[1] In general, the words exports and imports in this volume refer to the official trade figures released by the Bureau of the Census. The terms "total exports," "total transfers," "exports of goods and services," and similar expressions are used when a more comprehensive category is implied.

[2] As used in this study, the term "export surplus" refers to the excess of transfers of goods or goods and services to foreign countries (exports) over goods or goods and services received from them (imports).

The Search for Dollars

Outwardly the structure of the United States balance of payments was not greatly altered in 1940 and the first part of 1941, except by an increase in the magnitudes involved. A large export surplus and flow of foreign capital to the United States continued to be offset by unprecedented gold imports. However, the gold and capital inflow, in part, was merely in anticipation of later disbursements for war purchases.

As a matter of fact, it was not until the occupation of western Europe by the German armies that any fundamental changes in the United States balance of payments occurred. Exports rose slowly from an annual rate of $2.8 billion in the first quarter of 1939 to about $4.3 billion a year later, with about $600 million of the increase accounted for by shipments to France and the United Kingdom.

In the meantime, however, those countries were placing large orders in the United States which began to bear fruit in more rapid increases in exports by the latter part of 1940. Most of the French contracts were taken over by the British after the fall of France, exports to the United Kingdom rising from $50 million in May to $126 million in August 1940. Because of the decline in exports to German-occupied Europe, total exports did not show a corresponding rise. In fact, exports fell somewhat after the first quarter of 1940 and did not return to the level attained in that quarter until the second quarter of 1941.

A principal reason for the relatively slow rise in exports in face of the almost unlimited demand of Great Britain for American goods was the inability of the American economy to supply promptly the products wanted. As late as the middle of 1941, with the United States defense program a year old, munitions production was at an annual rate of only $7.4 billion—about 13 percent of the output achieved during 1943. Even this level had been reached only with aid to United States producers by the British Government, in the form of advance payments and capital assistance; at the end of 1940 such payments outstanding amounted to $762 million—a very substantial further drain on the available gold and dollar resources of the United Kingdom.

In addition to increased exports and advance payments as sources of strain on dollar exchange reserves of foreign countries, the inflow of "flight" capital so noticeable in the late thirties was continued and for a time intensified in the early stages of the war. These funds came largely from continental European countries, although, as discussed elsewhere (ch. IV), some capital withdrawals from the United Kingdom occurred even after the inauguration of exchange controls.

Meeting Foreign Dollar Requirements

Although imports also increased in 1940 and 1941, under the stimulus of a higher rate of industrial activity in the United States, the rise was not as rapid as the expansion in exports. With a corresponding shift in our favor on certain major invisible items, the balance due to us on goods and services rose from $1,055 million in 1939 to $1,719 million in 1940 and $2,410 million in 1941.

To the total amount of about $4.1 billion due to the United States in the two latter years must be added $609 million of United Kingdom financial aid to United States manufacturers, still outstanding at the end of 1941. Of the resulting total of $4.7 billion, the sum of $1.3 billion was provided by this country through private remittances, lend-lease, and other unilateral transfers. This left $3.4 billion to be financed through loans from this country or by drawing upon gold and accumulated dollar assets.

The net outflow of American capital, long- and short-term, accounted for $110 million in the 2 years. Liquidation of foreign securities and other long-term investments in the United States provided, net, an additional $580 million, not deducting the inflow represented by the capital assistance mentioned above.

After subtracting the $690 million made available through loans and liquidations of foreign-held long-term assets from the total of $3.4 billion required by foreign countries to meet their obligations on trade, services, and capital assistance, about $2.7 billion remained to be provided by shipments of gold or by drawing upon accumulated dollar balances.

Sales of gold to the Treasury during the 2 years 1940 and 1941 amounted to about $5 billion, thus exceeding the amount needed for the settlement of current obligations (including the capital assistance above mentioned) by about $2.3 billion. Known increases in foreign dollar balances amounted to about $500 million. The remainder, $1.8 billion, represents the errors and omissions item in the balance-of-payments statement and presumably consists of unrecorded imports of foreign capital.

Increased Exports Expand United States Production

Because of the large increase in domestic business activity stimulated by the armament program and the increased income derived from it, exports up to the end of 1941, including lend-lease exports of $780 million, did not rise at a much faster rate than did total production of movable goods. Exports from the United States in 1941 comprised 7.8 percent of the output of movable goods, as against 7.4 percent in 1939 (see table 2). Nevertheless, foreign trade during 1940 and 1941 had an important effect upon the economic and military position of the United States. The increased exports of goods and services helped considerably in the reduction of unemployment from 8 or 9 million in 1939 to an average of 5 million in 1941. Foreign orders, particularly for munitions, also served to build up new production facilities and to straighten out the first kinks in the munitions production process. It is quite likely that production for foreign demand in 1940 and 1941 advanced us several months in the armament program.

TABLE 2.—*Exportable goods: Production and proportion exported, 1939, 1941, and 1943–45*

[In millions of dollars]

Year	Agricultural products	Manufactures	Mining	Freight receipts	Total	Exports, U.S. merchandise	Percent of total
1939	9,121	24,683	3,222	4,900	41,926	3,123	7.4
1941	12,556	40,500	4,500	6,600	64,156	5,020	7.8
1943	21,350	77,500	5,300	9,000	113,150	12,841	11.3
1944	22,268	78,000	5,600	9,300	115,168	14,163	12.3
1945	22,760	66,000	5,300	9,300	103,360	9,589	9.3

Source: Statistical Abstract of the United States 1946, p. 888, U. S. Department of Commerce.

Government Participation Increases

The war in Europe and the increasing involvement of the United States not only changed the volume, composition, and direction of foreign trade and other international transactions, but also their organization and control, by increasing the role of governments. Early in the war, the British and French Governments channeled their purchases in this country through official purchasing missions, and such missions were later established by many other countries. This country, too, established in 1940 and 1941 various Government corporations to develop new foreign sources of supply for urgently needed raw materials and to increase imports of such materials from existing sources. Both operations (developement and actual procurement) had to be done by the Government rather than by private business, in order to facilitate procurement and to preserve as nearly as possible the existing price structure. In that respect the foreign operations of the Government were similar in nature and conduct to, for instance, the construction of munitions plants with Government funds.

Total commodity purchases by the Government of the United States in foreign countries in 1941 amounted to about $490 million, or about 14 percent of the total value of all goods bought by the United States in foreign countries. In the same year, the share of all Federal Government expenditures in the gross national product was 16.3 percent, and the share of war expenditures was 11 percent. Thus Government participation in international transactions was not more extensive than in the economy as a whole.

On the export side, Government controls were first felt in the application of the Neutrality Act, which put trade with belligerents on a cash and carry basis. When our armament program began in the middle of 1940, an export-control system was established to prevent excessive exportation of commodities in short supply and vital to the defense program. With the beginning of lend-lease in 1941, the Government took a direct hand in the procurement and exportation of merchandise and services. In that year, merchandise valued at $784 million, 15 percent of our total exports, was shipped by the Government—almost all under the lend-lease program. Requisitions for these lend-lease goods were transmitted by foreign countries to the United States Government and procurement was effected by Federal agencies along with the procurement of other materials needed in the armament program.

There was also a considerable increase of Government activity in the field of foreign lending, principally through the Reconstruction Finance Corporation loan of $425 million to the United Kingdom, $350 million of which were disbursed in 1941. Not since the years immediately following World War I had Government loans risen to that level. Foreign governments participated to a greater extent than did the United States in directly controlling capital movements. First of all, practically all foreign governments attempted, as soon as the war broke out, to control international capital transfers, particularly those in an outward direction, in order to conserve foreign exchange for essential purchases abroad and to prevent the available supply from being exhausted by flight capital.

The increase of foreign banking balances from the middle of 1939 to the end of 1941, insofar as is known, was entirely in funds belonging to foreign governments or their agencies. In fact, during the same time there was a decline in dollar balances owned by private persons and enterprises. There was, however, a large influx of foreign capital, particularly in 1940, which escaped official recording, most of which presumably consisted of private funds. Foreign governments not only tried to prevent such capital movements out of their countries but made considerable attempts to acquire the foreign assets of their residents in order to get foreign exchange through the sale of such assets. The largest part of the reduction of foreign long-term assets in this country was accomplished by transactions of foreign governments themselves, rather than their citizens.

Thus, the increasing concentration of resources and energies on the war funneled economic activity in the international as well as in the domestic field through government channels or at least brought it under government direction and control. By the end of 1941, government organization in foreign countries, particularly the United Kingdom, was well set up and in operation. In the United States, which at that time had just become an active belligerent, most of the Government organizations to convert the economy to the war effort had been set up, but the volume of war production and the amount and effectiveness of the controls over production, distribution, and foreign transactions were still moderate.

The War, January 1942–June 1945

The beginning of the period of participation as an active belligerent found the United States with its principal financial mechanism for joint operations already functioning. Lend-lease and its counterpart, reciprocal aid, took the financing problem out of our international transactions, leaving only the essentially physical problem of working out the most efficient division of labor among the Allies. American mass-production methods were applied to the manufacture of trucks, tanks, ships, planes, machine tools, and many other products directly or indirectly essential to waging war. Our principal Allies, Britain and Russia, were thus enabled to put far more men in the fighting lines than if they had had to produce all their equipment themselves or buy it with their own financial resources (which would have been completely inadequate). The total of goods and services delivered under lend-lease amounted to about $50 billion by the middle of 1945.

Not all our transactions were financed on a unilateral basis, however. Transactions with Canada and Latin America [3] were, generally speaking, on a payments basis, except for a relatively small amount of lend-lease to the latter area. Procurement of goods in the British Empire elsewhere than in Canada for actual import into the United States was also on a cash basis until late 1943, when most of such imports were placed under reciprocal aid. Also, the personal expenditures of our troops abroad, as distinguished from purchases by the armed forces as such, were made either in dollars or, usually, in local currencies purchased with dollars. The cash portion of our balance of payments was negative almost throughout this whole period, leading to an increase of $2.9 billion in foreign-owned dollar balances and net gold sales by the United States of about $2.5 billion.

[3] In this report, the terms "Latin America" and "American Republics" are used interchangeably.

Exports Expand Rapidly

Total exports of goods and services, as indicated in table 1, rose from \$6.9 billion in 1941 to \$21.4 billion in 1944. Recorded merchandise exports reached a peak annual rate of \$17.5 billion in May 1944, just before the invasion of Europe. More than 80 percent of the total merchandise transfers for the whole 3½-year period represented lend-lease transfers. A substantial portion of cash exports was essential war materials—largely to Canada or to England as deliveries on pre-lend-lease contracts. Export controls restricted shipments of practically all commodities to the bare essentials necessary to maintain the economies of friendly foreign countries.

Imports Lower

Although during the war we expanded our purchases of many raw materials in the Western Hemisphere and elsewhere, such as copper from Chile, bauxite from Surinam, aluminum from Canada, and chrome and manganese from Africa, total imports in quantity terms did not again reach the high level of 1941. During the first 6 months of 1945, imports adjusted for price changes were 95 percent of the 1941 rate.

Enemy occupation of the Far East cut off supplies of some of our principal imports, notably rubber, tin, copra, hemp, tung oil, silk, quinine, and spices. Although alternative sources for some of these products were developed, frequently with the aid of United States Government capital, in other foreign areas, domestic synthetics and substitutes were the principal means of filling the gap.

Total receipts of goods from foreign countries, however, were much higher than recorded imports, and registered a continued expansion throughout the war. Most of these other goods were received and consumed by the armed forces abroad, either by purchase or, more commonly, as reverse lend-lease. Some commodities were also procured abroad, principally in Canada and the Caribbean, for direct shipment to the war theaters, either as lend-lease or for the use of the United States armed forces.

Services Also Large

With income on investments running about the same as in late prewar years, principal changes in invisible exports and imports, including the sharp reduction of tourist expenditures, were directly related to the war effort. Vastly increased shipping services furnished to foreigners were chiefly provided under lend-lease, while most of the services furnished to the armed forces were obtained as reciprocal aid. The other principal item in the invisible group was the personal expenditures of the troops themselves. These in general were on a cash basis, and sufficiently large to make the actual balance of payments for services negative for the war period.

Financing the Balance

As already indicated, we more than offset our export surplus during the war by lend-lease and other unilateral transactions. Altogether we had a negative balance of actual payments for goods and services of \$4.4 billion during the 3½ years here under discussion. Movements of long-term capital and American short-term funds were relatively unimportant, but resulted in net outflows for the period as a whole of about $500 million and $400 million, respectively. Added to the balance on goods and services and unilateral transfers, these capital outflows brought total net payments to foreign countries to $5.3 billion. Recorded data indicate that about $5.4 billion (net) accrued to foreign countries during that period in the form of net gold purchases and increases in short-term dollar balances. The difference of $100 million represents "errors and omissions," or the residual items in the statement, table 1.

Domestic Impact Hard To Gage

During the war very strong inflationary pressures were exerted by the requirements of our war effort. In fact, in 1944, war expenditures by the United States Government, excluding net expenditures on lend-lease, amounted to $70 billion. To that extent income was received by the civilian population which could not be spent on goods and services. Lend-lease transfers—less lend-lease in reverse—added to this amount about $13 billion, or roughly 18.5 percent. That does not mean, however, that without lend-lease expenditures or, more correctly, without the export surplus of $12.5 billion, commodities and services for the civilian population could have been increased by an equivalent amount, and the inflationary pressures correspondingly reduced.

The net inflationary impact of lend-lease in itself cannot be measured apart from the total effect of all war expenditures. It is impossible to tell what would have been necessary in the way of additional mobilization of, and production for, our own armed forces if we had not assisted the Allies in maintaining their respective war efforts. But it is at least possible that without lend-lease it might have been necessary to devote a larger share of our national output to war purposes than we actually did.

The Beginning of the Transition, July-December, 1945

The end of the war in the summer of 1945 [4] effected no fundamental change in the major problem in our balance of payments, that of financing an export surplus which, if left to normal mechanisms of adjustment, would have been of unmanageable proportions, even though the magnitude was smaller than during the war. Transfers of goods declined to $4,861 million in the last half of the year from $7,361 million in the first half, and the net export surplus fell from $4,161 million to $2,232 million. To a large extent the character of foreign demand for our goods shifted from war materials to goods for civilian use, although it must be remembered that about 40 percent of the goods we furnished under lend-lease during the entire war period were not for direct military use. But the change that did occur, adumbrating the pattern which was to become even more pronounced in 1946, was in the method of financing.

The wartime lend-lease mechanism was succeeded by a combined loan and gift program which, while much smaller than lend-lease, far exceeded in magnitude any comparable program ever undertaken by any nation in peacetime. By the end of 1945, the United States Government had provided for almost $13.2 billion of postwar aid through

[4] Unless otherwise clearly indicated, figures cited in this section refer to the last 6 months of 1945. See table 1 for quarterly estimates of the balance of payments in that year.

loans and relief transfers, including our subscription to the International Bank and Monetary Fund, and was in the process of extending an additional \$4.4 billion through the British loan and the Philippine Rehabilitation Act.

UNRRA Partially Replaces Lend-Lease

Early in the war it was evident that the end of the conflict would find many countries in need of vast imports of food and other articles for which they would not be able to pay from their own financial resources. To meet the prospective relief need, the United Nations Relief and Rehabilitation Administration was organized on November 9, 1943, and an original assessment of 1 percent of its national income for the year ending June 30, 1943, was levied on each uninvaded member. This assessment was doubled before the end of 1945, partly because of bad harvests in Europe and partly because the magnitude of the original task had been underestimated.

The program got under way rather slowly, however, and transfers from the original United States subscription of \$1,350 million were negligible in 1944. Transfers of goods and services under the program rose from \$55 million in the first half of 1945 to \$413 million in the following 6 months but did not compensate, by a wide margin, for the virtual cessation of "straight" lend-lease after VJ–day. Net unilateral transfers dropped \$2.4 billion from the first half of the year to the second, a decline which was almost equal to the drop in transfers of merchandise to foreign countries.

However, some countries, chiefly the Allied Nations of western Europe, did not participate in the UNRRA program as recipients, and a system of loans and credits was evolved to meet their urgent needs for foreign capital to finance reconstruction deficits of great magnitudes.

Loan Program Develops

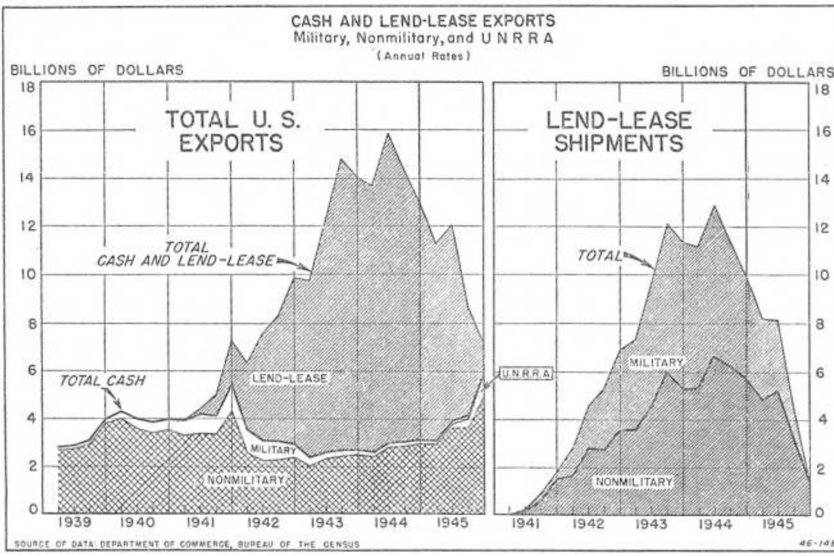
Lend-lease exports of military goods began declining in the third quarter of 1944 and at the time of VE-day were running at less than one-half of the peak rate reached about a year earlier. Civilian-type lend-lease goods, however, which were needed to maintain the domestic economies of our Allies, continued through the first half of 1945 at a rate not far below the peak reached in the middle of 1944 (see chart 2). The countries receiving such aid had been able, as a result of these imports, to divert their own productive capacity to the production of materials and services needed in the war effort. It was not to be expected that they would be able to reconvert or rebuild their industries suddenly in order to compensate for the cessation of the nonmilitary lend-lease aid.

Various agreements were therefore concluded, in accordance with the Lend-Lease Act, permitting delivery of those goods for which contracts had been placed before VJ-day and which the receiving countries wanted delivered, and providing for payment over a period of years. These credits to finance the delivery of the so-called lend-lease pipe line,[5] together with the credit to finance the British lend-lease inventory, provided the bulk of long-term capital exports during the

[5] The term "pipe line" came to be used to cover lend-lease goods on order but not delivered as of September 2, 1945.

second half of 1945. More than half of the total transfers of goods and services under lend-lease credits, amounting at the end of 1945 to $763 million, went to the United Kingdom, about $82 million to the U. S. S. R., and $151 million to France.

Chart 2



A second, and much larger, element in the unfolding pattern of foreign lending was the enactment, on July 31, 1945, of the Export-Import Bank Act of 1945. In addition to reorganizing the Bank and providing it with an independent, bipartisan board of directors, the act increased the Bank's lendnig power from $700 million to $3.5 billion. This expansion was justified primarily on the basis of the needs of war- devastated countries for foreign capital to speed reconstruction, pending the inauguration of the International Bank for Reconstruction and Development.

Lend-lease funds could not be used to finance the foreign purchases of goods not already in lend-lease procurement channels by September 2, 1945. Special loans were therefore arranged through the Export-Import Bank for goods requisitions for which had been approved for lend-lease delivery but which had not been ordered as of that date. These loans aggregated $655 million, of which $550 million went to France and the rest to Belgium and the Netherlands. Only $30 million of these credits had actually been disbursed by the end of December 1945.

Authority to give special credits for the acquisition of surplus property located abroad was granted in the Surplus Property Act of 1944. Such credits could be arranged for individual sales or for sales in bulk covering all surplus stock in a given area as of a certain date. The latter type of contract was usually concluded in connection with a general financial settlement of lend-lease and other war claims. Up to the end of 1945 the only settlement of that kind was the one with the United Kingdom, covering the transfer of surplus property located in that country and in the colonies through a credit of $60 million. Individual sales against credit up to the end of 1945 were relatively small.

The Anglo-American financial agreement, signed December 6, 1945, constituted another major part of our postwar foreign loan and aid program. In addition to the $3,750-million loan approved by Congress on July 15, 1946, the agreement provided for credits of approximately $650 million, covering post-VJ-day lend-lease deliveries, the lend-lease inventory, surplus property, and other war claims (net).

Finally, the year witnessed the ratification of the Bretton Woods agreements by 35 nations, and the International Monetary Fund and the International Bank for Reconstruction and Development formally came into being. Total subscriptions to the Bank, which also equaled its total lending power, were $7.6 billion, a large part of which might be expected ultimately to be obtained from private investors in the United States. Our subscription to the Bank was $3,175 million and to the Fund amounted $2,750 million.

Thus, during the second half of 1945 the ground work was laid for a total capital outflow of $13 billion by the United States Government and possibly $5 billion by private investors through the International Bank.

Balance of Payments Turns Positive

During the last half of 1945, despite a $2.7-billion drop in exports of goods and services from the first half of the year, the net "cash or credit" balance became positive for the first time since 1942. The decline in total exports was more than offset by the drop in unilateral transfers occasioned by the cessation of straight lend-lease. Private commercial exports rose from $1.5 billion to $1.9 billion and Government exports were financed largely on credit terms rather than on a unilateral basis.

Reconversion Slows Exports

In general, our international transactions in the early reconversion period paralleled domestic developments. At home and abroad there was an enormous potential demand for the output of American farms and factories. The demand was supported in both cases by war-accumulated reserves with which to buy the goods, augmented in the export sphere by the postwar relief and rehabilitation policies of the United States Government. Because of the difficulty of reconverting to the production of peacetime goods, both foreign and domestic requirements were to a large degree unsatisfied at the end of the year. At home, liquid balances of businesses and individuals continued to increase, but at a much slower rate, while foreign countries, as a group, were able to continue to increase their gold and dollar holdings. That this could happen, in spite of our over-all positive balance of payments, was due to the fact that we were financing our export surpluses, especially to Europe, on long-term credit while still paying cash for our import surpluses from other areas, notably Latin America.

Reconversion difficulties in export trade are illustrated by chart 2, which shows the tremendous shift from military type to civilian-type exports in the latter part of 1945. As clearly demonstrated by subsequent events, the relatively low level of exports at the close of 1945 was not due to any lack of foreign ability or willingness to purchase American goods, but almost entirely to our inability to produce and export them forthwith.

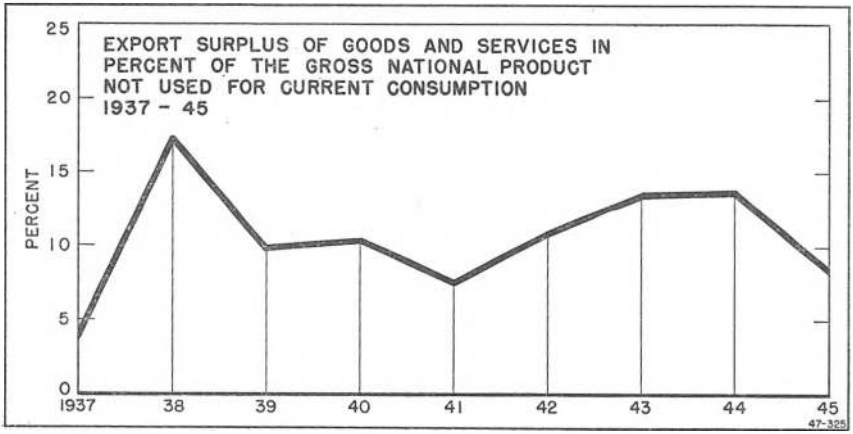
Impact on the Domestic Economy

By any of the measures customarily used, foreign transactions formed a greatly diminished part of our total economic activity in the last half of 1945 as compared with the war period. The ratio of merchandise exports to exportable goods produced declined from 12.3 percent in 1944 to 9.3 percent in 1945. Although these data are not available by quarters, it seems clear that most of the decline occurred in the latter part of the year.

The excess of exports of goods and services declined from $3.8 billion in the first half of the year to $2.9 billion in the second. This balance represents the net value of goods and services produced in this country and consumed abroad over the value of foreign production consumed in the United States and may be compared with the value of domestic production not used for current consumption.[6]

From the accompanying chart, it will be seen that, of domestic output not used for current consumption,[7] the share transferred to foreign countries comprised a greatly diminishing part during the second half of 1945 as compared with the war period. Domestic gross capital formation, including inventory accumulation, was taking a rapidly increasing share of the nonconsumed portion of our total output. This would indicate that, despite the considerable aid extended to foreign countries during the latter half of 1945, the relative contribution of foreign trade to the inflationary pressures in this country was smaller than during the war period.

Chart 3



[6] The net foreign balance ordinarily shown as part of private gross capital formation does not include exports transferred unilaterally, such as lend-lease and UNRRA. In the paragraph above, however, net exports in the real sense are compared with gross capital formation, adjusted to include such net exports.

[7] Defined as capital formation plus war expenditures.

Chapter II

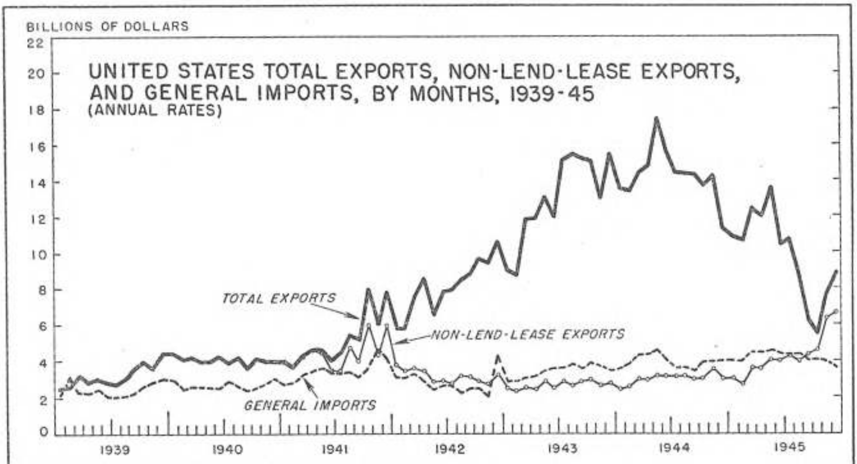
Current Account Transactions

Merchandise Trade [1]

The wartime international merchandise transactions of the United States reflected primarily the subordination of commercial trade to Allied war production and combat requirements. By virtue of location outside the combat area and relative strength in materials, manpower, and technical productive facilities, the United States throughout the war period was called upon to meet a large segment of the mounting military and civilian requirements of other countries engaged in the common struggle against the Axis. In addition, this country was faced with the job of equipping its own vast fighting forces and maintaining them in distant and widely scattered combat theaters.

At the same time, the Axis invasions in Europe and, particularly, in the Far East closed leading sources for numerous supplies and materials necessary for war production and civilian consumption. Even within the territory remaining open to Allied trade, the lack of imported materials and the diversion of manpower to meet more urgent wartime requirements caused reductions in the volume of some essential goods available for export to the United States.

Chart 4



To meet our own greatly swollen needs and those of our Allies in the most efficient manner, the Government found it necessary to assume virtually complete control over all United States foreign trade. Moreover, the bulk of our export trade and a large segment of our import trade were actually conducted by the Government. Such measures were not confined to this country; governments everywhere

[1] This section was prepared by Marie T. Bradshaw.

instituted strict control over international trade, handling a major part directly through their respective governmental purchasing agencies.

Intimately associated with the active participation of the Allied Governments in wartime trade was the introduction of a realistic and unprecedented approach to the problem of financing the huge inter-Allied flow of materials for war and civilian use. In recognition of the fact that the Allies were united in a common struggle against the Axis, the goods which each was in a position to supply the other were in large measure viewed as contributions necessary to the final winning of the war and hence involved only negligible international payments. The customary financial considerations governing international trade were thus replaced to a major extent by the urgency for supplying, regardless of the need for compensation, maximum amounts of goods wherever and whenever they could be used in the common war effort.

Within this framework the following major developments occurred in United States international trade:

1. The flow of goods from the United States to other countries reached unprecedented levels. The $63 billion of merchandise which this country supplied during the 6-year period from 1940 through 1945 exceeded our cumulative exports for the entire 17-year period immediately preceding 1940. Peak transfers of $17 billion in 1944 compare with a prewar high of $8.5 billion in 1920.

TABLE 3.—*Total and cash balance on United States international merchandise transactions, 1940–45*

[In millions of dollars]

Item	1940	1941	1942	1943	1944	1945		
						Total	First half	Second half
Receipts (exports)	4,123.8	5,342.5	9,186.9	15,115.3	16,969.5	12,221.7	7,361.6	4,860.1
Payments (imports)	2,713.1	3,486.1	3,964.9	5,426.6	5,589.1	5,829.5	3,200.0	2,629.5
Excess of receipts (+)	+1,410.7	+1,856.4	+5,222.0	+9,688.7	+11,380.4	+6,392.2	+4,161.6	+2,230.6
Deduct: Net unilateral offsets on merchandise account	--------	810.4	4,844.7	11,039.9	12,151.1	5,535.3	4,197.1	1,338.2
Excess of receipts (+) or payments (−) on cash and credit transactions	+1,410.7	+1,046.0	+377.3	−1,351.2	−770.7	+856.9	−35.5	+892.4

2. There was a steady increase in the amount of goods received from foreigners. The record level of $5.8 billion reached in 1945 surpassed the previous 1920 record by $400 million. Nevertheless, the increase in the amount of goods received was relatively much smaller than the corresponding growth in exports and in domestic industrial demands.

3. For the 1940–45 period as a whole the value of goods supplied by the United States ($63 billion) exceeded the value of goods furnished to the United States by $36 billion. Because $34.4 billion of the excess consisted of net United States contributions, however, actual net receipts from foreigners on merchandise account amounted to only $1.6 billion (see table 3). During 1943 and 1944 United States contributions, or unilateral transfers, were so large that our merchandise account on goods requiring payment actually showed a negative balance.

4. Approximately two-thirds of all goods made available to foreigners and about two-fifths of all merchandise received from foreigners

were handled direct by Government agencies. The Government's wartime foreign activities introduced into the merchandise account, normally consisting of recorded commercial exports and imports adjusted for balance-of-payments purposes, certain other transactions, such as large-scale lend-lease shipments, goods furnished by other countries for consumption by our armed forces abroad, and sales and contributions to foreigners from Army and other Government stocks located overseas (see table 4). During 1943 and 1944 Government merchandise transactions accounted for 84 percent of all goods supplied and 56 percent of all goods received.

TABLE 4.—*International merchandise transactions of the United States, 1940–45*

[In millions of dollars]

Item	1940	1941	1942	1943	1944	1945		
						Total	First half	Second half
	Receipts (exports)							
Total receipts	4,123.8	5,342.5	9,186.9	15,115.3	16,969.5	12,221.7	7,361.6	4,860.1
Private exports, adjusted	4,101.8	4,558.9	3,363.3	2,401.3	2,776.4	3,411.7	1,452.1	1,959.6
Recorded exports	4,021.1	5,147.2	8,079.0	12,964.9	14,258.7	9,805.9	5,830.6	3,975.3
Additions, total	152.0	232.2	295.8	39.3	122.3	118.6	76.6	42.0
Silver	3.7	5.5	2.0	29.3	122.3	88.8	63.5	25.3
Gold (net domestic production)[1]	148.3	146.5	92.1	-------	-------	-------	-------	-------
Unrecorded exports	-------	80.2	201.7	10.0	-------	29.8	13.1	16.7
Deductions, total	71.3	820.5	5,011.5	10,602.9	11,604.6	6,512.8	4,455.1	2,057.7
Exports to Panama Canal Zone	44.1	72.4	37.4	3.9	3.1	14.9	1.5	13.4
Noncommercial exports	5.2	7.1	36.0	88.8	93.8	144.9	57.9	87.0
Government exports	22.0	741.0	4,938.1	10,510.2	11,507.7	6,353.0	4,395.7	1,957.3
Government exports, total	22.0	783.6	5,823.6	12,714.0	14,193.1	8,810.0	5,909.5	2,900.5
Lend-lease	-------	779.8	5,812.5	12,440.3	13,589.5	6,881.3	5,000.0	1,881.3
UNRRA transfers	-------	-------	-------	-------	.6	393.0	45.0	348.0
Military civilian supply shipments	-------	-------	-------	-------	185.0	866.0	522.0	344.0
Nonmilitary sales	22.0	-------	5.4	124.1	120.0	336.0	212.3	123.7
Military sales	-------	3.8	5.7	149.6	298.0	221.6	130.2	91.4
Surplus property sales	-------	-------	-------	-------	-------	98.0	-------	98.0
Other	-------	-------	-------	-------	-------	14.1	-------	14.1
	Payments (imports)							
Total payments	2,713.1	3,486.1	3,964.9	5,426.6	5,589.1	5,829.5	3,200.0	2,629.5
Private imports, adjusted	2,657.6	2,993.9	1,764.4	2,106.1	2,706.7	3,118.1	1,492.1	1,626.0
Recorded imports	2,625.4	3,345.0	2,744.9	3,381.3	3,919.3	4,135.9	2,121.8	2,014.1
Additions, total	77.0	72.8	103.9	83.4	104.9	155.0	87.8	67.2
Silver	58.2	46.9	39.9	27.6	22.7	25.5	10.6	14.9
Gold (net domestic consumption)[1]	-------	-------	-------	22.8	44.7	84.8	54.2	30.6
Undervaluation adjustments[2]	18.8	25.9	64.0	33.0	37.5	44.7	23.0	21.7
Deductions, total	44.8	423.9	1,084.4	1,358.6	1,317.5	1,172.8	717.5	455.3
Imports from Panama Canal Zone	.7	.4	1.6	1.2	.9	1.8	.9	.9
Noncommercial imports	4.1	10.3	127.5	44.9	15.5	8.3	4.1	4.2
Government imports	40.0	413.2	955.3	1,312.5	1,301.1	1,162.7	712.5	450.2
Government imports, total	55.5	492.2	2,200.5	3,320.5	2,882.4	2,711.4	1,707.9	1,003.5
Reverse lend-lease	-------	-------	540.0	1,147.0	1,230.0	1,354.7	1,069.0	285.7
Nonmilitary purchases	40.0	422.4	979.4	1,335.6	1,106.0	874.0	443.5	430.5
Military purchases	15.5	69.8	466.1	827.9	546.4	482.7	195.4	287.3
Other	-------	-------	215.0	10.0	-------	-------	-------	-------

[1] For discussion, see p. 171 of appendix A and p. 191 of appendix B.
[2] Data incomplete.

5. The prewar geographic and commodity structure of United States foreign trade was greatly altered with the closing of enemy and enemy-occupied areas and the priorities given the flow of essential materials between the Allied countries. Our swollen exports, directed chiefly to the United Kingdom, the U. S. S. R., and the other Allies, comprised mainly military equipment and other essential finished products. At the same time, the bulk of the goods acquired from abroad consisted of strategic and critical materials and essential foodstuffs furnished by countries in the Western Hemisphere and supplies for our armed forces overseas provided by British Empire countries.

Governments Control Trade

Over-All Picture

In addition to conducting a major portion of our wartime international trade, the United States Government exercised strict control over those merchandise transactions which continued during the war to be handled through private channels. It is important that Government trade (for which U. S. Government agencies had complete and final financial responsibility at the time title to the goods passed to or was received from foreigners) be distinguished from Government-regulated commercial trade. In the latter case, the goods moved in most instances under Government licensing and price controls, but the private foreign trader maintained final financial responsibility.

When this country entered the war at the end of 1941, most of the machinery for the conduct of Government trade and the control of private trade was well established. Export control covered practically all leading export commodities and lend-lease goods were flowing to our Allies at a rapidly increasing rate. On the import side, Government corporations had been organized to procure, import, and stockpile strategic and critical materials. By the middle of 1942, controls had been extended to cover practically all imports. In addition, both exports and imports became subject to Government price controls in order that the effect of outside inflationary influences might be minimized.

Other countries also found it necessary, not only to exercise strict control over their wartime foreign trade, but also to handle the major part direct through their respective governments. Most of the United Kingdom's purchases here, for example, were made direct by the British Purchasing Mission. With the outbreak of war numerous other countries handled their imports from the United States through purchasing missions which continued operating even after the close of the war. Such buying methods naturally increased the degree to which private trade channels in this country had already been distorted by our own domestic controls.

To coordinate the regulatory mechanisms established by the individual Allied Governments and to insure maximum war production within the limits of available world supplies, control on an international level was also established. The Combined Raw Materials Board, consisting of representatives from the United States, the United Kingdom, and Canada, was established on January 26, 1942, to review the requirements of the individual Allies for scarce raw materials and to allocate supplies from all producing areas not under Axis domination. Also created in January of 1942 was the Munitions Assignments

Board; and on June 9, 1942, the Combined Food Board and the Combined Production and Resources Board were organized.

In addition to allocating supplies, both the Combined Raw Materials Board and the Combined Food Board unified purchase and development operations. For instance, all meat in Argentina was bought by the British, while all fats and oils from Argentina were bought by the United States. Argentine meat supplies allocated to the United States were turned over to us by the British, while we transferred to the British the fats and oils they were entitled to receive from Argentina. The allocations and unified development and purchase policies not only reduced costs of procurement but also prevented competitive bidding and therefore hindered inflationary price rises. The availability of transport facilities determined from which of the available sources the requirements of each country should be met.

The Combined Production and Resources Board determined where certain semifinished commodities needed in the war effort should be developed from the standpoint of safety from enemy air raids and availability of raw materials and labor, while the Munitions Assignments Board allocated the finished munitions in accordance with strategic needs as determined by the combined Chiefs of Staff.

Trade Controls in the United States

The first active step in establishing domestic controls over United States wartime trade was the signing of the Neutrality Act on November 4, 1939. Under the provisions of this legislation, American ships were forbidden to enter belligerent ports in the combat and restricted areas, including mainly European ports on the Mediterranean, Black Sea, and North Atlantic. Hence, trade with these areas was limited to goods which could be carried on other neutral and belligerent ships. The Neutrality Act, moreover, prohibited the extension of credit to belligerent governments for the purchase of all types of goods. The credit restrictions thus imposed explain in part the necessity for the large pre-lend-lease cash advances made by the United Kingdom and France against purchases in the United States of war materials and other essential goods.

As the war in Europe progressed and the need for strengthening our own national defense became increasingly apparent, a system of control was established on July 2, 1940, covering exports of military equipment, munitions, and related materials and tools. The Office of Export Control was designated by the President to direct the issuing of licenses by the State Department of an initial list covering some 40 commodities. On September 15 of the following year, the Office of Export Control was transferred to the newly created Economic Defense Board. Administration of the export-control program continued throughout the war to be under the jurisdiction of the Economic Defense Board and its successor agencies—the Board of Economic Warfare, the Office of Economic Warfare, and the Foreign Economic Administration.

With the active participation of the United States in the war, export control was extended to cover "any articles, technical data, materials, or supplies." Not only did the civilian economy need protection against excessive drains of goods in curtailed production following Pearl Harbor, but available supplies and shipping facilities had to be carefully conserved to meet the most urgent military and civilian needs of our Allies. Moreover, materials and equipment were required by the Latin American countries and others in connection with the development and production of critical materials for our war production. Strict control was also necessary to prevent any of our exports from eventually reaching the Axis through firms or persons located in neutral and friendly countries.

By the end of 1941, the commodities subject to export control had been extended from the original 40 to practically all articles and materials except our exports to Canada. Because United States-Canadian war production was considered a unified whole, United States exports to that country were exempt from these controls.

United States control of exports to all foreign destinations except Canada continued in effect throughout the war period. Actual control was administered largely through the issuing of individual licenses, general licenses covering specific commodities and destinations for which individual authorizations were not required, blanket licenses used in place of multiple individual licenses, and project licenses covering exports for development and similar enterprises in Allied and friendly countries.

All licenses were issued only after the foreign requirements had received the preliminary approval of the Foreign Economic Administration and the final approval of the requirements committees of the War Production Board or the War Food Administration. In the case of military and naval equipment, the Munitions Assignments Board was responsible for export allocations. Also governing the issue of export authorizations were the international allocations of the combined boards and the United States and British "blacklists," the Proclaimed Lists of Certain Blocked Nationals, which contained the names of persons and firms operating in neutral and Allied countries but known to be on the side of the Axis. Obviously, all applications for export licenses covering these latter shipments were rejected.

Government control of trade was extended to imports as well as exports. Supplies of some of our most essential imports were completely cut off or seriously reduced by enemy action. New or growing war demands made inadequate the supplies of other commodities. The problem was one of increasing the flow of essential materials at all possible costs from those areas which remained open to trade. Because of shipping scarcities, all imports not strictly necessary for war or civilian use had to be prohibited or sharply reduced to make room for essential goods.

Effective July 2, 1942, the War Production Board assumed control over virtually all imports and continued to exercise this function throughout the war. Actual control was maintained through a system of licensing similar to that in effect for exports. In addition, ocean-shipping priorities and quotas were assigned by the Emergency Shipping Priorities Committee, consisting of representatives from the various United States Government agencies responsible for obtaining and allocating supplies of scarce materials. For a large number of essential commodities, all or most licenses to private importers were prohibited in order to allow Government corporations to take over the job of purchasing and importing. These activities are discussed in the following section, Government Trade.

Import licensing was also used as a means of implementing the allocations of the Combined Raw Materials Board and the Combined

Food Board. In cases where foreign supplies were assigned to other countries, no licenses were granted to United States importers who wished to make purchases from such sources.

The domestic distribution of most imported materials was also subject to strict Government regulation. This applied to both private and Government imports. Either the War Production Board or the War Food Administration was usually responsible for determining the most efficient manner in which supplies were to be used after reaching the United States.

In addition to placing direct restrictions on the movement of goods to and from the country, the Government also imposed price controls on both imports and exports. In the case of exports, the objective was to set a price neutral in its effect upon the distribution of sales between domestic and foreign markets. The Maximum Export Price Regulation, effective April 30, 1942, placed the export price of any commodity at the cost of acquisition by the exporter, plus the average prewar premium charged in the export trade and other expenses, such as insurance and shipping charges. Prices paid in foreign countries for imports were determined by domestic price ceilings. A combination of high foreign prices, duties, and shipping charges for some commodities made impossible their private importation and resale at domestic ceilings. In many such cases it was necessary for the Government to import the commodities and resell at a loss at the established maximum prices.

Shortly after the close of the war, quantitative regulations covering both exports and imports were greatly relaxed. Nevertheless, only a very gradual removal of controls was possible for some commodities which continued to be scarce as wartime requirements were replaced by the demands accompanying United States reconversion and foreign relief and rehabilitation. Moreover, an extremely large demand for United States exports had accumulated in certain foreign countries, particularly the American Republics, whose dollar and gold resources were increased greatly during the war. With reference to imports, most remaining controls were made necessary by scarcities, some of which became even more acute as liberated areas began to compete for available world supplies. In most of these cases and in others where c. i. f. prices were in excess of domestic ceilings, Government foreign-purchase programs remained in effect.

Government Trade

Far-reaching in their effects upon the volume, composition, and direction of United States wartime international trade were the large-scale merchandise transactions conducted direct by the Government. For the 1940–45 period as a whole, about two-thirds of the $63-billion total of goods made available to other countries was transferred direct by Government agencies. At the same time, approximately two-fifths of the $27-billion worth of merchandise made available to us by foreigners was furnished direct to Government agencies.

The $39.5 billion of merchandise transferred by United States agencies under the lend-lease program through the end of 1945 dominated the entire foreign-trade picture, as well as all other Government international supply transactions. Peak lend-lease transfers of $12.4 billion in 1943 and $13.6 billion in 1944 may be compared with total merchandise transfers to foreigners during those years, both Government and private, of \$15.1 and \$17 billion, respectively.

Goods furnished abroad by Government agencies during the period 1940–45 (\$42.3 billion) included, in addition to lend-lease transfers, nearly \$1,450 million of relief supplies furnished by the armed forces and as the United States contribution to the United Nations Relief and Rehabilitation Administration, approximately \$600 million of foodstuffs and other commodities sold by Government corporations, \$675 million of military supplies and equipment sold abroad by the armed forces, and nearly \$100 million of oversea surplus sold by the Office of the Foreign Liquidation Commissioner.

The \$11.7 billion of merchandise supplied to the Government by other countries consisted mainly of \$4,750 million of supplies and materials purchased by Government corporations, most of which was imported into the United States and resold to private industry for use in the war-production program; \$2,400 million purchased by the armed forces, chiefly for their own use abroad; and \$4,270 million of reverse lend-lease, the bulk of which was also consumed abroad by our armed forces.

Goods Supplied by U. S. Government

Lend-lease.—From March 11, 1941, when the Lend-Lease Act was passed, through December 31, 1945, the United States transferred \$39.5 billion of goods and \$8.5 billion of services through lend-lease channels. Such transfers, accounting at their peak in 1944 for over 80 percent of all merchandise and over 60 percent of all services furnished to foreign countries, entailed in general no financial settlement between the United States and the foreign recipients. All straight, or nonreimbursable, lend-lease transfers so included in the Government account (like relief shipments and other outright contributions) have been offset by corresponding unilateral entries in the balance-of-payments statements.

It will be recalled that prior to the passage of the Lend-Lease Act, the United Kingdom had drawn heavily on its dollar resources, not only for current purchases, but also to make large advances and to provide capital assistance to American manufacturers. It thus became apparent that some other means of financing our exports to the United Kingdom and other friendly belligerents must be found. Repeal of the Neutrality Act in order to permit credit shipments was a possible temporary measure. The unfortunate World War I debt experience, however, and the likelihood that such aid would be needed over a long period of time, indicated the necessity for an alternative solution.

The alternative solution was the passage, on March 11, 1941, of "An Act to promote the defense of the United States," more commonly known as the Lend-Lease Act. Under the provisions of this legislation, the President, "when he deems it in the interests of national defense," was authorized to permit the head of any Government department or agency to manufacture any defense article and "to sell, transfer title to, exchange, lease, lend or otherwise dispose of, to any such government, any defense article." The terms and conditions under which aid was to be furnished were also left to the discretion of the President.

In order to interpret the basic provisions of the act, i. e., to define the specific types of aid and the conditions under which it was to be furnished, the United States entered into so-called master agreements with the United Kingdom, China, the U. S. S. R., and a number of other countries. Incorporated in each of the agreements was the provision that settlement for lend-lease should be deferred "until the extent of such defense aid is known and until the progress of events makes clearer the final terms and conditions and benefits which will be in the mutual interests of the United States and (the other country) and will promote the establishment and maintenance of world peace." That international payments or debts in proportion to the value of aid rendered would not be called for in the final settlements was indicated by this and a further statement that such settlements should not burden future commercial relationships between the United States and the recipient foreign countries.

The major exceptions to the general procedure of furnishing aid without preestablished provisions for repayment (in other words, the "straight" transfers offset in the balance of payments by unilateral payments) involved transfers through lend-lease channels to Canada, the American Republics, and the French Committee of National Liberation, and lend-lease silver loans for which the United States was to be repaid on an ounce-for-ounce basis.

A special agreement between the United States and Canada provided that each would pay cash for supplies and munitions purchased from the other, even though some Canadian orders for United States goods were to be filled through lend-lease procurement channels, and that United States Government orders for Canadian products were in general to be placed with War Supplies Ltd., a corporation of the Canadian Government. Supplementing the agreement was the Hyde Park Declaration by the President of the United States and the Canadian Prime Minister, whereby the United States agreed to purchase enough Canadian products so that Canada might have the exchange necessary to cover its essential purchases in the United States.

In the case of 18 of the American Republics, special agreements required cash payments according to established schedules for specific percentages of the value of the aid received. With reference to the French Committee of National Liberation, an interim arrangement (September 1943) specified that all military lend-lease supplied to French North and West Africa would be on a straight basis, but that all civilian lend-lease would require cash payments by the Committee.

To provide a mechanism for handling lend-lease, the Division of Defense Aid Reports was established on May 2, 1941, in the Office of Emergency Management. This subsequently became the Office of Lend-Lease Administration (October 28, 1941) and later a part of the Foreign Economic Administration (September 25, 1943). For purposes of simplification, the term Lend-Lease Administration is used here to denote the essentially similar functions of all three agencies. Originally, all requests for lend-lease aid were filed by the foreign governments with the Lend-Lease Administration. If approved, they were transferred to either the War, Navy, Treasury, or Agriculture Departments, the United States Maritime Commission, or other Government agencies responsible for procuring the supplies, mainly from United States private industry, and transferring them to the foreign governments.

After the United States became an active partner in the war, however, a more flexible means was adopted to allocate American munitions production between our own forces and those of our Allies. The War and Navy Departments were authorized to transfer as lend-lease, within stated limits, military articles and services procured from their own appropriations. Decisions as to the kinds and amounts of articles to be tranferred were made by the Munitions Assignments Board in accordance with rapidly changing strategic needs. For other commodities and services, the original procedure remained virtually unchanged, except that all such transfers became subject to any decisions made by the appropriate combined boards.

The official accounts of the Lend-Lease Administration were compiled on the basis of reports by those agencies responsible for actual procurement and transfer to the foreign governments. Figures incorporated in the balance of payments covering both goods and services transferred under lend-lease are the same as those reflected in these official accounts.

All except $700 million of the total $39.5 billion of lend-lease goods supplied through the end of 1945 represented pre-VJ-day transfers, more than 90 percent of which went to the British Empire ($25.3 billion) and Russia ($9.7 billion). The remaining $3.8 billion went chiefly to France, China, the Netherlands, Belgium, and the American Republics (see table 5). While aircraft, tanks and vehicles, ordnance, and other direct military equipment accounted for the bulk of goods transferred through lend-lease channels, agricultural and industrial commodities necessary for war production and for maintenance of civilians were also supplied in heavy volumes (see table 5). The $8.5 billion of services provided under lend-lease are discussed elsewhere in this chapter.

TABLE 5.—*Lend-lease goods furnished, by major countries and types of goods, Mar. 11, 1941, through Sept. 1, 1945*

[In millions of dollars]

Country	Total	Ordnance and ordnance stores	Aircraft and aero-nautical material	Tanks and other vehicles	Miscella-neous military equip-ment	Agricul-tural industrial and other commodi-ties	Other goods
Total	38,803	4,320	8,549	6,178	3,809	14,516	1,431
British Empire	25,345	3,066	6,334	3,795	2,144	9,312	694
U. S. S. R	9,729	790	1,571	1,768	778	4,193	629
French Empire	2,460	230	282	412	755	743	38
China	476	147	130	99	44	46	10
Netherlands	172	11	83	8	8	58	4
Belgium	85	1	1	13	17	53	(1)
American Republics	345	51	141	69	50	18	16
Other	191	24	7	14	13	93	40

1 Less than $500,000.

Source: Department of the Treasury, Lend-Lease Fiscal Operations, Bureau of Accounts, Report on Lend-Lease Fiscal Operations, Cumulative through Sept. 30, 1946.

(Figures adjusted in this table to exclude estimated services and items not transfered to foreign governments).

Ninety-three percent of the $38.8 billion of goods made available prior to VJ-day was transferred under agreements whereby final settlement was deferred until after the war. Since, in the final lend-lease settlements concluded since that time (see p. 24), all lend-lease goods consumed during the war were written off as part of the United

States cost of defeating the Axis, they have been treated in the balance of payments as unilateral transactions.

Without the use of lend-lease or a similar mechanism during the war, our Allies could not possibly have obtained the vast amount of United States goods which they so urgently needed. Most of the dollars they were currently able to acquire were needed to cover their relatively small purchases of essential American goods and services which were not eligible for lend-lease. Had we limited our aid to cash sales of goods and services, the consequences would in all probability have been as serious for us as for our Allies. The alternative of transferring the necessary goods and services on credit terms, previously discussed, would merely have created an impossible transfer problem at the time of repayment. On the other hand, the use of the lend-lease mechanism enabled us to furnish the maximum amount of aid which we were in a position to supply without reference to financial considerations. The value, composition, and destination of lend-lease exports were determined solely by strategic considerations and our ability to produce the necessary goods.

Following the Japanese surrender, the United States gave notice that, with certain exceptions to be noted later, lend-lease aid on a straight or nonreimbursable basis was to be discontinued immediately. Because the war had ended sooner than was generally anticipated, foreign countries which had been depending upon lend-lease goods to meet large segments of their civilian requirements would have experienced considerable hardship if some arrangement had not been made to ship the approximately $1.2 billion of civilian-type goods on order as of VJ-day. In the United States, also, a sudden stoppage would have caused serious difficulties to those engaged in producing and shipping lend-lease goods. Moreover, for a large portion of the goods built to specification or to meet uniquely foreign requirements, there was little or no domestic market.

Recipient foreign governments were therefore given the opportunity to purchase for cash or on credit terms all such civilian-type "pipe line" goods. Such terms included in general low interest rates (2⅜ percent) and repayment over a 30-year period, although pipeline credits to the United Kingdom and France were made available at 2 percent over a longer period under the provisions of the over-all war-accounts settlements made with these countries.

The major exceptions to the general rule of discontinuing straight lend-lease after VJ-day were for China, Belgium, and Italy. In the case of China, the effects of years of Japanese occupation and the presence of a large part of the Japanese army made necessary continued military operations. Continuance of straight military lend-lease, consisting mainly of services, was therefore authorized by the President. For Belgium, also, straight lend-lease was furnished after VJ-day in recognition of the fact that wartime reverse lend-lease supplies and services furnished by Belgium exceeded by $100 million the amount of United States lend-lease aid to that country. With reference to Italy, the War Department's civilian-supply program was supplemented by $100 million of additional supplies from lend-lease appropriations. The only other exception to the post-VJ-day stoppage of regular lend-lease involved ocean freight services for lend-lease pipe-line goods. Such services, it was agreed, would be furnished on a nonreimbursable basis for 60 days following the end of the war.

In accordance with the arrangements summarized above, lend-lease transfers of both merchandise and services for the period September 2, 1945, through December 31, 1945 (approximately $700 million in goods), have been offset in the balance of payments by appropriate entries in the capital and unilateral accounts. Also governing the treatment of post-VJ-day lend-lease transactions were applicable provisions of the settlement agreements between the United States and the recipient foreign governments. Through the end of 1945, two such settlements had been concluded—an interim agreement with Belgium (October 20, 1945) and a final war-accounts settlement with the United Kingdom (December 6, 1945). The transfer of pipe-line goods as straight lend-lease to Belgium, as provided for in the agreement with that country, has been discussed above.

According to the settlement made with the United Kingdom, the lend-lease pipe line was made available on both offsetting and credit arrangements. More specifically, against the estimated $301 million forward lend-lease pipe line was offset the estimated $130 million reverse lend-lease pipe line to be provided the United States and net claims of $53 million in favor of the United Kingdom. The difference, $118 million, represented the estimated eventual pipe-line credit to be extended to the United Kingdom. It was further agreed that the United Kingdom would assume an obligation of $472 million as settlement for the inventory of unconsumed lend-lease goods in the United Kingdom as of VJ-day. Terms for both the $118-million pipe-line credit and the $472-million inventory settlement credit were identical with those established for the British loan.

Infinitely more important than the provisions relating to the transfer of lend-lease pipe-line and inventory goods, however, was the writing off of the great bulk of wartime lend-lease and reverse lend-lease transactions between the United States and the United Kingdom as mutual contributions to the winning of the war. A similar treatment of lend-lease and reverse lend-lease aid between the United States and other foreign governments was arranged for in the other major war-accounts settlements consummated since the end of 1945.

Civilian supplies.—Next in importance to the goods transferred through lend-lease channels was the $1,445-million worth of supplies furnished to civilian populations in liberated and occupied areas. Nearly three-fourths of the total was provided by the armed forces to prevent disease and unrest immediately following military operations. The remainder was made available as the United States contribution to the United Nations Relief and Rehabilitation Administration, an international organization established in November of 1943 to take over the responsibility from the armed forces. Since few or no payments are anticipated by the United States for supplies furnished either by the armed services or through UNRRA, the entire amount has been offset in the unilateral payments account of the balance-of-payments statement.

Provision of relief supplies by the armed forces was considered an integral part of military operations. Such supplies, furnished either directly by the United States forces or jointly with the United Kingdom and Canada through combined pools under the theater commanders, were designed to meet the minimum essential requirements of the civilian populations during the military phases of occupation. As soon as military considerations would permit, however, the responsibility was transferred to UNRRA or some other civilian organization.

Originally, the military civilian-supply program in liberated countries (also known as Plan A) called for eventual repayment by the recipient countries. The United States, the United Kingdom, and Canada were each to be allocated a share of such repayments, depending upon their respective contributions. In most of the final war-accounts settlements, however, the major part of such supplies was treated on the same basis as consumed lend-lease goods or considered as offsets to claims against the United States, and were accordingly written off the books. Repayment for these goods, like those provided under lend-lease, would have placed an impossible burden upon the liberated countries, whose financial resources were inadequate to meet even their most essential postwar purchases abroad.

The initial civilian-supply activities of the armed forces coincided with the Allied military offensive in Europe during 1944. By the end of that year, supplies valued at $185 million had been furnished, mainly to Italy. With the rapid movement of the Allied forces both in Europe and in the Pacific during the following year, the problem of aiding civilians was greatly intensified. Combined relief shipments by the Army and Navy mounted to $866 million in 1945, about $500 million of which went to the European theater, $300 million to Mediterranean countries, and $60 million to Southwest Pacific areas. Almost three-fourths of all supplies shipped through the end of 1945 consisted of wheat, flour, and other foodstuffs, while the remainder was largely clothing and shoes, fuel, and medical supplies.

In addition, nearly $400 million of relief supplies were contributed as part of the United States share in the operations of UNRRA, the major function of which was to provide, in liberated areas, food, clothing, shelter, medical care, and supplies and services required to restore agricultural and industrial production. Activities of the organization were limited to relief and rehabilitation purposes, as distinguished from longer-range reconstruction. The original assessment for each of the uninvaded member countries was placed at 1 percent of its national income for the year ended June 30, 1943. Of the $1,862-million total for all countries, the United States share amounted to $1,350 million. In August 1945, the UNRRA council voted to double the assessment on each member; the United States share was consequently boosted to $2,700 million. By the end of 1945, the entire amount had been authorized by Congress, and the period of United States participation had been extended a year beyond the original date of June 30, 1946.

At least 10 percent of the contribution of each member was to be in the form of currency freely convertible for purchases in any country; the remainder was to be made available in the form of domestic goods and services.

Responsibility for providing goods and services authorized by Congress was delegated to the Foreign Economic Administration and later (September 27, 1945) to the Department of State. From this source, the funds were made available to the procuring agencies, particularly the Agriculture and Treasury Departments, which made the actual purchases. In addition to the $351-million worth of goods purchased and shipped from the United States through these channels through the end of 1945, the $394-million total includes $43 million of Army surplus supplies overseas which had been furnished as part of the United States contribution.

As in the case of the civilian supplies furnished by the armed services, the bulk of UNRRA shipments consisted of subsistence items—foodstuffs (two-thirds), clothing and shoes (nearly one-fourth), and medical supplies. In addition, about $40 million of communication, transportation, and agricultural equipment had been furnished. Major destinations of the UNRRA shipments were Greece, Yugoslavia, Poland, and Czechoslovakia—countries lacking both reserves of foreign exchange and the capacity to earn amounts sufficient to cover purchases from abroad.

The foreign civilian-supply activities of the United States Government, both through the armed forces and through UNRRA, represented, like lend-lease and reverse lend-lease, unprecedented departures from normal methods of financing international trade, not only because they were carried out on such a large scale and on an international level, but also because they incorporated a recognition that the material cost of winning a war must not be allowed to result in heavy mortgages upon future world trade.

Commodity sales by nonmilitary United States Government agencies.—Sales of tobacco and foodstuffs by the Commodity Credit Corporation accounted for the bulk of the $608 million of miscellaneous sales made directly by nonmilitary United States Government agencies. Well over half the sales occurred during 1945; most of the remainder were recorded in 1943 and 1944. Major purchases were made by the United Kingdom (mainly tobacco and a substantial amount of foodstuffs), France and Belgium (wheat), and Italy (mainly cotton). In most cases the foreign governments made cash advances to the Commodity Credit Corporation or other appropriate United States agency. By using United States Government procurement facilities, the foreign countries were assured that the goods were purchased here in the most orderly and economical manner possible. Foreign purchases here through other United States Government channels were considerably accelerated following the end of the war and the discontinuance of lend-lease except for pipe-line goods.

Miscellaneous sales by the U. S. War and Navy Departments.—Military sales ($679 million), like the commodity sales described above, were concentrated in the years 1943–45. They include a variety of items transferred by the armed forces in the course of their operations abroad. Such transfers are not included in the official United States export statistics, since they were made directly from oversea War and Navy Department stocks. Typical among the numerous goods sold were ordnance material, trucks, horses, office furniture, ice, gas, and helium, maps, wastepaper, films, refuse, and garbage. The foreign buyers in general were located in areas where large numbers of American troops were stationed—the United Kingdom, France, Italy, Belgium, Australia, and the Pacific Islands. Some relatively large sales, however, were also made in Iran, Canada, and the American Republics. While most of the goods were sold for cash dollars, approximately $120-million worth was sold (mainly in France and Italy) against special military currencies.

Surplus property sales.—A final category of Government merchandise "exports" comprised the disposal of surplus war property located overseas. Of the $98-million total received from this source, $60 million represented a credit sale to the Government of the United Kingdom. This first large bulk sale was provided for in the December 6, 1945, war-accounts settlement. Terms for the $60 million credit were the same as those applicable to the British loan, namely, principal payments extending over 50 years beginning in 1951 with interest payable at 2 percent, also beginning in 1951. The remaining $38 million consisted of mixed cash and credit sales, mainly to the Iranian and Belgian Governments. Excluded from the $98-million total are surplus goods transferred to UNRRA at a "fair value" of $43 million as part of the United States contribution to that organization.

The $98 million of surplus sales consummated prior to the end of 1945 represented only the beginning of the Government's foreign surplus-disposal program covering an estimated $11.5 billion of property on the basis of original cost. Since the bulk of the surplus was located in or near areas where dollar scarcities were most acute but where nevertheless the need for such goods was most urgent, a preponderance of credit sales was indicated.

It was decided that the Foreign Liquidation Commissioner might extend credits to finance the sale of surplus where such sales could not be made for cash. Credits so extended in general were to be repayable in not more than 30 years and were to carry a minimum of 2⅜ percent interest. The terms adopted in some cases involved the postponement of principal repayments for the first 5 years and the acceptance of local currencies to meet United States Government expenses in the purchasing countries.

Also facilitating future disposal operations was the State Department's regulation (March 15, 1946) providing for the transfer of foreign surpluses as settlement of claims upon the United States, and the exchange of surplus for other property (mainly real estate) and property rights.

Goods Acquired by U. S. Government

Government nonmilitary purchases.—As early as June 1939, the Procurement Division of the Treasury was authorized under the Strategic Materials Act to purchase from foreign sources and stock pile over a 4-year period materials aggregating $100 million. Later in the same year, an agreement was made by the United States and the United Kingdom whereby the Commodity Credit Corporation of the Department of Agriculture bartered 600,000 bales of American cotton for an equally valued amount of rubber from British Malaya. These activities marked the beginning of a large-scale import trade conducted directly by the Government. The threatening world situation and the consequent advisability of accumulating reserve stocks of strategic materials for national defense were chiefly responsible for the Government's entry into the import business at this time.

Three corporations—Rubber Reserve Corporation, Metals Reserve Company, and Defense Supplies Corporation—organized as subsidiaries of the Reconstruction Finance Corporation in the summer of 1940, were also given the necessary authority to procure and stock pile strategic materials from foreign sources. Purchases (including the CCC exchange of cotton for rubber) continued during 1940 to be relatively small ($40 million) in comparison with total United States payments for merchandise. In 1941, however, such Government procurement abroad increased to $422 million, or 12 percent of the total. The major part of the Government's purchasing during this period was concentrated on rubber and tin from the Far East.

The swift Japanese invasion of the Far East cut off practically all of our rubber and quinine supplies and nearly two-thirds of the supply of hard fibers and tin. At the same time, war production and combat operations resulted in mounting demands for these commodities. Other materials, such as copper, lead, and zinc, for which domestic supply sources had been adequate to meet normal prewar demands, also became scarce.

Supply deficiencies obviously had to be met from one, or a combination, of three possible sources—use of substitutes, increased domestic production, and increased imports. The last often meant finding and developing new and high-cost foreign sources. To stimulate the production of Latin-American rubber, for example, technical experts, machinery, and tools, as well as substantial price incentives, were needed. Since private industry naturally was unable to finance such operations, the Government found it necessary to expand its foreign-purchase program to include the job of exploration and development.

Also accounting for the Government's greatly increasing share of total imports following our entry into the war was the need for centralizing individual buying programs in order to (1) avoid price increases arising from competitive buying by private importers, (2) secure materials capable of meeting uniform and rigid specifications, and (3) alleviate shipping and other transportation difficulties.

In other cases, large-scale preclusive buying operations by the Government were necessary. These involved purchases in neutral countries (particularly Sweden, Spain, Portugal, Switzerland, and Turkey) to prevent supplies from reaching the Axis. Preclusive operations, in most instances carried out jointly by the U. S. Commercial Company (created within the Reconstruction Finance Corporation expressly for this purpose) and the United Kingdom Commercial Corporation, were implemented by the War Trade Agreements, whereby the neutrals prohibited or reduced their exports to Axis countries in return for permission to import essential supplies through the Allied blockade.

The establishment in 1942 of strict Government control over virtually all imports and of a system of international allocations by the combined boards of scarce raw materials and foodstuffs helped provide the necessary operating background for large-scale purchases

TABLE 6.—*United States Government payments abroad for nonmilitary purchases, by major commodities and areas, 1940–45*

[In millions of dollars]

Commodity	Amount	Major countries	Commodity	Amount	Major countries
Total	4,757		Sugar	226	Cuba.
			Wheat	216	Canada.
Copper	781	Chile.	Fats and oils	188	Argentina.
Rubber	466	British Malaya, Netherlands Indies.	Lead	183	Mexico.
			Molasses	152	Cuba.
Tin	298	Bolivia, Belgian Congo.	Burlap	148	India.
Fibers	285	Australia, American Republics.	Zinc	146	Mexico.
			Tungsten	137	Spain, China.
Aluminum	256	Canada.	Other	1,275	

Source: U. S. Department of Commerce, Clearing Office for Foreign Transactions.

by the Government corporations. Such purchases grew during 1942 to $979 million and reached a peak annual rate in 1943 of $1,336 million. No marked decline occurred until 1945, when the improvement in the general supply situation and the termination of European hostilities resulted in a considerably reduced volume of Government purchases ($874 million).

The actual purchase and development operations of the corporations were directed by other Government agencies. Authority to direct the purchase of industrial raw materials was delegated mainly to the War Production Board and, to a lesser extent, to the Army and Navy Munitions Board, while responsibility for supervising foreign food purchases was assigned to the War Food Administration. The purchase authorizations were transmitted to the Board of Economic Warfare (later the Office of Economic Warfare and the Foreign Economic Administration). After final review by the Board of Economic Warfare, the directives were transmitted to the procuring corporations. The major exception to this procedure was the preclusive-buying program, for which the directives originated in and were the sole responsibility of the Board of Economic Warfare.

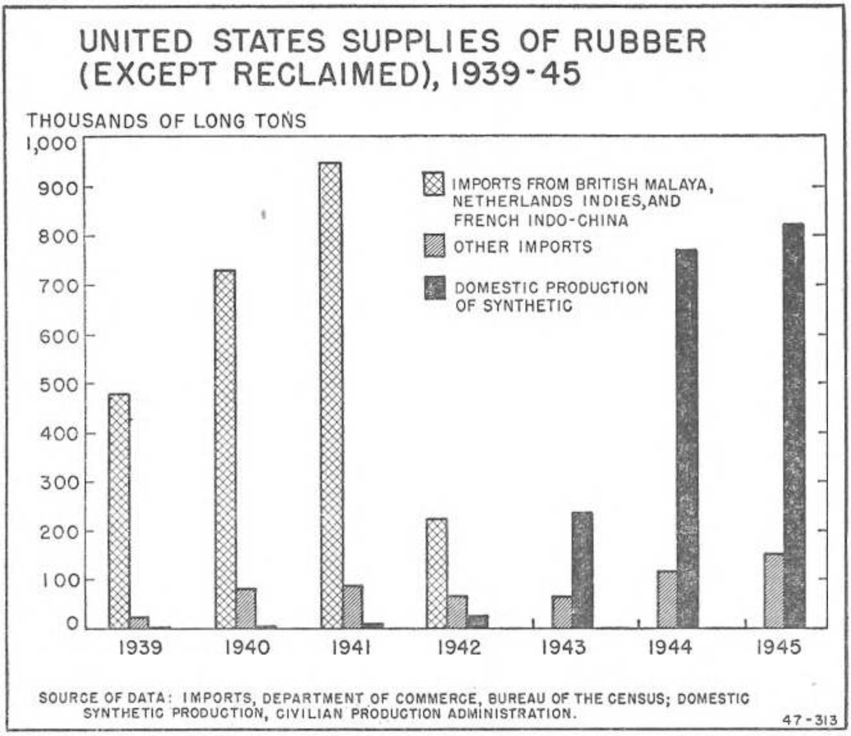
Purchases in the Latin-American countries, particularly Chile, Mexico, Brazil, Cuba, and Bolivia, accounted for about half the $4.8-billion total. More significant, such Government purchases accounted for approximately one-third of total United States merchandise payments to that area during the years 1940–45. Largely under the stimulus of the Government's buying program, our imports from the 20 Latin American Republics increased from an annual average of $543 million during 1936–38 to $1,317 million in 1943 and $1,594 million in 1944.

Other major Government purchases were made in British Empire countries, particularly Canada, India, Ceylon, and Australia, China, and the Belgian Congo. Government buying accounted for about one-half the total United States merchandise payments to the Belgian Congo and India. For the other countries, however, payments for Government purchases represented a much smaller portion of total United States imports.

The accomplishments of the Government's foreign-purchase activities are perhaps more apparent in terms of specific commodity programs. Among the major commodities procured were various metals and minerals, principally copper, aluminum, tin, lead, zinc, manganese, mica, and quartz crystals; foodstuffs, such as sugar and tea; and rubber, cinchona bark, burlap, and nitrates. Discussion of each of these individual programs would best illustrate the variety of techniques employed by the Government to provide maximum imports. The foreign-procurement programs with respect to rubber and tin, however, are excellent examples not only of the techniques used but also of the possible postwar implications of the Government's wartime procurement operations.

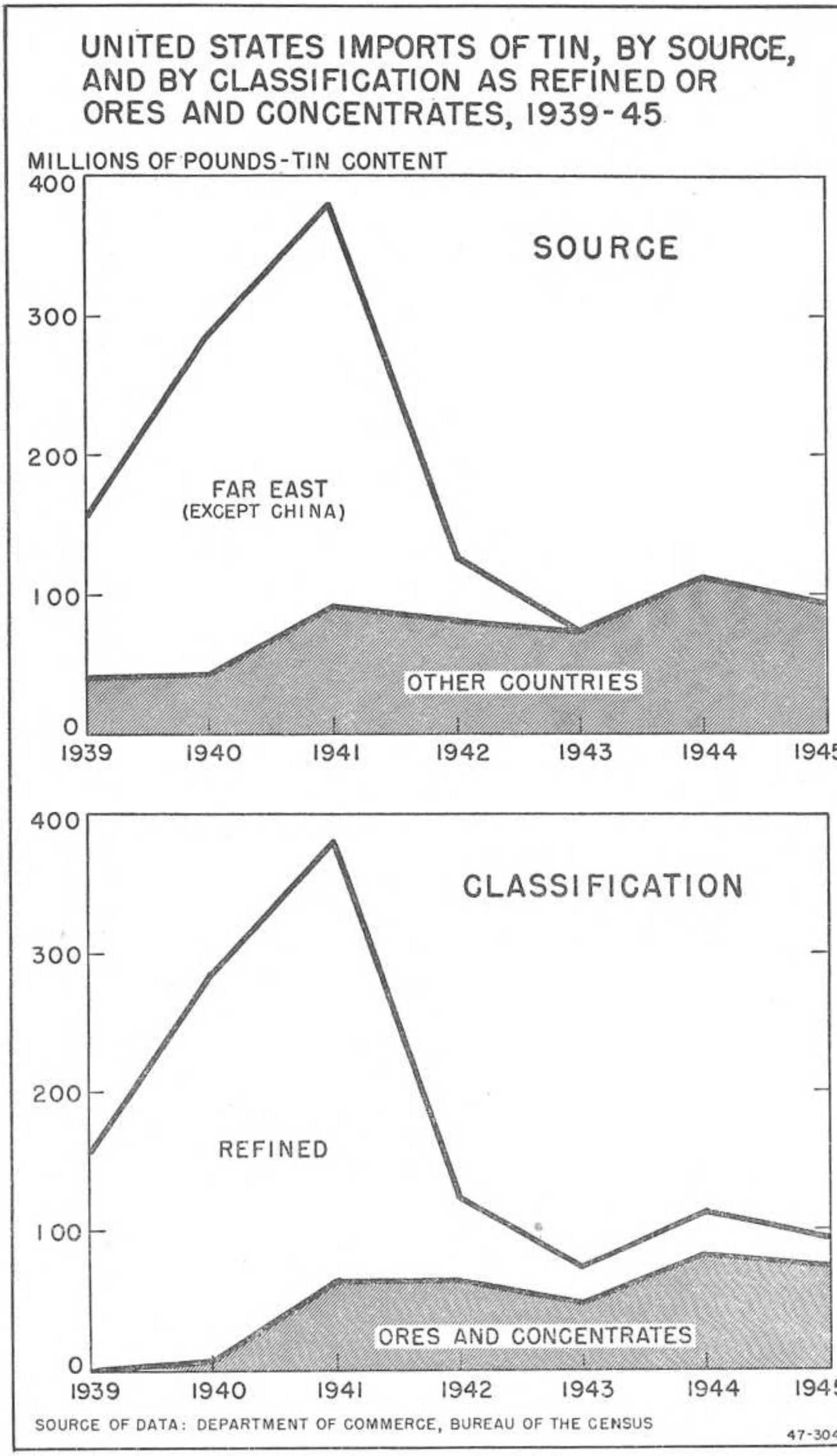
Before the war, the United States was almost entirely dependent upon natural rubber supplies, 97 percent of which were imported from the Far East. With the outbreak of war and the growing possibility that these supplies might be cut off, the Government assumed the job of acquiring a reserve stock pile of rubber. The Rubber Reserve Company, created for this purpose in June 1940, entered into an agreement with the International Rubber Regulation Committee providing for the acceleration of rubber exports to the United States. In June 1941, the Company became the sole United States buyer of Far Eastern rubber. As a result of these activities, our imports of rubber from British Malaya, the Netherlands East Indies, and French Indo-China increased from 478,000 long tons in 1939 to 738,000 in 1940 and 943,000 in 1941 (see chart 5).

Chart 5



In addition to arranging for a stock pile of Far Eastern rubber, the Government made agreements with the Latin-American countries and with private interests in Liberia for the purpose of stimulating rubber production in these areas. The Latin-American countries had practically abandoned the rubber industry after World War I because of their inability to compete with Far Eastern plantation rubber. By supplying the necessary technical aid and equipment, by guaranteeing a United States market through long-term contracts, and by controlling consumption in these countries, the Rubber Development Corporation (which took over the foreign procurement activities of Rubber Reserve Company as of February 23, 1943) succeeded in increasing United States imports of Latin-American wild rubber from 8,000 long tons in 1939 to 38,000 long tons in 1945. These imports, however, compensated for only a small portion of the loss incurred through the Japanese invasion of the Far East. The mounting gap between decreasing imports of natural rubber and increasing military requirements was filled by the production of synthetic and by the use of reclaimed rubber.

Chart 6



UNITED STATES IMPORTS OF TIN, BY SOURCE, AND BY CLASSIFICATION AS REFINED OR ORES AND CONCENTRATES, 1939-45
MILLIONS OF POUNDS-TIN CONTENT
400
300
200
100
0
SOURCE
FAR EAST
(EXCEPT CHINA)
OTHER COUNTRIES
1939
1940
1941
1942
1943
1944
1945
CLASSIFICATION
REFINED
ORES AND CONCENTRATES
SOURCE OF DATA: DEPARTMENT OF COMMERCE, BUREAU OF THE CENSUS
47-304

The synthetic rubber industry, practically nonexistent in the United States before the war, was also the result of Government planning and financial backing. Production in 1945 reached 820,000 tons (see chart 5)—an amount 200,000 tons in excess of maximum prewar natural rubber consumption in the United States.

Following the end of the war, there was a gradual reduction in our Latin-American rubber-procurement program. At the same time, this country increased its purchases of other Latin-American goods, the production or movement of which had been restricted or prohibited during the war period. The adverse effects of our sharply reduced purchases of rubber from this source were thus minimized.

It is quite evident that, for reasons of national security, at least a nucleus of the domestic synthetic rubber industry will be maintained. It is anticipated, however, that because of expanded uses of rubber products the United States will continue to provide a major market for Far Eastern plantation rubber.

The problem of meeting wartime tin requirements was similar to that of rubber. Our entire requirements were met by imports of refined tin, three-fourths of which came from the Far East. The United Kingdom supplied most of the remainder. As in the case of rubber, the initial aim of the Government's tin-buying program was to accumulate a stock pile through increased imports from the Far East. Largely as a result of purchases by the Metals Reserve Company, such imports climbed from 157 million pounds in 1939 to 287 million in 1940 and 380 million in 1941 (see chart 6). Following the Japanese invasion of this area, the Belgian Congo, Bolivia, and China remained the only primary sources of tin available to the Allies. Furthermore, the German conquest of Belgium in 1940 cut off the facilities where most of the Belgian Congo tin had normally been shipped for smelting. At the same time, the United Kingdom's capacity for refining Bolivian ores was also threatened by German invasion.

The United States, completely lacking in tin-refining facilities, was consequently in a particularly vulnerable position. For this reason, the United States Government, through the Defense Plant Corporation, built a tin smelter, which began operations in the middle of 1942. Our imports of tin ore, purchased by the Government under allocations by the Combined Raw Materials Board, reached a peak of 82 million pounds (on a tin-content basis) in 1944. As in the case of rubber, increasing imports from other than prewar sources failed to offset the loss of Far Eastern supplies. The need for substitutes to fill a large segment of both civilian and military requirements largely accounts for the wartime development of the United States plastic industry.

Reverse lend-lease.—From September 3, 1942, when the initial reciprocal-aid agreement was signed with the United Kingdom, through December 31, 1945, the United States received $4,272 million of goods and nearly $3 billion of services through reverse lend-lease channels. The entire amount (except for relatively small receipts from the United Kingdom after VJ-day, see below) was furnished by our Allies as a contribution to the common aim of winning the war, and hence required no payment by the United States. All such straight reverse lend-lease has therefore been offset by corresponding credits in the unilateral account.

Reverse lend-lease aid was furnished according to the terms of individual reciprocal-aid agreements between the United States and the Allies. These agreements, by designating the specific kinds of goods and services to be provided to the United States as reverse lend-lease, supplemental section II of the lend-lease master agreements: "The Government of (the other signatory) will continue to contribute to the defense of the United States of America and the strengthening thereof and will provide such articles, services, facilities, or information as it may be in a position to supply."

The original reciprocal-aid agreements covered chiefly aid (including shipping and transport services) to the United States armed forces overseas, and specifically excluded pay to United States troops and raw materials for export to the United States. In November 1943, however, the United Kingdom agreed to extend reverse lend-lease to include raw materials, commodities, and foodstuffs purchased for export in the United Kingdom and the British colonies by or on behalf of United States Government agencies. At the same time, British shipping for these exports was also made available. Shipping and other services received as reverse lend-lease are discussed elsewhere.

TABLE 7.—*Reverse lend-lease goods received, by major countries and types of goods, Mar. 11, 1941, through Sept. 1, 1945*

[In millions of dollars]

Country	Total	Ordnance and ordnance stores	Aircraft and aeronautical material	Tanks and other vehicles	Miscellaneous military equipment	Agricultural, industrial and other commodities	Other goods
Total	4,233	117	434	104	1,350	1,879	349
British Empire	3,913	113	430	93	1,259	1,723	295
United Kingdom and colonies	2,792	98	381	60	600	1,444	209
Australia	591	5	30	27	394	93	42
India	340		14		108	181	37
New Zealand	189	10	5	6	156	5	7
French Empire	257				72	137	48
Belgium	58	4		10	20	18	6
China	4		4				

Source: Department of the Treasury, Lend-Lease Fiscal Operations, Bureau of Accounts. Report on Lend-Lease Fiscal Operations, Cumulative through Aug. 31, 1946. Figures adjusted in this table to exclude estimated services.

NOTE.—Detail will not necessarily add to totals, because of rounding.

Of the total $4,272 million of goods received as reverse lend-lease, an amount in excess of $4,100 million was consumed abroad by our armed forces, mainly in the United Kingdom and its colonies ($2,700 million), Australia ($591 million), India ($200 million), French Empire ($257 million), New Zealand ($189 million), and Belgium ($58 million). Nearly one-half consisted of ordnance, aircraft, tanks, provisions, and other military supplies; the remainder was accounted for chiefly by gasoline, petroleum, foodstuffs, and other commodities (see table 7). The approximately $150 million of rubber, tea, and other goods imported into the United States came entirely from British Empire countries, principally Ceylon and India.

The flow of goods through reverse lend-lease channels reached $540 million by the end of 1942. During each of the following 3 years, goods transferred to the United States on this basis amounted to $1.1

billion, $1.2 billion, and $1.4 billion, respectively. In terms of the total amount of all merchandise received from foreigners, reverse lend-lease mounted from 14 percent in 1942 to 22 percent in 1944 and 33 percent during the first half of 1945.

Immediately following the end of the war, reverse lend-lease on a straight, or nonreimbursable, basis was officially terminated. Under the provisions of the December 6, 1945, war-accounts settlement between the United States and the United Kingdom, however, the United States continued to receive an estimated $130 million of goods and services in the United Kingdom reverse lend-lease pipe line as an offset against the $301 million of lend-lease pipe-line transfers to be provided to the United Kingdom (see p. 24).

Military purchases.—In addition to the goods acquired from foreigners by Government corporations and through reverse lend-lease channels, Government merchandise payments for the 6-year period 1940–45 include $2,408 million of purchases made direct by the Army and Navy. Almost one-half the $2,408-million total represented munitions purchases in Canada, about 70 percent of which were imported into the United States. The remainder consisted of munitions, provisions, fuel, and other supplies and materials, most of which were purchased for consumption abroad by the armed forces. Growth in the rate of direct military purchases from $16 million in 1940 to a peak of $828 million in 1943 obviously paralleled our increasing munitions requirements and the movement of United States troops abroad.

With the exception of approximately $65-million worth for which payments were made in special military currencies, all purchases were made directly or indirectly in United States dollars. Outside of Canada, which received about one-half of all such dollar payments, the American Republics, the United Kingdom, Australia, and China were major recipients. That the total expenditures in countries other than Canada were low in relation to the heavy concentration of our troops overseas is explained largely by the receipt of $4.3 billion of materials through reverse lend-lease channels.

The $65-million worth of payments in special military currencies went mainly to Italy, the Netherlands, and France. Since existing agreements in general limited the United States liability for special currency expenditures in those countries to the net amount used for troop pay, such purchases of goods, like other miscellaneous disbursements in special currencies, have been offset by corresponding credits in the unilateral account.

The discussion thus far has been limited to a brief summary of the major wartime developments in our international merchandise account and of the Government's role in regulating and conducting our wartime merchandise transactions. A more comprehensive analysis covering the movement of goods on both Government and private account is presented in the following section.

The Transition Period, 1940–41

Stimulated by demands arising from the war in Europe, the value of goods furnished by the United States to foreigners increased from $3.3 billion in 1939 to $4.1 billion in 1940 and $5.3 billion in 1941. At the same time the value of goods supplied to the United States by other countries showed a steady, though less pronounced, increase. Imports of $2.7 bilion in 1940 and $3.5 billion in 1941 compared with $2.4 billion during 1939.

Because the rise in imports which occurred during these years did not keep pace with the rise in exports, net receipts due on merchandise account mounted in 1940 to $1.4 billion—the highest balance recorded since 1921. During 1941 the excess of goods supplied increased over 1940 by $450 million. This increase, however, was more than offset by the fact that $810 million of our exports consisted of lend-lease and other goods requiring no financial settlement between the United States and the foreign countries receiving the goods. Net exports against cash and credit thus declined to approximately $1 billion in 1941 (see table 3).

Exports Respond to War Demands

Despite the restrictions imposed by the Neutrality Act of November 1939, exports during the opening quarter of 1940 reached an annual rate of $4.3 billion, compared with $2.8 billion during the first quarter of 1939. Most of the increase went to the United Kingdom, France, and Canada, which were already making purchases of war materials here. The German invasion of western and northern Europe in the spring of 1940 and the establishment of United States export control a few months later were largely responsible for a somewhat reduced volume of exports during the remainder of 1940 and the first quarter of 1941. At the same time, however, the United Kingdom increased its imports from us as rapidly as its financial resources and our ability to supply the necessary goods would permit. By the final quarter of 1940, our exports to the United Kingdom were moving at an annual rate of $1.2 billion as compared with $710 million during the first quarter. Increasing Canadian purchases here also continued to account for a rapidly rising share of our total export trade.

With the passage of the Lend-Lease Act on March 11, 1941, the United States openly allied its welfare with that of the United Kingdom and other countries fighting the Axis. The lend-lease mechanism provided the means by which vast quantities of goods could be produced and made available to help these countries—in most cases without the necessity for corresponding financial settlement. In the final quarter of 1941, about one-quarter of our total exports consisted of lend-lease goods.

The expansion in the foreign demand for American goods which began in 1939 was largely concentrated on military equipment and other finished manufactures. The shortage of manpower and productive facilities in the United Kingdom and other countries actively at war naturally made it advisable that maximum quantities of finished goods be obtained from outside sources, especially the United States, which was much better equipped to meet such demands. Exports of finished manufactures, therefore, rose sharply both on an absolute basis and in relation to other major classes of goods exported.

Finished goods, including mainly military equipment, accounted for two-thirds of the goods supplied to other countries in 1941, compared with one-half in 1939. Similarly, our exports of manufactured foodstuffs began in 1941 to show large gains as the belligerent countries became increasingly dependent upon us for meats, dairy products, dried eggs, and other processed foods. The other major change in the normal commodity structure of United States export trade was the sharp drop beginning in 1939 in exports of crude materials, particularly tobacco and cotton, reflecting the husbanding of foreign financial resources for even more essential purchases here, and the occupation by the Axis of our former European markets for these products.

In addition to increasing our exports to the United Kingdom, Canada, and other countries at war with the Axis, we furnished, beginning in 1939, a growing volume of goods to South America. This area, which before the war had been dependent on Europe for a large portion of its import requirements, turned to this country when imports available from the former sources were seriously reduced because of the war. During each of the 2 years 1939–40 the value of goods which the United States supplied to South America was actually in excess of the value of our imports from that area. This was a complete reversal of our prewar trading position with South America, which had consistently provided us with more goods than we supplied, using the dollars thus earned to pay for United States services and other invisibles and also to make purchases in other countries.

Other noteworthy changes in the direction of our export trade during this period included the complete cessation of the substantial prewar shipments to Germany, the sharp drop in exports to other European countries as a result of the German invasion and the Allied blockade, and a drastic reduction in exports to Japan following the official freezing in July 1941 of all United States commercial transactions with that country, except by special license.

Imports Show Moderate Rise

Stimulated by the marked increase in domestic industrial production following the outbreak of war in Europe, our imports rose from an annual rate of $2.1 billion in the third quarter of 1939 to an annual rate of $2.8 billion during the following 3 months. The fact that imports fell from this level to $2.6 billion during 1940 may be attributed both to the moderate decline in domestic manufacturing activity which occurred during the first 4 months of the year and to the closing of supply sources in continental Europe.

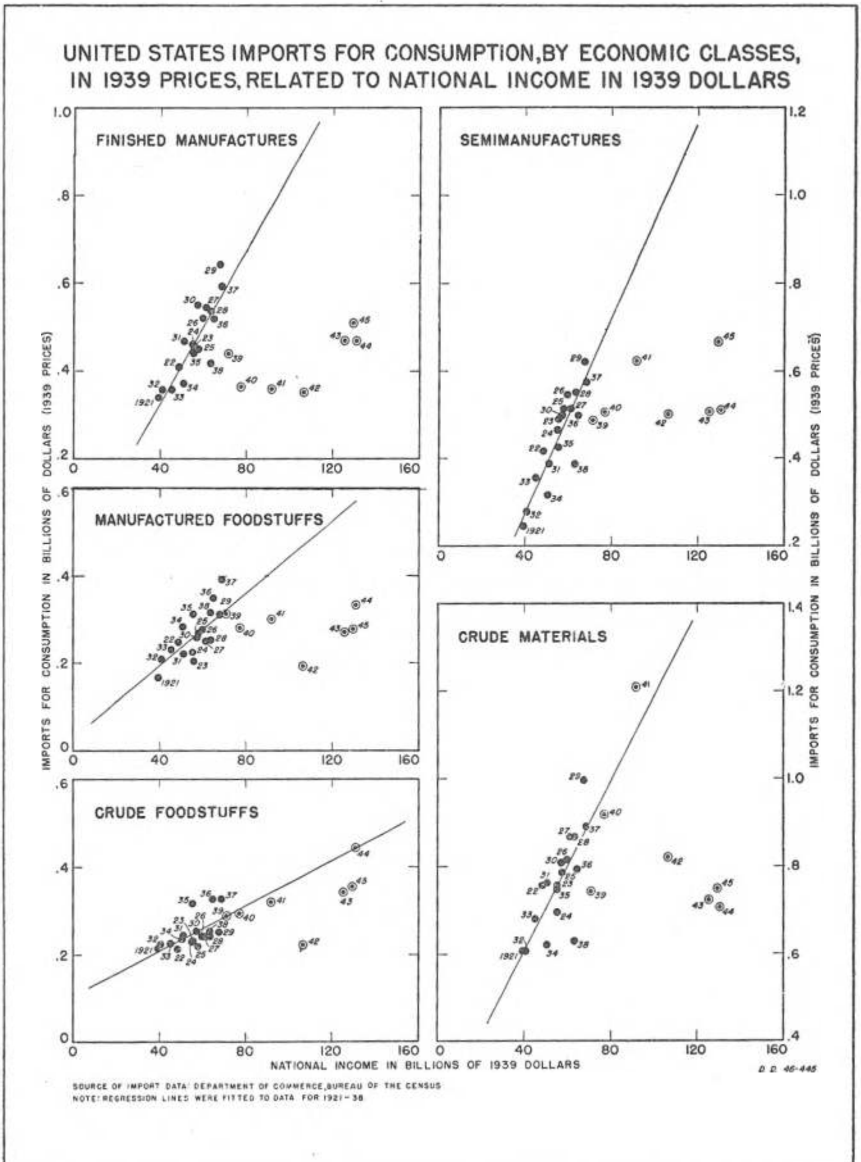
As our national defense program gained momentum following the German invasion of France and the Low Countries, the pronounced reduction in our purchases from continental Europe became increasingly offset by our growing imports from other areas, especially Canada, Latin America, and the Far East, all of which looked increasingly to the United States for markets in place of those lost in Europe. During the opening quarter of 1941, in fact, imports were at higher levels than in the fourth quarter of 1939; and in the final 3 months of 1941 they reached an annual rate of $3.7 billion.

Imports Lag in Relation to National Income

The aggregate value of our imports during 1939–41, however, was considerably below that which would normally have been anticipated on the basis of the level of national income during the same period. The regression lines in chart 7 indicate in terms of 1939 prices the relationships between each of the five major economic classes of imports and the national income during the years 1921–38. On the basis of these pre-war relationships, it will be noted that changes in national income have been more strongly associated with our purchases abroad of crude materials and semi-finished and finished manufactures than with our purchases of foodstuffs. Imports of foodstuffs are relatively inelastic with respect to national income and depend, to a large extent, on crop conditions here and abroad.

Chart 7 also shows in terms of 1939 prices imports of the same major groups and national income during each of the 6 years 1939–45. During 1939, imports of all classes of goods except foodstuffs were below

Chart 7



what one would expect on the basis of the 1921–38 relationship between imports and income. In the course of the following 2 years, our purchases abroad, except for crude materials and crude foodstuffs, fell even further below the "normals" calculated on this basis. Imports of crude materials, however, rose in 1940 to a level almost consistent with our increasing income, and in 1941 to a point considerably above that level.

The decline in imports of finished and semi-finished manufactures during 1940–41 was accounted for mainly by the drastic curtailment of shipments from continental Europe, which during the prewar period had been a major source of such imports. On the other hand, the rapidly rising imports of crude materials, especially rubber, tin, copper, wool, hides and skins, and furs, came mainly from Latin America and Asia. In addition to meeting currently rising United States commercial needs, these areas, particularly the Far East, supplied, beginning in 1940, large quantities of strategic materials such as rubber and tin to Government corporations engaged in accumulating reserve stock piles for national defense. For these reasons, imports of crude materials rose not only on an absolute basis but also in relation to other foreign purchases, accounting in 1941 for 43 percent of total imports for consumption, compared with 31 percent during the years 1936–38.

Measured by the Department of Commerce unit-value index, December 1941 import prices were 22 percent above those for the period 1936–38 (see chart 10, p. 42), reflecting the growing scarcity of foreign supplies in relation to the mounting demands of war industries and consumers with war-inflated incomes.

United States in the War, January 1942–June 1945

The $48.6 billion of goods which we supplied to other countries during the period January 1942 to June 1945 reflected the growth of a vast war production program in this country and the extent to which we were able to provide our Allies with war materials and other goods needed in the fight against the Axis. On the other hand, the greatly increased amount of goods—$18.2 billion—which our Allies and other friendly countries furnished to us over the same period was indicative of their reciprocal efforts to supply essential materials for import into the United States and for consumption by our armed forces abroad. The fact that the United States supplied $30.4 billion of goods in excess of the amount received can be attributed to two major factors. First, from the standpoint of resources, equipment, and distance from the combat areas, our ability to produce was far superior to that of our Allies; second, by establishing the lend-lease mechanism, we subordinated financial considerations to the need for making available the goods which our more advantageous position enabled us to produce.

The $30.4-billion excess of exports did not measure the changes in our financial position on account of merchandise transactions. For these 3½ years our exports requiring dollar payments were actually $1.8 billion below our corresponding cash purchases abroad (see table 3). This is explained by the fact that our growing excess of imports from Western Hemisphere countries continued during the war to be financed on a cash basis, while the tremendous excess of exports to Europe consisted of lend-lease and other goods furnished on a unilateral basis.

Exports at Record Levels

Although, during the first few months of our participation in the war, exports declined somewhat from the level reached in the last quarter of 1941, they soon resumed their sharp and steady rise as a result of constantly increasing lend-lease shipments. A peak annual rate of $15.9 billion was reached in the second quarter of 1944, when final preparations were being made for the Allied invasion of continental Europe. The slow but steady decline which followed and continued through the first quarter of 1945 can be attributed entirely to the gradual reduction in our lend-lease shipments as the demands of our Allies for durable military equipment began to level off and the tide of war shifted in our favor.

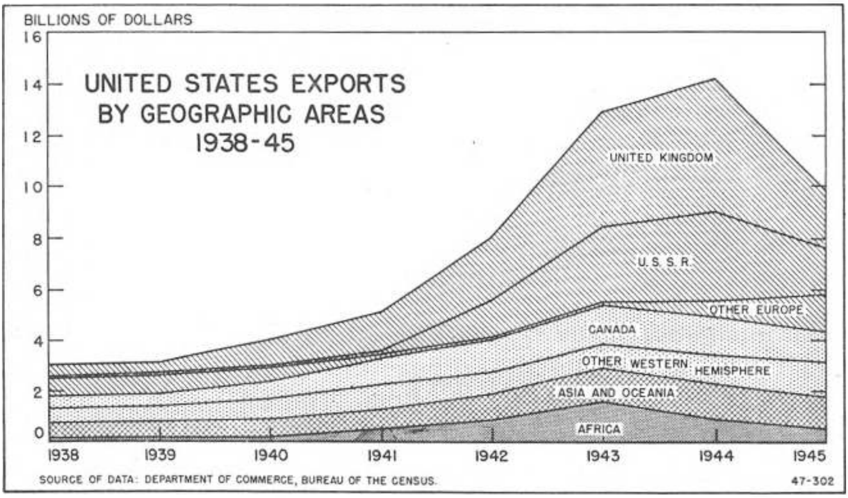
The importance of the lend-lease supply mechanism over the period during which the United States was actively at war is indicated by the fact that more than four-fifths of our peak exports during the second quarter of 1944 consisted of lend-lease shipments. Over the same period the amount of goods supplied through normal commercial channels, limited by scarcities of materials and shipping facilities and by other wartime restrictions, was drastically reduced. During each of the years 1943 and 1944 such commercial shipments accounted for only 16 percent of the total goods supplied to other countries.

In addition to recorded exports, goods made available to foreigners during the 3½ years ended June 30, 1945, included $700 million of food and other civilian supplies shipped by the armed services to liberated and occupied areas beginning in the summer of 1944; $580 million of materials sold from military stocks overseas; and a substantial amount of other goods made available through lend-lease and Government channels from other oversea sources. These transfers by Government agencies, together with the vast amount of other Government shipments included in the official export statistics (mainly lend-lease and sales of commodities by Government corporations), have been discussed in detail in a previous section. Such Government "exports" totaled $38.6 billion, or 80 percent of all goods supplied to foreigners during this 3½-year period.

Because the flow of goods through both Government and private channels was dictated by military necessity, the geographical pattern of our export trade became radically distorted. Obviously, the most pressing demands for aid came from our two major Allies, the United Kingdom and Russia. Recorded exports to the United Kingdom, which in 1941 were already more than three times the average for the 3 years 1936–38, rose to a high in 1944 of $5.2 billion—an amount over three times the 1941 level. Exports to Russia showed an even greater proportionate increase, having risen from an average annual rate of $49 million during 1936–38 to a peak of $3.5 billion in 1944. Noteworthy increases also occurred in shipments to our other Allies, particularly Canada, Australia, and India. It will be recalled that the bulk of wartime exports to the United Kingdom, Russia, Australia, and India were made available as straight, or nonreimburseable, lend-lease, while exports to Canada continued to be financed on a cash basis, even though some were shipped through lend-lease channels.

At the same time that exports to Europe, Canada, Asia, and Oceania moved in rapidly growing amounts, our shipments to Latin America failed to show a corresponding increase. The demands of this area were mainly for our durable civilian goods, the production and export of which were seriously restricted by shortages of manpower, technical productive facilities, raw materials, and shipping facilities. Thus Latin America became the only major area which during the war supplied us with an excess of imports.

Chart 8



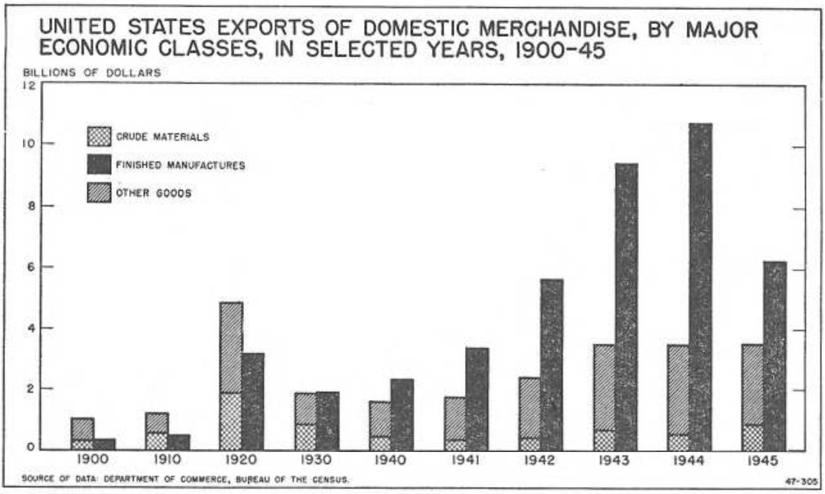
With reference to the commodity composition of our export trade, shipments of finished manufactures continued, as in the earlier phase of the European war, to show the major increase. In 1943 and 1944 such goods accounted for about three-fourths of total exports, compared with about one-half in the years 1936–38. Exports of direct military equipment—including mainly aircraft, tanks, vessels, and ammunition, comparatively negligible in prewar years—climbed in 1942 to nearly $3 billion and averaged $5.6 billion in 1943 and 1944.

Other essential finished goods which the United States furnished its Allies in greatly increased volumes included all types of industrial machinery, iron and steel manufactures, textiles, and petroleum products. As other countries, particularly the United Kingdom, become more dependent on us for essential civilian goods as well as war materials, we continued to increase our exports of processed foodstuffs, especially meats, edible fats, dairy products, dried eggs, and dried and canned fruits and vegetables. Exports of raw cotton, tobacco, and other major crude materials likewise showed substantial increases after we entered the war, although, with the exception of coal, they did not rise to prewar levels. Shipments of coal, however, stimulated by Canada's heavy war-production requirements, continued to rise far above those during the prewar period.

Imports Recover After Initial Slump

Our imports fell from an annual rate of $3.7 billion in the last quarter of 1941 to an annual rate of approximately $3.1 billion during the first 3 months of 1942. This decline, which continued until the final quarter of 1942, was not the result of any reduction in our demand for goods produced abroad; our needs, especially those for raw materials to be used for war production, were many times greater than in any

Chart 9



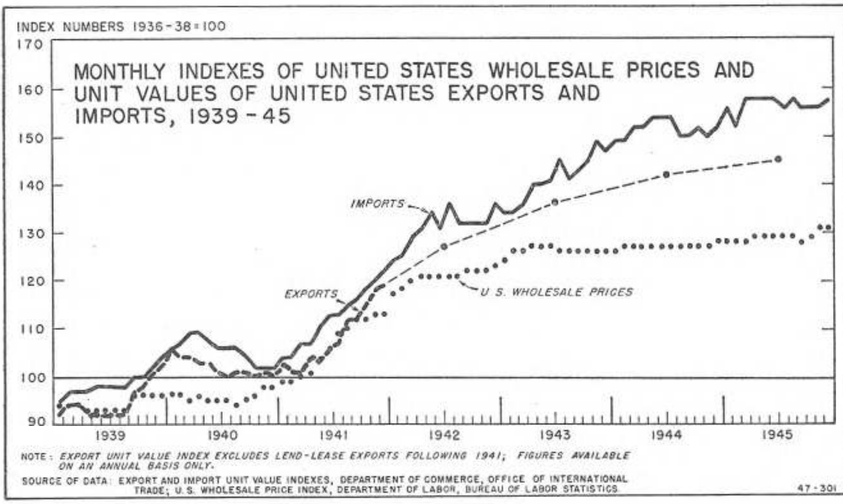
previous period. Rather, the reduction in imports was caused mainly by the closing of the Netherlands Indies, British Malaya, French Indo-China, and other of our major supply sources in the Far East and by the curtailment of shipments from other areas as facilities formerly used there for the production of export goods were diverted to more essential purposes. Other limiting factors were the scarcity of shipping facilities and the effects of enemy submarine warfare.

Largely under the stimulus of the Government's foreign procurement and development program, however, the production of materials soon began to expand within the area remaining open to Allied trade. Recorded imports in the closing months of 1942 thus had started a steady upward climb, and by the first quarter of 1945 they were flowing in at a fairly constant annual rate of $4.1 billion.

The value of imports during this period cannot be discussed without reference to rises in the prices of imported goods. According to the Department of Commerce unit-value index, import prices rose sharply in 1942 and 1943 and continued to move upward, though less rapidly, through 1945. By June of 1945, import prices as measured by this index were 30 percent above levels prevailing in December 1941 (see chart 10). To obtain essential materials, the United States was often compelled to purchase from extremely high-cost foreign producers. Because of the existence of price ceilings in the United States, private importers in many cases could not afford to pay the necessary high prices prevailing for rubber, tin, quartz, and a number of other commodities. In such cases, it will be recalled, Government corporations purchased and imported the goods, and resold them at a loss at domestic price ceilings.

In addition to officially recorded imports, the United States received from abroad during these 3½ years a large volume of other goods, including $4.0 billion supplied as contributions under reverse lend-lease to United States armed forces overseas, nearly $1.3 billion purchased and consumed by our armed forces abroad, and a substantial amount of other goods purchased abroad by Government agencies but

Chart 10

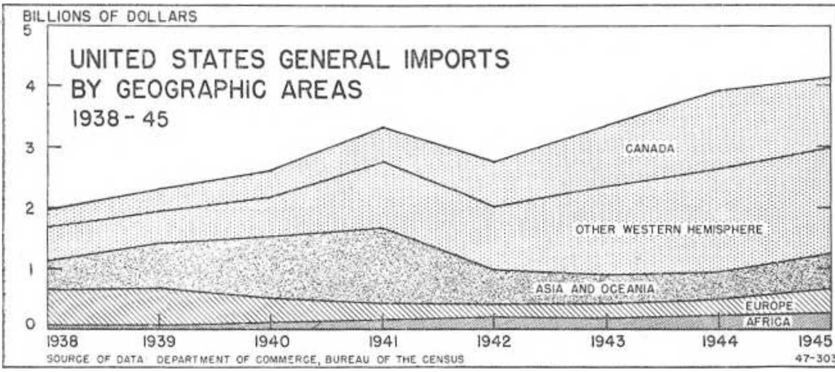


not imported into the United States or, for some other reason, not reported in the official import statistics. These additional goods, together with those physically imported by the Government (mainly commodity purchases by Government corporations and War Department and Navy Department purchases in Canada), brought the total of goods acquired direct through Government channels to $10.1 billion, or 55 percent of the $18.2-billion total. During 1943, when Government expenditures abroad for commodities and for supplies to maintain our oversea forces reached peak rates, goods acquired by the Government accounted for more than 60 percent of all merchandise received from other countries.

The loss of European supply sources in 1940, and of Far Eastern and Philippine supply sources in 1942, naturally caused the United States to look increasingly to other areas to supply our growing industrial demands. Mainly as a result of the Government's development and purchase operations there, Latin America continued to provide a constantly increasing amount of goods for export to the United States. Our imports from the 20 Latin American Republics during the first half of 1945 were at an annual rate of $1.6 billion—over three times the prewar figure.

An even more substantial increase was recorded for our imports from Canada, which rose from $340 million in 1939 to nearly $1.3 billion in 1944. The drastic rise in the flow of goods between the United States and Canada provides an excellent indication of the extent to which both countries cooperated in the common war effort. Other British Empire countries also provided us with greatly increased amounts of goods. The decline in our recorded imports from the United Kingdom was offset many times by the $2.8 billion of reverse lend-lease goods contributed through September 1, 1945, to our armed forces stationed there. At the same time, India, Australia, and New Zealand not only increased their shipments of essential materials to the United States but also supplied our troops with large amounts of reverse lend-lease goods.

Chart 11



Imports Continue to Decline in Relation to National Income

Our recorded imports in the period during which the United States was actively at war, limited to goods which could be produced within the areas not under Axis domination and which could be transported by scarce shipping facilities, declined even further in relation to the size of our national income than during 1940 and 1941 (see chart 7). In 1942 the decline included all five major economic classes. Although imports of finished manufactures and of manufactured foodstuffs recovered somewhat after 1942, they were, in 1945, still far below normal levels calculated on the basis of the prewar relationship between imports and income in this country. Undoubtedly, our imports of finished manufactures will continue to remain below normal until European supply sources can be reconstructed and/or other areas become sufficiently industrialized to meet our demand for this type of goods. Although in 1944 imports of crude foodstuffs rose to calculated levels, they fell again in 1945 to a point below the line of regression.

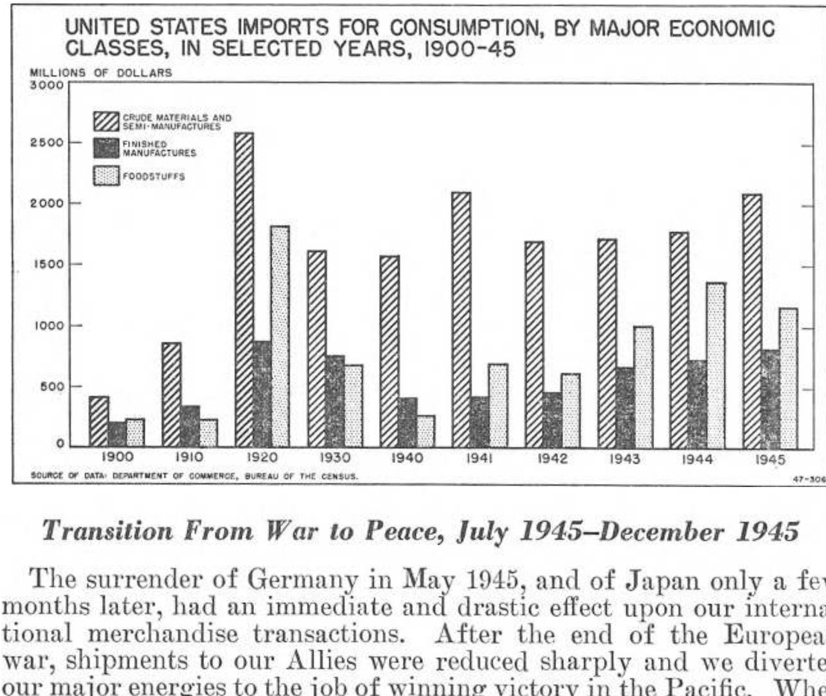
Crude materials, which in 1941 were imported at a rate considerably higher than was consistent with the level of national income during that year, showed the sharpest relative drop, reflecting the Japanese invasion of important supplying areas in the Far East.

Imports of both crude materials and semimanufactures continued to decline in relation to national income through 1944. Although, in 1945, there was a slight recovery in imports of crude materials and a somewhat larger revival of imports of semimanufactures, both classes continued to remain far below what might have been anticipated on the basis of the corresponding level of our national income.

Imports of crude materials—by far the most important group of commodities for which the United States is dependent upon foreign supply sources—were, throughout 1942–45, far below 1941 levels on an absolute basis, as well as in relation to national income. Particularly noteworthy was the virtually complete cessation of silk imports and the drastic reduction in imports of crude rubber. The $33 million of rubber imported in 1943 may be compared with $418 million in 1941, when the Government made heavy stock-piling purchases before the loss of British Malaya, the Netherlands Indies, and French Indochina. At the same time that imports of rubber and raw silk declined so abruptly, however, imports of some other crude materials were greatly accelerated. These included mainly wool, nonferrous ores and concentrates, and industrial diamonds, all of which were essential for producing equipment for our own armed forces and those of our Allies.

Major changes in the commodity composition of imports not classified as crude materials were heavy increases in imports of coffee, wheat, copper, aluminum, lead, nickel, lumber, and military equipment and pronounced reductions in imports of tin, cotton and woolen manufactures, and bananas. The fact that major increases were confined to those commodities important for war production or civilian use reflects the effectiveness of measures adopted by the Government to expedite the inflow of essential materials and foodstuffs at the expense of reducing nonessential imports, such as bananas.

Chart 12



Transition From War to Peace, July 1945–December 1945

The surrender of Germany in May 1945, and of Japan only a few months later, had an immediate and drastic effect upon our international merchandise transactions. After the end of the European war, shipments to our Allies were reduced sharply and we diverted our major energies to the job of winning victory in the Pacific. When this was accomplished it obviously was no longer necessary for the United States to continue supplying its Allies with the means of waging war. Lend-lease aid, except for goods already in the pipe line, was officially terminated as of VJ-day. Thereafter, foreign countries were required to pay in cash, either immediately or on a deferred basis, for lend-lease pipe-line goods, and for all other United States goods except those directed to the relief and rehabilitation of liberated and occupied areas. The Government's postwar foreign-lending program, which helped foreign countries to obtain the dollars necessary for essential purchases here during the transition period, is discussed elsewhere.

Within this radically altered framework, the value of goods supplied to foreigners fell from $7.4 billion in the first 6 months of 1945 to

$4.9 billion during the last half of the year. At the same time, the cessation of reverse lend-lease caused a $600-million decline in the value of goods acquired from foreign sources. Even though our net balance on merchandise account dropped from $4.2 billion in the first half of the year to $2.2 billion, there was a shift from a negative cash trade balance of $36 million to a positive cash balance of $892 million (see table 3).

Exports Decline Abruptly

The fall in our exports from an average monthly rate of $1,070 million in April and May of 1945 to an average of $880 million during June and July resulted almost entirely from a reduction in shipments on lend-lease account. In August, there was a considerable decline in commercial as well as lend-lease shipments. The sharpest drop, however, occurred immediately following VJ-day and the virtually complete termination of straight lend-lease. Our exports during October ($455 million) were lower than in any previous month since September 1941.

Under the stimulus of heavy relief and reconstruction demands in Europe, exports showed a pronounced recovery in the last 2 months of 1945. In addition to the fast-growing amount of goods moving through normal commercial channels, there were the mounting transfers of food and other civilian supplies representing contributions to the United Nations Relief and Rehabilitation Administration. Such UNRRA shipments—relatively negligible in the early months of 1945—amounted to more than $90 million in December. A moderate recovery in lend-lease shipments also accounted for part of the marked rise in recorded exports during November and December. These shipments consisted almost entirely of pipe-line civilian-type goods which, for the most part, were being made available on credit terms (see p. 23).

Though many Government wartime export controls were relaxed following VJ-day, it was still not possible for other countries to obtain all the American goods they desired, even if they had possessed ample financial resources. Many goods continued to be scarce. Reconversion of United States industry could not be accomplished overnight, and a tremendous domestic and foreign demand had accumulated for goods whose production had been stopped or curtailed during the war. To meet the most urgent demands here and abroad, it was necessary for the Government to maintain a considerable number of export controls through the end of 1945. An increase in exports on private account of $500 million during the second half of 1945, however, indicated that the transition from wartime to peacetime trading relationships was already well under way by the end of 1945.

Despite the drastic reduction in the Government merchandise account following the termination of straight lend-lease, the magnitude of other Government foreign programs indicated that Government transactions would continue to account for a large portion of the total amount of goods supplied to other countries. In addition to shipping a rapidly growing volume of relief supplies abroad for distribution by UNRRA, the Government continued through the United States Army to supply large amounts of essential civilian supplies to prevent disease and unrest in liberated and occupied areas. Moreover, by the end of 1945, the Government had just begun the job of disposing of surplus war property located abroad having an estimated original cost of $10.8 billion.

Most of the decline in exports during the second half of 1945 was accounted for by reduced shipments to the United Kingdom and Russia, the two largest wartime recipients of United States goods. As a result of the discontinuance of straight lend-lease, exports to Russia hit a low of $6 million in November of 1945, compared with $342 million in May of the same year. Almost as precipitous was the drop in recorded shipments to the United Kingdom—from $290 million in May to $34 million in November. Other relatively large reductions occurred in exports to Australia and to India, which during the war had been receiving substantial volumes of lend-lease goods.

At the same time that our shipments to the major Allied countries were so drastically reduced, there was a slow but steady increase in the value of goods being shipped to other areas—particularly continental Europe and the American Republics. A large portion of the increase in shipments to continental Europe consisted of relief contributions (mainly food) through UNRRA to Czechoslovakia, Poland, Yugoslavia, Italy, and Greece.

Naturally, the most outstanding change in the commodity structure of our exports during the second half of 1945 was the decline in shipments of direct military equipment. Such shipments dropped from an annual rate of $3,250 million in the first quarter of 1945 to annual rates of $1,200 million during the third quarter and $40 million in the final 3 months of the year. Exports of other finished manufactures—mainly machinery, vehicles, iron and steel products, and petroleum—registered less sharp, though substantial, declines as demands for war production and combat reached a minimum. Finished goods (including military equipment) accounted for only 50 percent of total recorded exports in the last quarter of 1945, compared with 73 percent in the first quarter of the year.

On the other hand, our recorded exports of foodstuffs, stimulated by the heavy relief demands abroad, rose markedly, heavy shipments of wheat and flour ($175 million in the last quarter) more than compensating for reduced exports of meat and dairy products. Nevertheless, the increase in recorded food exports during the last half of 1945 was more than offset by the decline in unrecorded military food shipments (from approximately $400 million in the first half of the year to about $250 million during the last 6 months), as relief responsibilities in all except occupied areas were gradually shifted to UNRRA or to the governments of the countries concerned.

Other noteworthy changes in the composition of our exports in the last half of 1945 were the increased shipments of cotton and coal, also to fill European rehabilitation needs.

Imports Continue Near Wartime Rate

The end of hostilities had no immediate effects upon our recorded merchandise imports. On an over-all basis, imports in the second half of 1945 were only about $100 million less than in the first half. Beginning in September and continuing through December, however, there was a moderate decline, as some requirements of a strictly wartime nature were terminated and commodities required for civilian use were not immediately available. Our imports of direct military equipment, for example, most of which had been supplied by Canada, fell from \$71 million in the second quarter to only \$7 million during the final quarter of 1945.

In contrast with the moderate decline in recorded imports, there was a very substantial reduction in goods acquired abroad by the Government but not imported into the United States. Goods received as reverse lend-lease declined by nearly \$800 million in the second half of the year, reflecting the post-VJ-day termination of all reverse lend-lease except that received from the British as an offset against United States lend-lease pipe-line shipments. Although the decline in receipts of reverse lend-lease goods was partly compensated for by an increase in military cash purchases for maintenance of our oversea troops, there was an over-all reduction of \$700 million in the amount of goods acquired abroad by the Government and a decrease of \$600 million in the total value of merchandise received through both Government and private channels.

From a geographic standpoint, the major change in our recorded imports following the end of hostilities was the reduction in imports from Canada. Imports from that country began a slow but steady decline in the summer of 1945, mainly as a result of the sharply reduced shipments of military equipment; by December our total imports from Canada amounted to only \$71 million, compared with \$109 million in April. The substantial reduction in our imports from the 20 Latin-American Republics (from \$155 million in August to \$102 million in December of 1945) was largely accounted for by the decline in shipments of Cuban sugar following a heavy movement in the earlier part of the year and increased allocations by the Combined Food Board to countries other than the United States.

Perhaps more significant than the decline in shipments of Canadian and Latin-American goods to the United States was the initial revival of imports from liberated countries in the Far East (the Philippines, British Malaya, and the Netherlands Indies) and in Europe (Belgium and the Netherlands). Shipments from the European neutrals, seriously curtailed during the war, also showed a marked recovery during the last half of 1945.

With reference to the commodity structure of our import trade in the months following the end of hostilities, the sharply reduced imports of military equipment have already been mentioned. The very moderate rise recorded for imports of other finished manufactures was accounted for by increased shipments of a variety of goods, including clocks and watches from Switzerland and cotton and woolen manufactures from the United Kingdom and from continental Europe. Except for foodstuffs, other major economic classes of imports showed little change during the second half of 1945. Mainly because of the reduced shipments of Cuban sugar, imports of foodstuffs were about \$100 million below those during the first 6 months of the year.

Outlook

The probable effects of World War II upon the future balance-of-payments position of the United States have been discussed at some length in chapter V. Since the overwhelming portion of payments between the United States and other countries stems from merchandise transactions, the discussion in chapter V applies particularly to future United States international trading relationships.

Experience during 1946 and the first part of 1947 has indicated the great extent to which the rest of the world, especially Europe, has been, and continues to be, dependent on American farm products, raw materials, and industrial equipment. In May 1947, recorded United States exports moved at an annual rate of $17.4 billion, or only very slightly below the peak wartime rate of $17.5 billion recorded in May 1944. On the other hand, foreign shortages caused by wartime devastation and the maximum use of available supplies for relief and reconstruction have seriously restricted the volume of goods available for export to the United States. Our recorded imports during March 1947 were, on an annual basis, about $10.5 billion below our recorded exports. For the most part, the huge export surplus was being financed by Government long-term credits and by special Congressional grants. Present indications are that aid will be required for some time to come if other countries are to obtain even the minimum amount of United States goods required to feed their people and restore their productive capacities.

In the long run, of course, United States imports must be increased considerably in order that other countries may earn the dollars necessary to meet their heavy debt obligations to us and at the same time continue to buy the products they need for current use. If incomes in this country continue to be maintained at high levels, some increase in imports is certain. As domestic materials, labor, and productive facilities become diverted to the production of goods which make possible a higher standard of living (as automobiles in the 1920's), other countries presumably will be called upon to supply the demand for more basic types of goods, such as raw materials and foodstuffs.

This development would be consistent with the long-run trend in United States imports whereby crude materials and semimanufactures have constituted a growing portion, and finished manufactures a declining share, of our foreign purchases. The depletion of our natural resources—especially petroleum, copper, high-grade iron ore, lead, and zinc—was greatly accelerated during the war years. This fact further points to our increasing dependence upon foreign sources of raw materials. Ultimately, the increase in such imports may more than compensate for the reduced imports of those products for which substitutes were developed during the war.

Whether or not our future imports of foodstuffs will show any substantial increase is largely dependent on the extent to which high industrial wages will reduce our supply of agricultural labor, and also upon any shifts which may occur in our national food-consumption pattern. Since the beginning of the war, for example, there has been a noticeable increase in coffee consumption; there may be other developments which may cause an increase in imports of some food products.

Although over a long period of time, finished manufactures have constituted a declining portion of our aggregate foreign purchases, this does not preclude a substantial increase in our imports of this type of goods. The war and postwar reconstruction have led to a modernization of industries in many countries. In the not-too-distant future, these countries may become relatively better equipped to supply certain United States demands for finished products. Moreover, high domestic incomes are associated with heavy demands for imported specialty and luxury-type goods, such as textiles, perfumes, jewelry, and chinaware. This would allow for a substantial increase in our imports from Europe, which in the past has been the major supply source for such items, and also from other countries where the supply of skilled labor is abundant in relation to the supply of raw materials and capital equipment.

The amount of dollars made available to other countries through our merchandise imports will also be determined, as in the past, by a number of other considerations. Paramount among these are the international political outlook, our tariff policies, the effectiveness of exchange restrictions and other trade controls, the degree to which exchange rates represent the actual relative values of the various monetary units, the stability of exchange rates, and the extent to which the productivity of the rest of the world can be restored and increased.

Should the United States fail to make available an increasing volume of dollars through its purchases abroad, other countries will have no alternative but to reinforce the restrictions which already hamper the free flow of world trade. Among the foremost objectives of the Bretton Woods institutions, the Anglo-American Financial Agreement, and the proposed International Trade Organization, however, is the promotion of a high level of world trade on a multilateral basis by cooperative international action designed to minimize the forces which in the past have tended to prevent achievement of this objective. Moreover, the negotiation of revised United States reciprocal trade agreements which were discussed at Geneva during the summer of 1947 will be another step in facilitating the exchange of goods between the United States and other countries.

The Transportation Account [2]

To meet the great wartime demand for shipping lend-lease and commercial goods overseas, and to fill the gap caused by Allied shipping losses, the American merchant marine was expanded by 1945 to more than four times its 1939 size. The carriage of a high proportion of military equipment and other finished manufactures (requiring more space per ton than low-value goods) in addition to other wartime services taxes the capacity of the merchant fleet, particularly after 1942.

Rising rates resulted in high freight revenues. Freight earned by American operators on lend-lease goods, though paid by the United States Government rather than by the foreign recipients, was nevertheless treated as a receipt in the transportation account of the balance of payments but was equally offset in the unilateral account. Calculated earnings on lend-lease cargo thus swelled the total transportation receipts, which rose sharply from $403 million in 1940 to $689 million in 1942, and $1,309 million in 1945.

Total transportation payments to foreign countries fell from $334 million in 1940 to $263 million in 1942, and rose to $420 million in 1945. The decline in the earlier years was due mainly to the decrease in ocean-freight payments which accompanied the sharp drop in the tonnage of ocean-borne imports carried by foreign vessels. The increase in the 1942–45 period was the result primarily of rapidly rising port expendi-

[2] The transportation account was the responsibility of John S. Smith until he was succeeded in September 1946 by Rockwood Q. P. Chin; Arnold B. Payne assisted in preparing the estimates.

tures of American ships in foreign ports (including reverse lend-lease port expenditures).

Excluding transactions for which no payments were made, cash receipts rose moderately from $403 million in 1940 to $670 million in 1945, while cash payments over the same period dropped from $334 million to $285 million. Net cash receipts thus rose from $69 million in 1940 to $385 million in 1945. These net receipts represented a reversal from the prewar trend of net payments, which averaged $85 million in the 1936–38 period.

Composition of the Transportation Account

International transportation service items in the United States balance of payments consist of receipts and payments on the ocean, Great Lakes, air, and rail accounts (see appendix B, table I). Receipts include earnings by United States carriers on freight exported to or carried between foreign countries, expenditures of foreign carriers in United States territory, fares paid by foreign passengers on American ships or air lines, and certain earnings through rail operations. Payments include freight earnings by foreign carriers on goods imported by the United States, expenditures of United States carriers abroad, fares paid by Americans traveling on foreign ships or air lines, and certain rail payments. Chart 13 shows the magnitude and variations of the major component parts of the transportation account.

Earnings in the ocean account are by far the most important source of transportation receipts and payments in the United States balance of payments. The size of ocean freight earnings is determined by three principal factors—the tonnage and commodity composition of exports and imports, the proportion of trade carried in United States vessels, and the level of freight rates.

Wartime Expansion of the United States Merchant Marine

During the decade 1930–39 the American fleet accounted for, on the average, 15.2 percent of the world's gross tonnage of oceangoing shipping.[3] Between 1939 and 1945, while the merchant fleet tonnage of the other principal maritime countries generally declined, the United States tonnage expanded from 8.7 million gross tons to 36.2 million. These tonnages represented 14.4 percent and 52.2 percent of the world totals, as seen in table 8.

TABLE 8.—*Merchant tonnage of principal maritime countries, 1939 and 1945* [1]

[In millions of gross tons]

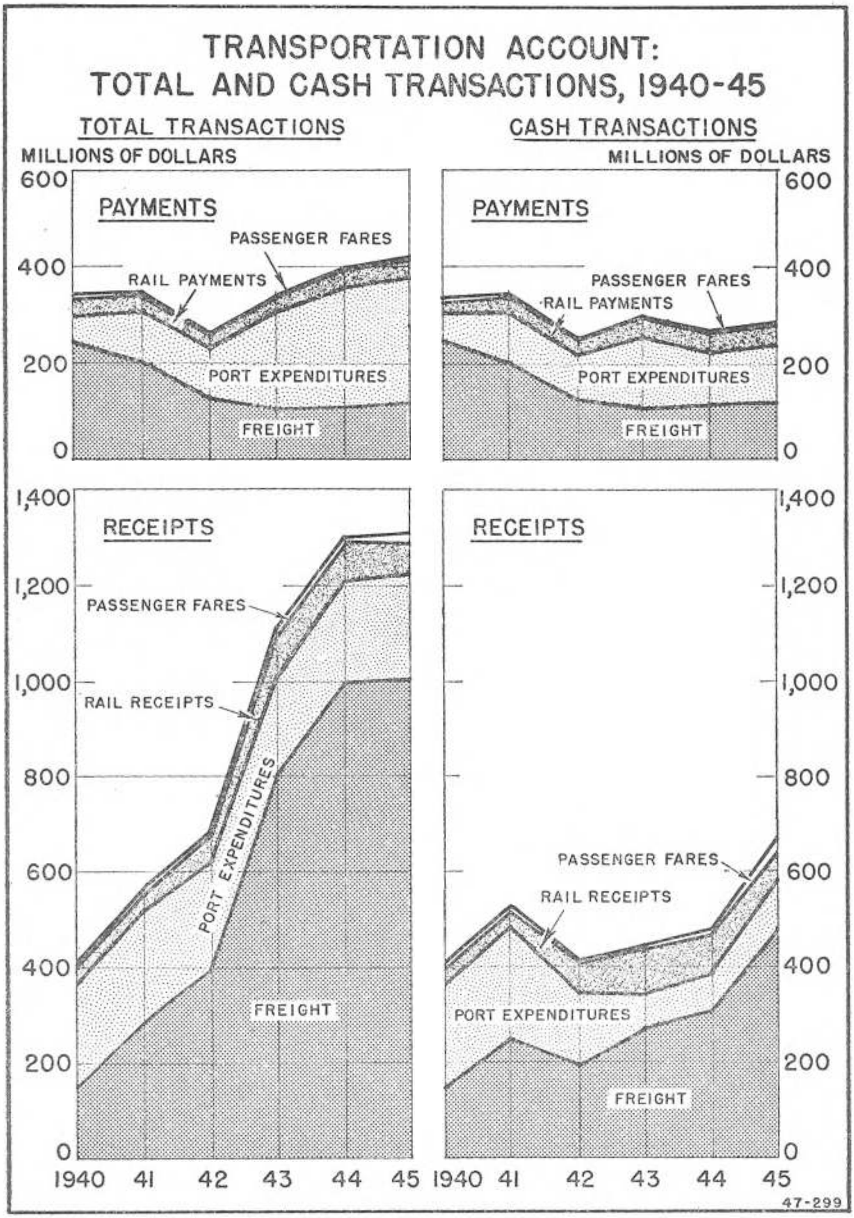
Country	June 30, 1939	June 30, 1945	Country	June 30, 1939	June 30, 1945
United States	8.7	36.2	France	2.7	1.1
British Empire	18.8	15.8	Other countries	10.6	8.8
Japan	5.3	1.5			
Norway	4.6	2.8	World total	60.6	69.3
Germany	4.0	1.1	United States percent of total	14.4	52.2
Italy	3.2	.4			
Netherlands	2.7	1.6			

[1] Vessels of 1,000 gross tons or over. United States-owned tonnage under lend-lease is reported as part of the tonnage of the countries operating it.

Source: Carlson, K. E., and Lytzen, G., Postwar Shipping, Foreign Commerce Weekly, Feb. 23, 1946, p. 4 (U. S. Department of Commerce periodical).

[3] Vessels of 100 gross tons or over. (A gross ton is a capacity measurement—100 cubic feet equivalent to 1 ton—of enclosed shipping space available for cargo, stores, passengers, crew, propelling machinery, and navigation spaces.) See League of Nations, World Economic Survey, 1939–41, Geneva, 1941, p. 245; and The Postwar Outlook for American Shipping (a report submitted to the United States Maritime Commission by the Postwar Planning Committee) June 15, 1946, p. 107, Annex C.

Chart 13



Note.—Freight and port expenditure items are predominantly on ocean account, but include small sums for transactions resulting from Great Lakes and air transportation. Rail receipts and payments refer to freight only. Passenger fares include ocean and air, but not Great Lakes and rail, which are incorporated in the travel estimates.

More than half of the American fleet in the recent war was engaged in transporting military cargo for the Army and Navy.[4] As the volume of all types of shipments expanded, shortages of space developed, accentuated in 1942 and 1943 by American losses and losses of foreign fleets hitherto active in carrying United States trade.[5] The limited availability of shipping space was a major consideration determining the volume and direction of the flow of trade. Shipping was diverted to important war areas and used for services essential to the war effort. Wherever possible, supplies for the armed forces were purchased from nearby foreign sources. Economizing of shipping space was also evident in such measures as heavy loading, suppression of nonessential traffic, resort to dehydration and compression of foods, and the lend-lease export of foodstuffs from the United States to replace a part of the usual British purchase of foodstuffs from more distant countries, such as Australia and Argentina.

Trade Tonnage and Commodity Composition

The ocean-borne cargo tonnage of United States exports in the war years 1942–45 averaged only 10 percent higher than the corresponding tonnage in the prewar years 1936–39, despite the spectacular increase in value of exports during the war. Export tonnages and values for the two periods are shown in table 9.

TABLE 9.—*Average annual tonnage, value, and value per ton of United States ocean-borne exports, 1936–39 and 1942–45*

Item	1936–39	1942–45
Quantity ... million long tons	41.1	45.1
Value:		
Total ... million dollars	2,758	9,339
Per ton ... dollars	67	207

Higher export prices in general[6] partly explain this phenomenon, but of far greater importance was the change in the commodity composition of exports. The wartime shift to a greater proportion of manufactured goods resulted in increased export values without corresponding changes in overall weight. In 1938, finished manufactures were only 50 percent of the value of total United States exports; in 1940, 60 percent; and in 1942–45, close to 75 percent on the average. Lend-lease exports, which accounted for a large portion of these finished manufactures, had a much greater value per ton than commercial exports because they consisted mainly of military equipment and supplies, industrial equipment and commodities, and munitions.

Although the total weight of exports in 1942–45 was not significantly larger than in 1936–39, an increase in freight-payable tons[7] accompanied the increase in the ratio of finished manufacturers to total value of exports.

[4] The United States Merchant Marine at War. Report of the War Shipping Administrator to the President, Washington, January 15, 1946, pp. 18–19. Freight on shipments to the armed forces does not enter the balance of international payments.

[5] By the end of 1943, the United States had lost 3.3 million gross tons of shipping, and the United Kingdom, 11.6 million.

[6] According to the Department of Commerce monthly unit-value index for exports (by all forms of transportation), the average monthly index in 1942–45 was 1.54 times that in 1936–39.

[7] Freight-payable tonnage takes into account the space occupied by a commodity, or its stowage factor. Rates are often quoted (a) by ton rates w/m—weight of, generally, 2,240 pounds or measure of 40 cubic feet; or (b) by cents per cubic foot or cents per 100 pounds (also a weight or measure quotation). The operator has the option to charge whichever rate yields the greater revenue. In the case of an automobile, which usually occupies at least 250 cubic feet per ton of weight, the charge would be about six times the rate normally charged on some commodity occupying 40 cubic feet per ton or less.

The practice of assessment of freight charges according to space rather than weight, in the case of goods occupying more than 40 cubic feet per ton, is a more important reason than increased freight rates (see below) for the sharp increase in gross freight earnings during the war.

The tonnage of ocean-borne imports declined somewhat during 1942–45, compared with the years 1936–39, while the value of these imports rose. Import tonnages and values for the two periods appear in table 10.

TABLE 10.—*Average annual tonnage, value, and value per ton of United States ocean-borne imports, 1936–39 and 1942–45*

Item	1936-39	1942-45
Quantity .... million long tons	33.7	28.8
Value:		
Total .... million dollars	2,054	2,502
Per ton .... dollars	61	87

The increase in value per ton was far less for imports than for exports, and is accounted for largely by the increased prices of imports [8] rather than by any major shift in their commodity composition.

Within the 1940–45 period, the fluctuations in the value per ton of ocean-borne exports, owing to changing commodity composition, were in contrast with the relative stability in value per ton of imports. Export values per ton rose from $82 in 1940 to $107 in 1941, reached a peak of $257 in 1943, then fell to $241 in 1944 and $156 in 1945; while import values per ton of $60 and $59 in 1940 and 1941, respectively, rose to $84 in 1942 and changed very little thereafter.

Proportion of Shipping Carried by American Vessels

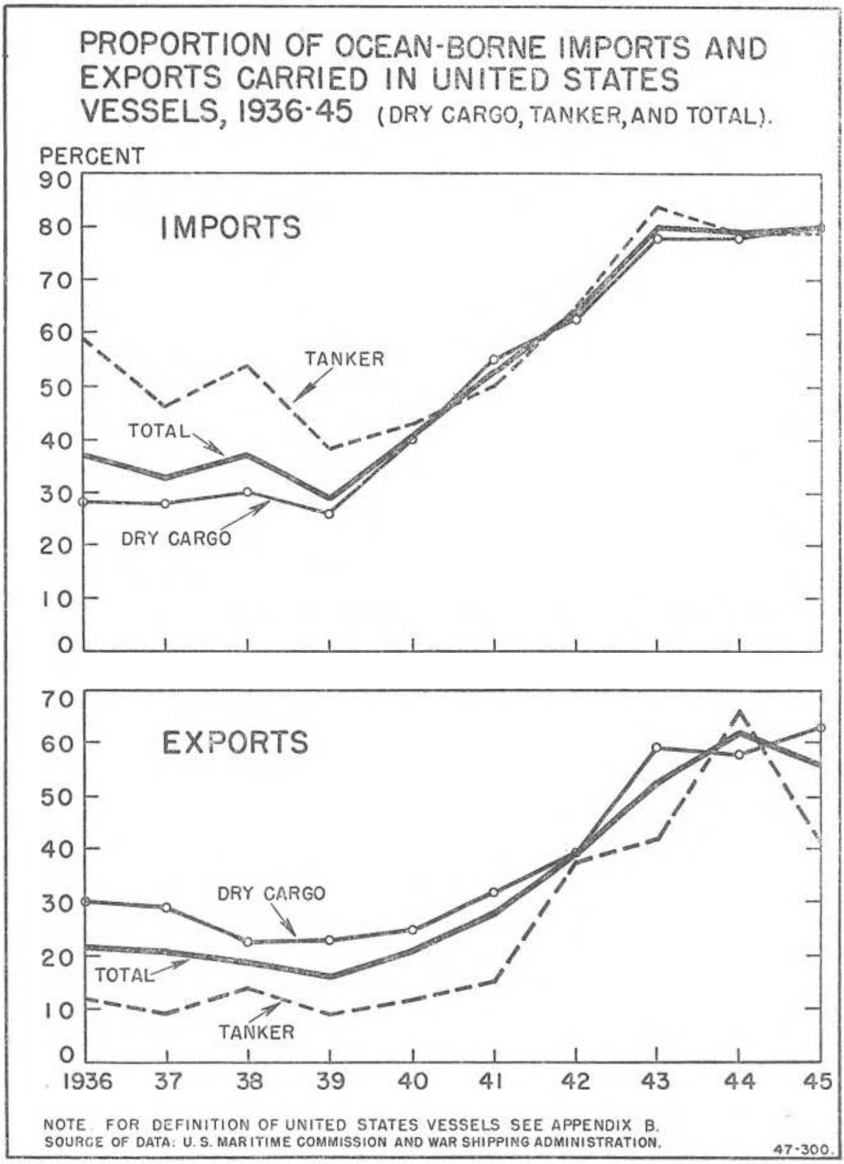
The expansion of the United States merchant marine and the contraction of foreign fleets in the war years were reflected in the increasing proportion of cargo carried by American vessels. This proportion was higher than at any time since the Civil War, when American clipper ships lost their supremacy. From 1942 through 1945 American vessels carried a yearly average of 52 percent of total export tonnage and 75 percent of total import tonnage. Chart 14 shows the percentage of United States ocean-borne imports and exports, respectively, carried by American vessels (dry cargo, tanker, and total) in each year of the decade 1936–45.[9]

In 1936–39 the average yearly shares of American vessels in the total, 20 percent of exports and 34 percent of imports, were about one-third lower than the corresponding averages of 29 and 48 percent for the 15-year period, 1921–35. The 1940–41 average percentages of 24 and 47 for exports and imports, respectively (except for the rapid rise in the American share of dry cargo imports), did not increase substantially above the 1936–39 averages, largely because of provisions in the United States Neutrality Act of November 1939 which prohibited journeys by American vessels to combat areas.

[8] According to the Department of Commerce monthly unit-value index of imports for consumption (by all forms of transportation), the average monthly index in 1942–45 was 1.45 times that in 1936–39.

[9] Similar data for World War I are lacking. For the period July 1, 1915, to December 31, 1920, American vessels in foreign trade accounted for a yearly average of 42 percent of the total net tons of shipping entered with cargo at United States seaports, and 31 percent of net tons cleared. The corresponding percentages for the years 1942 through 1945 averaged 59 in each case.

Chart 14



The Behavior of Freight Rates

Ocean freight rates rose sharply after the outbreak of war, although the rise was limited by various Allied controls, especially American and British. The degree of fluctuation was not uniform for different commodities and routes, and was greater for charter than conference rates. On certain exports from United States Atlantic ports to the United Kingdom, such as general cargo, machinery, iron and steel, and leather, conference rates in November 1939 were only 50 percent above prewar, and remained at this level until November 1940, when another moderate upward adjustment was made. Rates on automobiles (unboxed) and provisions, however, increased by 150 percent between July 1939 and April 1940; on cotton, 200 percent; and on tobacco (cases), 277 percent. In the same period, the increases in rates from Atlantic ports to Antwerp were 706 percent on automobiles, 185 percent on provisions, and 329 percent on tobacco. By December 1940, according to a League of Nations study, the world freight level had risen to approximately five times the August 1939 level.[10]

In general, rates reached a peak in 1943, then tapered off slightly in 1944 and 1945. Available data indicate that if the rates prevailing in 1943 had obtained in 1940 (when rates were already far above prewar levels), the freight bill in 1940 would have been more than 40 percent higher than it actually was. The effective rate on exports, or average earnings per ton of weight, more than doubled from 1940 to 1943. As mentioned previously, a substantial part of this rise was attributable to the effect of the change in the nature of commodities exported. On the other hand, the increase of only about 45 percent in the effective rate on imports during the same period resulted from rate increases alone, without much change in the commodity composition of imports.

Port Expenditures and Passenger Fares

Port expenditures are an important part of the ocean transportation account. They consist of outlays by foreign vessels in the United States and by United States vessels abroad for stevedoring, provisioning, maintenance and repairs, agency commissions, wharfage and dockage, and other port expenses. They vary with the cost of such services and with the cargo tonnage moved. While total earnings by foreign vessels engaged in trade with the United States fluctuated little during the 1940–45 period, port-expenditure receipts by the United States remained fairly stable, averaging about $214 million per year. The trend of American vessel expenditures in foreign ports, on the other hand paralleled the increase in gross revenues earned by American vessels, and rose from $52 million in 1940 to $242 million in 1945.

Receipts and payments for the carriage of ocean passengers showed a natural decline during the war years, particularly from 1942 through 1944, when the scarcity and insecurity of accommodations drastically reduced the number of ocean passengers. In 1945 there was a marked recovery to $14 million on the receipts side, but payments of $6.4 million to foreign steamship lines were only slightly more than one-tenth of the payments in 1939.

Unilateral Transfers of Shipping Services

The ocean transportation account records all shipping transactions between the United States and foreign countries, whether paid for or not. The larger part of the freight on United States exports in domestic-flag vessels during the war was furnished under lend-lease without the necessity of payment. Furthermore, the vessels of countries eligible for lend-lease aid received a part of their port expenditures in the United States under lend-lease. In return, a portion of

[10] See Leage of Nations, World Economic Survey, 1939–41, Geneva, 1941, p. 258; Sanderson, A. E., Wartime Control of Ocean Freight Rates in Foreign Trade, Washington, 1940, pp. 9–12 (U. S. Department of Commerce, Trade Promotion Series No. 212); Zeis, P. M., Domestic Transportation (U. S. Department of Commerce, Industry Report, Washington, April–May 1946, and conference rates on file with the United States Maritime Commission.

the expenditures of American vessels abroad was paid for by local authorities under reciprocal aid or reverse lend-lease. These lend-lease items are entered in the transportation account as if payment actually had been made or received. They are fully offset, however, by appropriate entries in the unilateral account. The size and significance of these unilateral transfers in 1944 are illustrated in table 11.

TABLE 11.—*Ocean transportation: Receipts and payments, 1944*

[In millions of dollars]

Item	Receipts	Payments
Ocean freight	979.4	105.7
Passenger fares	3.2	3.7
Port expenditures	214.3	226.5
Total, including lend-lease	1,196.9	335.9
Less lend-lease ocean freight	686.5	
Less lend-lease port expenditures	143.6	130.0
Cash transactions	366.8	205.9

Other Transportation Account Items

There was a general upward trend of freight earnings on Great Lakes transportation between 1940 and 1944. United States receipts increased primarily because United States vessels carried an increasing proportion of the gradually rising total tonnage of exports to Canada via the Great Lakes but also because of larger port expenditures by Canadian vessels on the United States side. Payments increased because port expenditures rose, too, in the case of American vessels in Canada and because the increase in tonnage of imports from Canada more than counterbalanced the decrease in the share carried by Canadian vessels. Receipts and payments in 1945 declined mainly because of a decrease in export and import tonnage carried. Total receipts in the Great Lakes account of $47 million during 1940–45 approximately balanced the $41 million in payments.

Exports comprised mainly bituminous coal, iron ore, and crude petroleum; imports comprised mainly grains, pulpwood and chips, iron ore, and crushed stone. The stable composition of bulk commodity exports and imports, combined with adequate transportation and excellent terminal facilities [11] accounted for the relative steadiness and low level of freight rates on the Great Lakes.

During the war, rail freight increased generally in the United States, owing to the decline of coastwise shipping and highway transportation facilities. In the rail account, the increased earnings for carriage of heavier in-transit traffic by rail to and from Canada and Mexico, respectively, were mainly responsible for the increase on the receipts side. Mounting expenditures by United States railroads operating in Canada and earnings by Canadian railroads carrying United States goods in transit across Canada accounted for the increase on the payments side. For the 1940–45 period, total receipts were $341 million, against total payments of $196 million. On balance, this account showed net

[11] Great Lakes shipping facilities remained in private operations during the war, except for a number of large United States (and Canadian) merchant vessels which were transferred from the Great Lakes to the Atlantic Ocean. Service by package freight vessels, which were purchased or requisitioned by the U. S. Government, was discontinued on the Great Lakes.

receipts during the war years in contrast with net payments each year from 1919 through 1939.

Air transportation during the war years played a small but increasingly important role in the balance of payments. United States aircraft superiority and wartime flight experience explain the growth in air freight receipts from about $2 million in 1940 to $16 million in 1945. United States air lines carried approximately 90 percent of air cargo to and from the United States. High-value, fragile, or perishable goods characteristically go by air, and command high freight rates compared with those for surface transportation. The carriage of foreign passengers by United States air lines resulted in increasing annual receipts from about $3 million in 1940 to $15 million in 1945; payments by Americans to foreign lines were negligible. Airport and fuel expenditures in foreign countries by United States air lines partly offset the receipts earned in these years.

Outlook for Transportation Services

In 1940 United States receipts for transportation exceeded payments for the first time since 1921. There were net cash receipts in each of the war years. This development was the result of increased participation by United States vessels in the transportation of American cargo overseas and of abnormal war conditions which produced a shift in the commodity composition of exports. In each of the 3 years, 1943–45, the United States carried approximately two-thirds of its total trade volume. This large percentage was maintained in 1946, but should decline thereafter, though for a few years the American share may continue to fluctuate around 50 percent of the total tonnage.

Return of ships lend-leased to Great Britain and other countries, plus possession of superior types, should help the United States temporarily to maintain its leading position in ocean transport. However, as foreign shipping revives through building programs and purchases of American surplus ships, foreign competition in the carriage of United States foreign trade may increase, unless diverted to activity elsewhere as world trade is restored. Growing competition would reduce the net receipts earned by United States vessels. The rate of decline would also depend upon American policy with respect to the size of merchant fleet desired and to the subsidization of shipping.

Under the Merchant Marine Act of 1936, American vessels are aided by construction and operating subsidies. The former totaled $178.7 million from July 1938 through June 1945; the latter amounted to about $50 million from October 1936 through June 1942, when they were suspended because of the war.[12] It is expected, however, that a large portion of the operating-subsidy payments will be recaptured by the Government. In normal times, higher costs for wages, subsistence, maintenance, repairs, and insurance handicap domestic vessels in competition with foreign, but since the war these costs have been absorbed by the relatively high rate structure resulting from the excess of demand over supply of shipping facilities.

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[12] The 1936 act provides also for countervailing subsidies sufficient to offset any bounties paid by foreign governments, but thus far this provision has not been invoked. See The Postwar Outlook for American Shipping, pp. 60–61; and U. S. Maritime Commission, Report to Congress for the period ended June 30, 1946, Washington, 1947, p. 14.

Net ocean transportation receipts of the United States will gradually decline, not only because of a diminishing share in total tonnage carried but also because of an eventual decline in freight rates. The level of freight rates should be fairly stable and may even increase slightly in the first few postwar years as long as the demand for tonnage capacity exceeds supply. Thereafter, as the supply-demand situation is reversed, a declining rate trend should be inevitable. Since the return to a high volume of passenger-fare payments to foreign lines is anticipated (the yearly average was $104 million in the 1919–39 period), it may not be many years before the net balance on transportation account becomes negative.

A gradual return to a normal prewar pattern is expected of the Great Lakes and rail accounts. The former is fairly stable, with small net receipts or payments. The latter, as in-transit earnings decline, may in time show net payments as in the prewar period. In-transit earnings should decline with the decrease in in-transit traffic that might be expected as shipping returns to normal.

Air transportation's remarkable development during the war should accelerate with technological progress and should be reflected in expanding international and domestic services. Receipts, especially on passenger traffic, may be expected to increase, owing to such factors as the anticipated increases in number of passengers, flight frequencies, and ton-mileage flown; the prospective expansion of both scheduled and nonscheduled air-line traffic; and the technical superiority of American planes in speed and cost of operation. However, the increases in American earnings may be gradual, and will be partly offset by airport and fuel expenditures abroad and by improved foreign air-line business.

Inasmuch as transportation receipts and payments on the nonocean accounts will tend to offset each other more or less, the net trend on the total transportation account in the United States balance of payments depends upon the behavior of the ocean transportation items. For each of the 3 years after the end of World War I, the balance was a substantial net receipt, which was reversed in 1922 into a net payment. Then for two decades the United States was a net purchaser of transportation services as foreign competition increased. A similar development may take place after World War II.

Travel [13]

Travel by United States residents in foreign countries constitutes an import from abroad of goods and services which, in the closing years of the 1930's, amounted to nearly double our imports of rubber and more than our combined imports of coffee and sugar. In addition to its importance as a major item of trade, foreign travel is a valuable source of supply of United States dollars to foreign countries. In the decade preceding 1940, foreign countries were provided with nearly 3 billion travel dollars,[14] which helped to finance our persistent export surplus. Travel in the United States by residents of foreign countries reached less spectacular totals, their expenditures in the United States during the 1930's being estimated at only a little more than $1 billion.

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[13] This section was prepared by Frances P. Sasscer.

[14] The estimates of travel payments and receipts shown in this section exclude fares paid by travelers to United States and foreign carriers. Payments for fares made by United States residents to foreign steamship and air lines and payments by foreigners to United States carriers are included in the transportation account.

Travel may be roughly divided into two categories—recreational and nonrecreational. The nonrecreational category includes trips by individuals traveling for business reasons, in educational, scientific, or philanthropic pursuits, and on matters of urgent personal necessity, such as first-hand aid to distressed relatives who reside in foreign countries or the administration of investments or property owned abroad.

During normal times, such as the interwar period, the preponderance of travel is of the recreational type. However, during times of war the situation is reversed. In the period from 1940 to 1945, recreational travel to all except nearby areas was drastically curtailed. Nonrecreational travel, too, was restricted, but to a lesser extent, as acute transportation shortages developed.

War Cuts Oversea [15] Travel

With the outbreak of war in Europe, travel beyond the Western Hemisphere became restricted to persons on trips directly allied with the war effort. Travel to Eastern Hemisphere countries was limited to Government officials and members of private business concerns supplying equipment for military use who traveled in the national interest, to members of the press, and to members of philanthropic organizations, such as the Red Cross and various religious and nonsectarian groups, whose mission was to alleviate suffering in war-torn areas. Since all travel of a recreational nature to these areas was thus prohibited, expenditures for travel by United States residents were sharply reduced from $67 million in 1939 to $12 million in 1940 (see chart 15).

In 1940, during the initial phases of the Battle of the Atlantic, travel expenditures in Europe and the Mediterranean area reached their lowest point since World War I, having dropped precipitously to less than $6 million. This represented a decline of nearly 90 percent from expenditures in the preceding year, although travel to that area had already shown considerable reaction in the late 1930's as a result of the political disturbances in central Europe. Travel to other oversea areas was likewise drastically affected, although travel to Latin America maintained a fairly constant level until 1942, owing in part to an increase in nonrecreational travel by economic missions visiting that area in an endeavor to obtain strategic materials, the supply of which had been cut off by Japanese occupation of Malaya, Burma, the Netherlands Indies, and the Philippines. Expenditures in South America did not reach their lowest level until 1944 (see table 12), by which time this new line of supply had become established, with a resulting decrease in nonrecreational trips to the area.

Travel to nearby oversea areas began to recover in 1945, at which time travel of a recreational nature reappeared because passport authorities again permitted travel to Central America and the Caribbean for rest and relaxation. Following the end of hostilities in 1945, payments for travel in all oversea areas increased in the fourth quarter to nearly double those in the corresponding quarter of 1944. The volume of departures continued to rise rapidly despite acute transportation shortages, which maintained a major restriction upon travel of the recreational type to all oversea areas except nearby Central American and Caribbean countries.

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[15] The term "oversea" includes all foreign countries except Canada and Mexico.

Chart 15

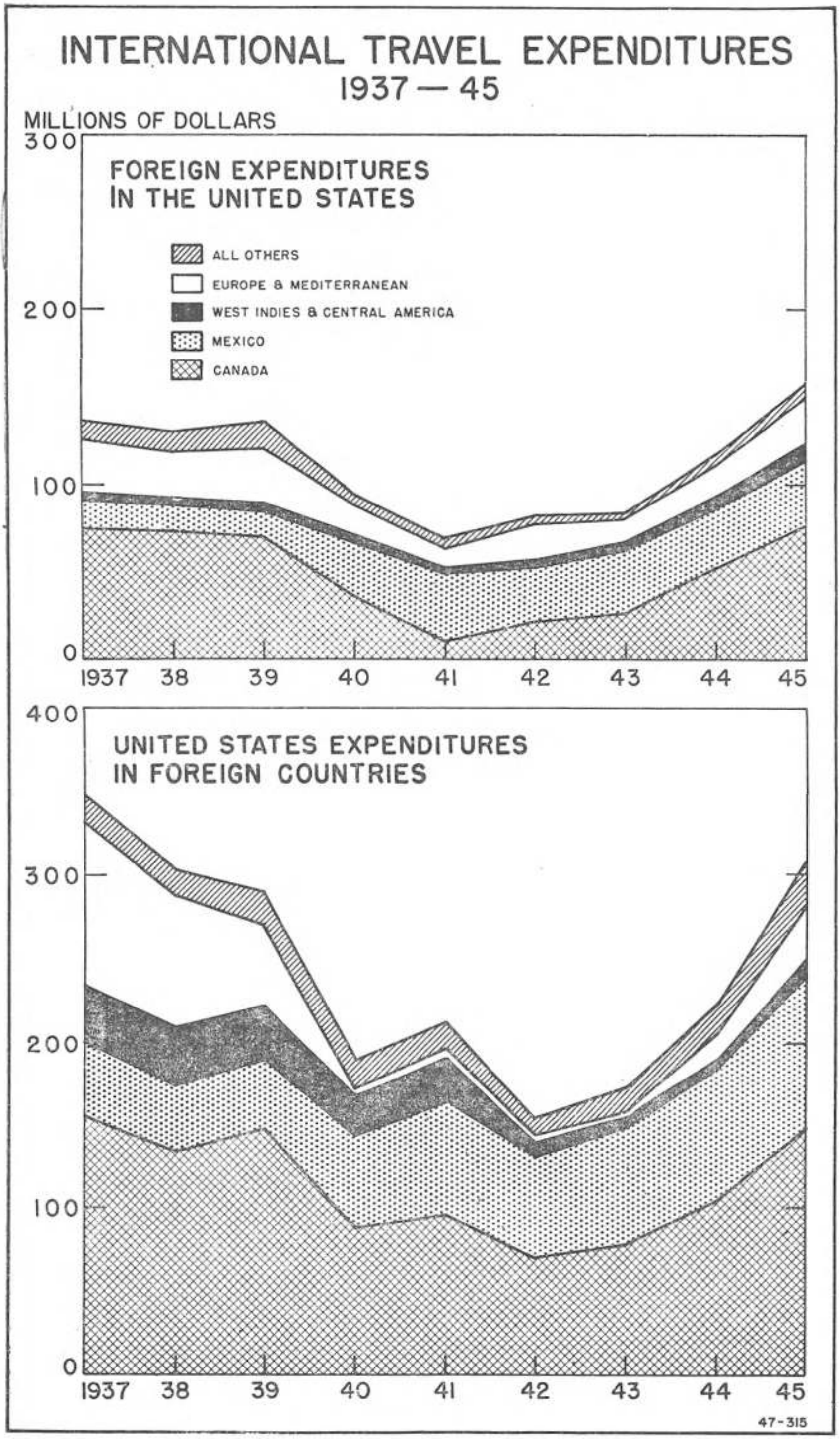

INTERNATIONAL TRAVEL EXPENDITURES
1937 — 45
MILLIONS OF DOLLARS
FOREIGN EXPENDITURES
IN THE UNITED STATES
ALL OTHERS
EUROPE & MEDITERRANEAN
WEST INDIES & CENTRAL AMERICA
MEXICO
CANADA
300
200
100
0
1937
38
39
40
41
42
43
44
45
UNITED STATES EXPENDITURES
IN FOREIGN COUNTRIES
400
300
200
100
0
1937
38
39
40
41
42
43
44
45
47-315

TABLE 12.—*International travel account of the United States, 1940–45*

[In millions of United States dollars]

Area	1940	1941	1942	1943	1944	1945
	Receipts					
Total	94.8	69.9	82.0	84.2	117.2	157.7
Canada	36.4	16.4	21.8	30.9	51.9	75.5
Sterling area	7.0	7.4	23.3	17.7	26.9	26.0
American Republics	38.6	39.3	33.8	33.1	36.2	42.4
Mexico	31.0	32.8	31.4	31.3	33.7	37.5
Carribbean Republics	3.2	3.3	.6	.1	.2	1.1
South American Republics	4.4	3.2	1.8	1.7	2.3	3.8
All other	12.8	6.8	3.1	2.5	2.2	13.8
	Payments					
Total	190.3	212.4	155.4	173.2	224.7	308.8
Canada	89.1	97.3	71.8	79.1	105.9	149.5
Sterling area	6.8	9.2	7.5	8.5	19.5	28.9
American Republics	83.8	98.8	72.3	83.7	88.0	105.1
Mexico	57.3	69.1	60.3	71.1	79.2	92.0
Carribbean Republics	16.3	17.7	3.9	2.5	2.3	4.7
South American Republics	10.2	12.0	8.1	10.1	6.5	8.4
All other	10.6	7.1	3.8	1.9	11.3	25.3

Foreign Expenditures in United States Decline

Travel expenditures in the United States by foreigners residing in all overseas areas dropped sharply in 1940 and suffered a further severe decline in 1941. As in the case of United States travel to foreign countries, this decline was due for the most part to travel restrictions imposed by foreign countries on travel by their nationals and by shortages of transportation facilities. Travel to this country by residents of other overseas countries became limited to foreign government officials, foreign businessmen or technicians on pursuits directly connected with the war efforts of their respective countries, and refugees from devastated countries who entered the United States as temporary visitors or immigrants.

As in the case of travel payments, travel receipts from residents of Europe and the Mediterranean countries reached their lowest point in 1941, although the decline was relatively less sharp than in the case of payments. Receipts from foreigners for travel recovered somewhat in 1942 and at the end of 1945 approached the levels of the late 1930's. Travel expenditures in the United States by Latin American residents exceeded prewar totals as early as 1944, and continued to rise during 1945 to reach a new peak in that year.

Reciprocal Travel With Canada

Because of the close economic and social relationship between the United States and Canada, the movement of persons across the border is extremely heavy. These persons comprise a broad variety of travelers, ranging from tourists and business visitors to individuals who cross and recross the border daily in connection with their occupation or to make use of facilities located on the opposite side. The excellent transportation facilities between the United States and Canada and the proximity to the border of heavily populated areas combine to stimulate travel between these two countries. As the means of crossing the border are numerous and the reasons for crossing extremely varied, expenditures by United States residents in Canada were not as drastically affected by wartime transportation shortages and travel restrictions as were those in oversea countries.

In 1940 payments to Canada for travel declined by approximately 40 percent from those in the preceding year, contrasted with the decline of nearly 90 percent suffered by payments for European travel in 1940. Travel payments to Canada recovered slightly in 1941, and in 1942 slumped again, but the decline was much less precipitous than in the case of oversea travel during the same year. The decline in 1940 was partly due to the establishment of regulations along the border which required United States citizens reentering the United States from Canada to exhibit proof of citizenship—a formality which undoubtedly served for a time as a deterrent to the frequency and freedom of crossing.

In prewar years, the major portion of expenditures of travelers to Canada was made by persons traveling by automobile. The decline in expenditures in 1942 was due, for the most part, to the reduction in this type of travel as a result of the scarcity of gasoline and tires. A relatively small amount of such traffic—probably chiefly the nonrecreational type—was diverted to the railroads during 1942. A pronounced diversion to other means of transportation was not manifested until the following year, when nonautomobile travel to Canada increased by more than one-third over 1942, automobile travel declining to its lowest point.

In 1943 travel payments to Canada turned upward, the rising trend becoming more marked in 1944. The end of gasoline rationing in 1945 gave considerable impetus to the increase in automobile travel, which in that year exceeded any of its wartime levels. Expenditures in Canada in 1945 by United States residents traveling by all means were estimated to total nearly $150 million—the highest peak in nearly a decade.

This general trend in expenditures was shown also in the case of travel in the United States by Canadians. In 1940 the Dominion, which found itself faced with a serious dollar shortage, found it necessary to curtail the use of United States dollars for travel in the United States. Restrictions were put into effect which required all residents of Canada to obtain permission from the Foreign Exchange Control Board to depart from Canada and to export funds. Although the necessary amounts of United States dollars were supplied for trips involving business, health, and education, travel which involved the use of United States dollars solely for recreational purposes was stopped. This action resulted in a severe decline in United States receipts from Canada on account of travel to a low in 1941 which had not been equaled in more than 20 years.

In the late spring of 1944, exchange and travel restrictions were eased somewhat by the Dominion, Canadian residents being permitted to obtain up to $150 a year in United States currency for pleasure travel in the United States. As a result, expenditures by Canadians for travel in the United States turned sharply upward. The rising trend became more pronounced as exchange restrictions were further relaxed in 1945 to allow Canadians "any reasonable amount" of United States funds for all types of travel in the United States. By the end of 1945 receipts by the United States from Canada on account of travel approached 1929 levels.

Heavy Travel on Mexican Border

The movement of persons across the Mexican border is even heavier than that into Canada because of an interdependence which has developed between the towns on both sides of the international boundary line. The reasons for travel are even more varied, therefore, than in the case of Canada. Compared with the millions of crossings over the Mexican border which are recorded annually, relatively few persons penetrate beyond the border zones in either direction. On the Mexican side, limited transportation facilities until the middle 1930's acted as a check on travel to the interior. In 1936 the completion of the Pan American Highway to Mexico City tended to encourage interior travel, and an increase in services offered by the air lines served as an additional stimulus.

In 1940 United States expenditures for travel in Mexico showed a considerable increase over those in the preceding year. This growth was unquestionably due in part to the diversion of travel from countries abroad, many of which were cut off from the American vacationist by the outbreak of the war. Travel to the interior of Mexico continued to increase in 1941, but dropped off in 1942 as a result of gasoline rationing. After 1943, however, interior travel rose steadily, in spite of gasoline rationing during 1944 and most of 1945. Payments to Mexico for travel during 1945 were estimated as approaching those at the beginning of the war.

Travel to Mexican border cities showed a steady increase during the 10 years preceding 1940. In the early years of the war, the rise became more rapid, owing to the location close to the Mexican border of large military camps. Army personnel taking advantage of their proximity to a foreign country, traveled in nearby Mexican areas.

By far the greater portion of receipts by the United States for travel by Mexican residents results from expenditures in towns close to the international boundary. These expenditures are made for the most part by Mexicans who cross regularly to shop on the American side, and consequently do not follow normal travel trends; they vary in accordance with the population of, and standard of living in, adjacent Mexican communities. Expenditures made in the United States by Mexican residents during the period 1940 through 1945 showed only an inconsequential variation from the averages established in the late 1930's, although the trend was consistently upward. The rise during the period was approximately 20 percent over the low of $31 million estimated for Mexican travel in 1940, receipts totaling about $37 million in 1945.

Outlook for Foreign Travel

Since recreational travel is largely of the luxury type, it is extremely sensitive to fluctuations in general economic conditions. Nonrecreational travel, though less acutely susceptible, also follows major economic changes to a marked degree, since travel for business reasons obviously is influenced by general business conditions. During the 20-year period preceding World War II, the trend of expenditures for foreign travel was found to be closely related to the behavior of national income.

In the 1940–45 period powerful factors, such as transportation shortages, lack of tourist accommodations, and regulations preventing recreational travel to many areas, exerted a conspicuous restraint on travel, with the net result that previously existing relationships between travel expenditures and national income were interrupted (see charts 16 and 17). It is reasonable to expect that when the restrictions on travel due to transportation shortages and inadequate tourist accommodations in many foreign countries have been removed, payments for foreign travel will once more occupy the same relationship to national income as that exhibited in the interwar period.

In addition to national income, there are numerous other factors which exercise a powerful influence upon foreign travel. Immigration, with its resultant increase in the foreign-born population of the nation, exerts a profound effect upon travel, which may be traced largely to the desire by naturalized citizens or alien residents to visit the countries of their origin. During the twentieth century, more than 19 million immigrant aliens, most of whom were born in Europe, were admitted to the United States for permanent residence. This unquestionably had an important effect on travel and travel patterns during the interwar period. Although during this period foreign-born residents (that is, naturalized citizens plus alien residents of the United States) accounted for only about 10 percent of the total population, more than 50 percent of all the American travelers departing for passport areas were born in foreign countries.

As would be expected from the origin of immigration during the century, the majority of residents departing for overseas were destined for European countries, departures by residents for Europe in the 1920's amounting to 66 percent of total departures. Departures for Europe by alien residents alone accounted for 87 percent of total oversea departures by such residents. Quota restrictions placed in 1921 and 1924 on immigration from all countries except independent countries in the Western Hemisphere caused a sharp decline in immigration. This decline continued through the 1930's, the 1940 census reflecting the first decennial decline in the foreign-born white population.

It is impossible to prophesy what our immigration policies may be in the future. However, if they continue unchanged from the present, a more rapid decline in the number of foreign-born residents in the United States will result. This decline will unquestionably be reflected in an eventual decrease in numbers of foreign-born residents traveling abroad, especially in view of the fact that ties to the mother country tend to become weakened as time passes.

Travel to passport areas by native-born citizens, which had declined during the depression, turned upward in 1934, and in 1937 exceeded the 1929 level. If this trend continues, any decreases in travel by foreign-born residents may be more than offset by increased travel by native-born citizens, in many of whom interest in foreign countries has been aroused by the war.

Another important influence upon foreign travel is the increase in speed and comfort of transportation to distant areas. Under the wartime necessity for shortening and speeding up supply lines, international transportation made strides which could not conceivably have been equaled during times of peace.

During 1929, when commercial air transportation was inaugurated between the United States and oversea countries, 4,000 passengers departed by air for oversea destinations. This volume had trebled by 1935, and during 1940 more than 40,000 civilian passengers left the United States by air for oversea countries. Maritime losses due

Chart 16

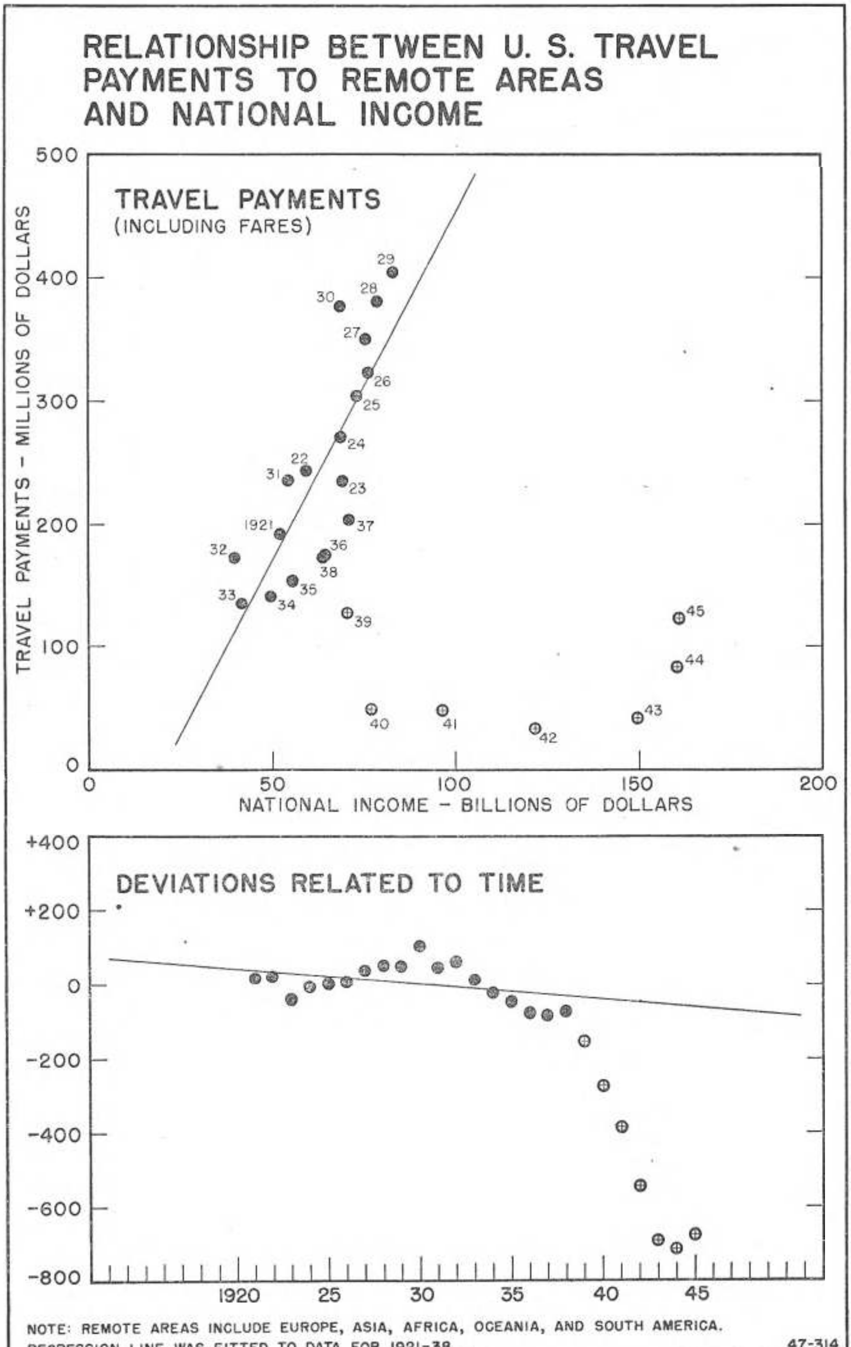
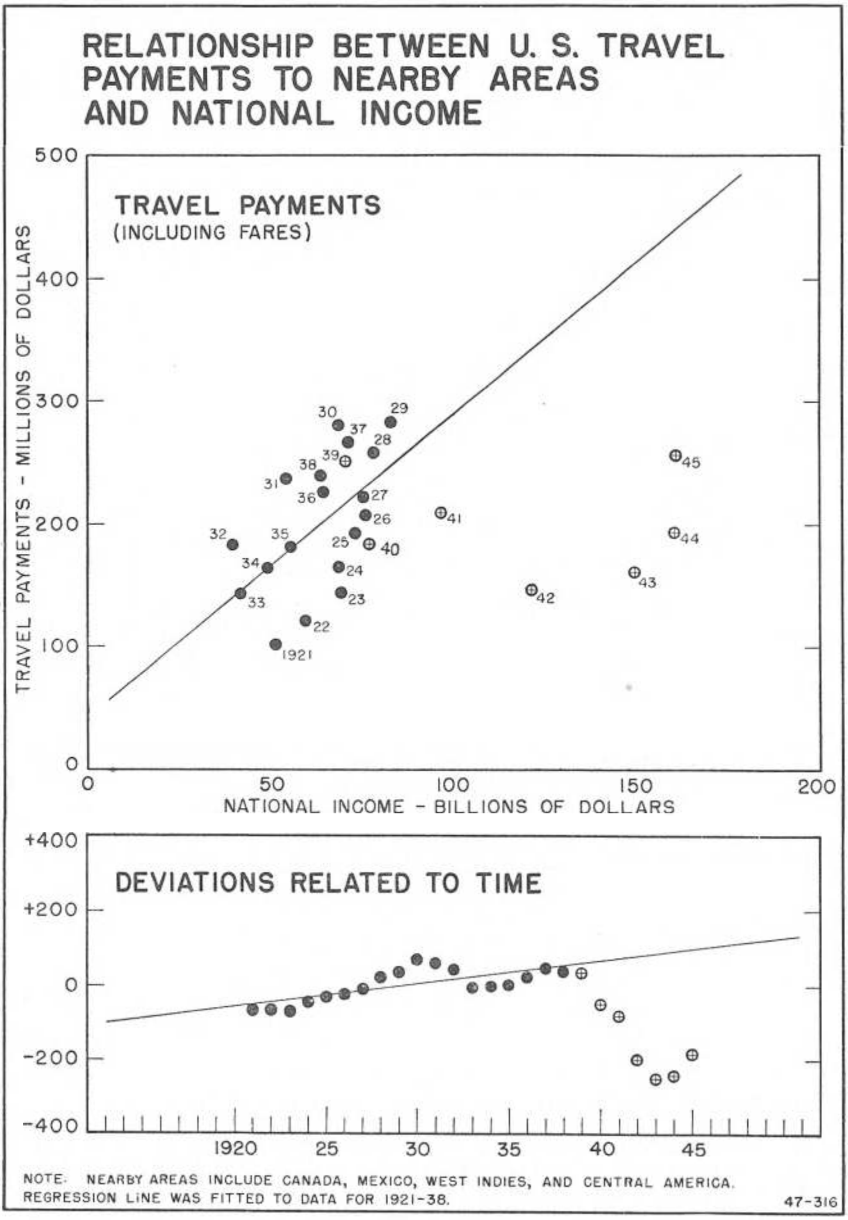

RELATIONSHIP BETWEEN U. S. TRAVEL PAYMENTS TO REMOTE AREAS AND NATIONAL INCOME
TRAVEL PAYMENTS
(INCLUDING FARES)
TRAVEL PAYMENTS - MILLIONS OF DOLLARS
500
400
300
200
100
0
50
100
150
200
NATIONAL INCOME - BILLIONS OF DOLLARS
1921
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
DEVIATIONS RELATED TO TIME
+400
+200
0
-200
-400
-600
-800
1920
25
30
35
40
45
NOTE: REMOTE AREAS INCLUDE EUROPE, ASIA, AFRICA, OCEANIA, AND SOUTH AMERICA.
REGRESSION LINE WAS FITTED TO DATA FOR 1921-38.
47-314

Chart 17


RELATIONSHIP BETWEEN U. S. TRAVEL PAYMENTS TO NEARBY AREAS AND NATIONAL INCOME
TRAVEL PAYMENTS
(INCLUDING FARES)
TRAVEL PAYMENTS - MILLIONS OF DOLLARS
NATIONAL INCOME - BILLIONS OF DOLLARS
DEVIATIONS RELATED TO TIME
NOTE: NEARBY AREAS INCLUDE CANADA, MEXICO, WEST INDIES, AND CENTRAL AMERICA.
REGRESSION LINE WAS FITTED TO DATA FOR 1921-38.
47-316

to submarine warfare and the conversion of the surviving ships with passenger capacity to military uses during the war years combined to stimulate further the growth of air travel, so that during 1945 nearly 134,000 civilians were carried by air to oversea points. In 1940 outbound air traffic from the United States to countries other than Canada and Mexico accounted for less than 20 percent of total outbound passengers; however, by 1945, travel by air accounted for nearly 60 percent of total air and sea departures.

The development of air transportation will present new opportunities for foreign travel to the individual whose time is limited and who heretofore was restricted to a vacation spent locally. To what extent this will represent a diversion from domestic to foreign travel or from nearby foreign to more distant countries it is impossible to determine.

Additional influences tending to increase foreign travel are favorable exchange rates, the increase in paid vacations and lengthening of vacation periods, and world-wide improved economic, social, and political conditions. Many countries are making concerted efforts to attract an abundant tourist trade by offering increased facilities and endeavoring to arouse interest in travel to their countries by foreigners.

With the upward trend in paid vacations, the increase in speed and comfort of transportation, the awakened interest in foreign countries due to the war, and renewed foreign efforts to attract tourists, the dynamic relationship of travel outlays to national income exhibited during the 1920's may again prevail, with travel payments rising to unprecedented levels.

Income on Investments [16]

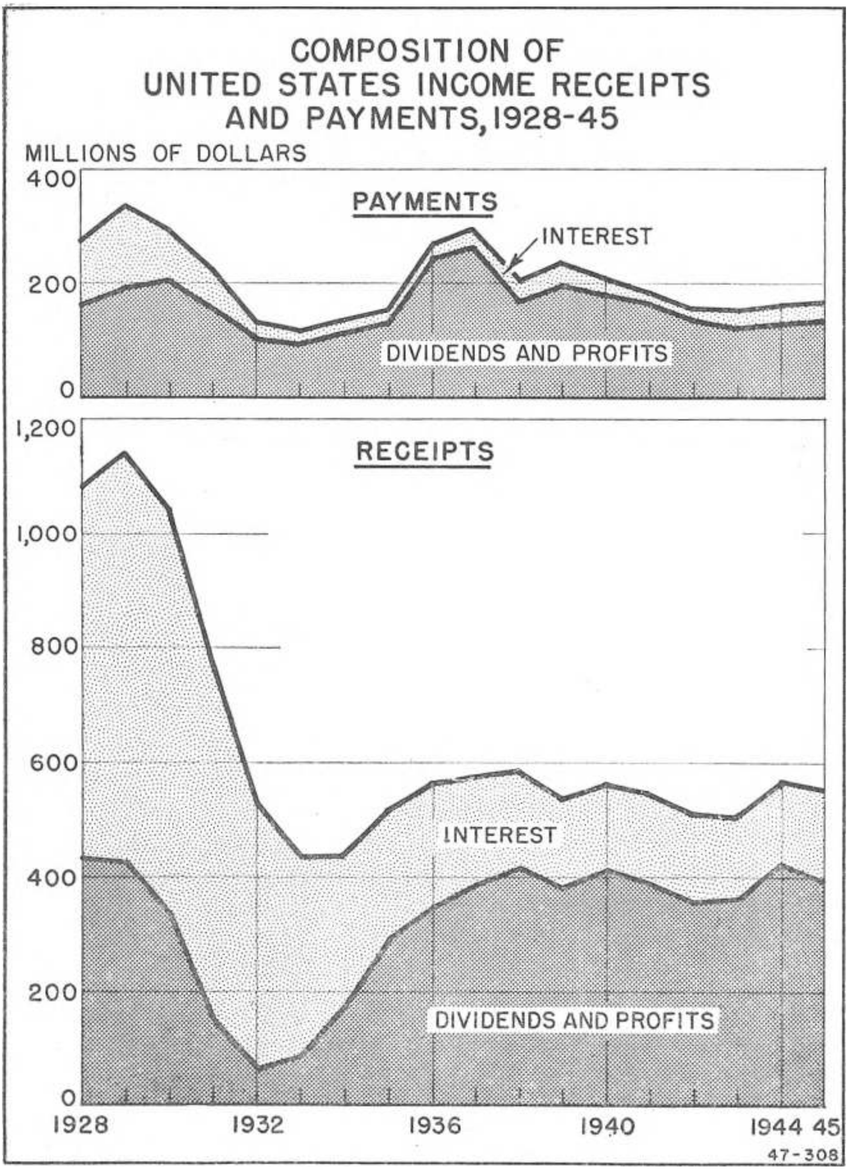
A significant measure of the international creditor or debtor position of a country is the excess of receipts or payments of international property income—dividends, branch profits, and interest.[17] (See table 13 and appendix C, table XIV). By this criterion, the United States continued to maintain a strong creditor position throughout the war, despite the fact that a continued rise in the value of foreign assets in the United States left this country a net debtor by conventional definition (see table 27). Net annual receipts on income account ranged from about $355 million to $410 million during the war period—well above the 1937–39 average.

Larger net receipts resulted solely from the wartime decline of income paid to foreigners, as gross receipts also fell, although to a considerably less extent. Both receipts and payments were far below the volume of the late 1920's, when the large amount of short-term capital outstanding was a considerable source of international income and American holdings of foreign dollar bonds yielded $300 million to $400 million annually (see chart 18). Receipts of interest by the United States Government, although increasing during the war, were still relatively unimportant by 1945.

[16] Prepared by Milton Abelson, Investment Section, with the assistance of Samuel Pizer, Frederick Cutler, Sara E. Bielouss, and Seiko N. Wakabayashi.

[17] For a technical description of the items included under the general term "income on investments," see appendix B. In particular it should be noted that undistributed earnings of subsidiaries are not included.

Chart 18



U. S. Receipts From Foreign Investments

Receipts of income from American investments in foreign countries remained relatively high throughout the period 1940–45. The return to American companies on their equity in direct investments averaged 5.1 percent during the war; while that to holders of dollar bonds averaged 3.5 percent of par value, despite the fact that close to 30 percent of the bonds were in default and for the most part paid no interest. Increased returns from American-controlled enterprises

TABLE 13.—*Income on investments, 1940–45* [1]

[In millions of dollars]

Item	1940	1941	1942	1943	1944	1945
	Receipts					
Total	564	544	514	508	572	555
Private	561	535	496	497	556	539
Long-term	555	530	492	593	552	534
Direct investments [2]	413	400	358	368	418	392
Common dividends	271	219	168	215	182	166
Preferred dividends	7	9	10	7	6	7
Interest	38	40	33	38	35	35
Branch profits	97	132	127	108	195	184
Portfolio investments	142	130	134	125	134	142
Dollar bonds	82	79	79	72	70	77
Miscellaneous	60	51	55	53	64	65
Short-term	6	5	4	4	4	5
U. S. Government	3	9	18	11	16	16
	Payments					
Total	210	187	159	155	161	168
Private	204	181	151	146	149	154
Long-term [3]	204	181	151	146	149	154
Direct investments [2]	65	(4)	42	41	44	45
Dividends	50	(4)	32	32	36	36
Interest	3	(4)	1	2	1	1
Branch profits	12	(4)	9	7	7	8
Portfolio investments	139	[5] 181	109	105	105	109
U. S. Government	6	6	8	9	12	14
	Net receipts (+) or payments (−)					
Total	+354	+357	+355	+353	+411	+387
Private	+357	+354	+345	+351	+407	+385
U. S. Government	−3	+3	+10	+2	+4	+2

[1] After taxes. Excludes payments and receipts of royalties, rents, and fees for management services rendered by parent companies. These are not treated as return on investment but are included under miscellaneous services.
[2] Excluding returns to insurance companies, which have been included with other insurance transactions under miscellaneous services.
[3] Payments on short-term investments were nil.
[4] Included with portfolio investments.
[5] Includes direct-investment payments.

engaged in the production, refining, and distribution of petroleum and in the production of agricultural products (particularly sugar in Cuba) partly offset the declines from other direct investments and dollar bonds.

Income receipts were maintained at a high level despite the loss of income on both direct and portfolio investments from Axis-controlled territories, which had provided roughly $65 million in 1939.[18] Moreover, dividend payments to the United States from direct investments abroad were considerably less than actual earnings, since a large part of the latter was invested in plant expansion abroad or was apparently held abroad, in at least one country, in expectation of a more favorable exchange rate after the war. Another factor accounting for lower dividend receipts may have been a desire on the part of American parent companies to reduce the receipt of income from abroad at a time when domestic profits and tax rates were high.

[18] Certain occupied countries, notably Norway, Denmark, Belgium, and France, continued interest service on their dollar bonds with funds held in foreign countries.

Income Receipts on Direct Investments Maintained

Income on American direct investments abroad, which in 1944 comprised almost three-fourths of total investment income received from abroad, declined very little between 1939 and 1945—from $400 million to $392 million, after falling to $358 million in 1942 and reaching a peak of $418 million in 1944. The drop in 1942 resulted mainly from the elimination of income from enemy and enemy-occupied countries, which had amounted to $53 million in 1940 and to $25 million in 1941. In subsequent years the loss was offset largely by enhanced receipts on petroleum investments, particularly from Latin America. By 1944, total receipts from properties not under enemy control were apparently at the highest level ever recorded.

As indicated in chart 19 the net earnings ratios of American companies operating abroad were higher during 1940 and 1941 than those obtained by corporations on invested capital in the United States, although the situation changed rapidly during the next 2 years as income from American enterprises in Axis-controlled areas was cut off and domestic enterprises earned increasingly larger profits.

The rate of profit (net earnings to net equity) of American direct investments abroad was highest in nearly every year on sterling-area investments, which produced an average of 10.1 percent for the 1941–45 period (see table 14). The rate of profit on investments in the American Republics for the same period averaged 9.6 percent, and in 1944 was 10.9 percent. However, the rate of profit from United

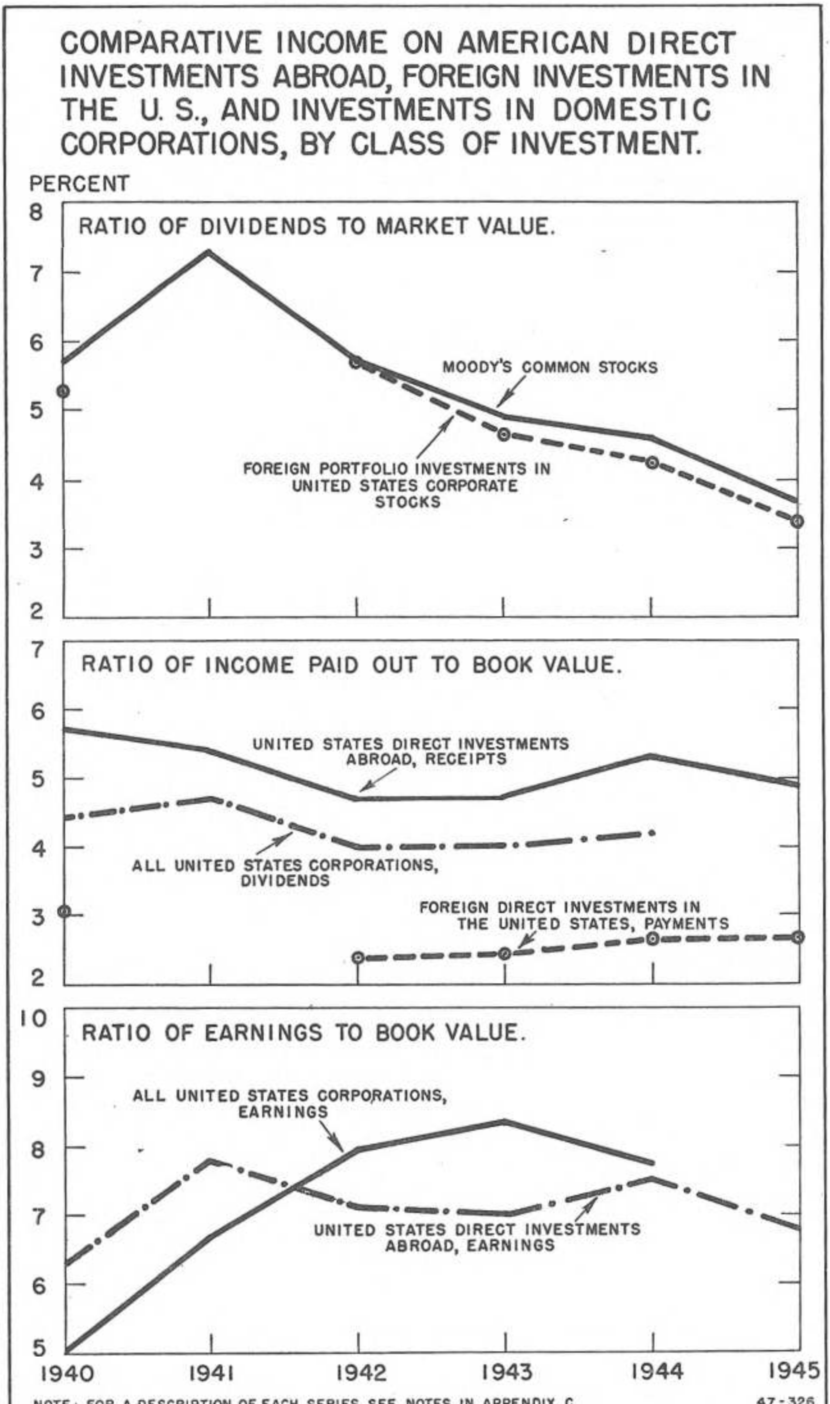
TABLE 14.—*Ratios of income and net earnings*[1] *to American equity in foreign subsidiaries and branches, by areas, 1940–45, and average for the period*[2]

[Value in millions of dollars; ratios in percent]

Item	1940	1941	1942	1943	1944	1945	Average 1940–45
ALL AREAS							
American equity in direct investments abroad.	7,268	7,462	7,689	7,802	7,884	8,034	7,690
Ratio of income to equity	5.7	5.4	4.7	4.7	5.3	4.9	5.1
Ratio of net earnings to equity	6.3	7.8	7.1	7.0	7.5	6.8	[3] 7.1
STERLING AREA							
American equity in direct investments abroad.	746	814	857	864	900	930	852
Ratio of income to equity	8.2	5.8	6.2	6.7	6.1	5.6	6.4
Ratio of net earnings to equity	n.s.s.	10.5	10.0	10.0	9.9	9.0	[3] 10.1
CANADA							
American equity in direct investments abroad.	2,114	2,175	2,248	2,316	2,346	2,417	2,269
Ratio of income to equity	6.0	5.5	5.1	4.8	4.3	3.8	4.9
Ratio of net earnings to equity	6.5	8.0	8.3	7.6	6.4	6.3	7.2
AMERICAN REPUBLICS							
American equity in direct invzstments abroad.	2,594	2,643	2,719	2,737	2,712	2,835	2,707
Ratio of income to equity	5.9	6.8	6.5	6.6	8.9	7.8	7.1
Ratio of net earnings to equity	n.s.s.	9.4	9.0	8.9	10.9	9.3	[3] 9.6
OTHER							
American equity in direct investments abroad.	1,814	1,830	1,865	1,885	1,926	1,852	1,862
Ratio of income to equity	3.9	2.9	0.8	1.0	1.1	1.4	1.8
Ratio of net earnings to equity	n.s.s.	4.0	1.3	2.1	2.9	2.6	[3] 2.6

[1] For purposes of this table, income refers to actual receipts by the United States as reflected in the balance of-payment, while net earnings include, in addition, undistributed profits of foreign subsidiaries.
[2] Does not include investments in insurance companies.
[3] 1941–45.
n.s.s. Not shown separately.

Chart 19



COMPARATIVE INCOME ON AMERICAN DIRECT INVESTMENTS ABROAD, FOREIGN INVESTMENTS IN THE U. S., AND INVESTMENTS IN DOMESTIC CORPORATIONS, BY CLASS OF INVESTMENT.
PERCENT
RATIO OF DIVIDENDS TO MARKET VALUE.
MOODY'S COMMON STOCKS
FOREIGN PORTFOLIO INVESTMENTS IN UNITED STATES CORPORATE STOCKS
RATIO OF INCOME PAID OUT TO BOOK VALUE.
UNITED STATES DIRECT INVESTMENTS ABROAD, RECEIPTS
ALL UNITED STATES CORPORATIONS, DIVIDENDS
FOREIGN DIRECT INVESTMENTS IN THE UNITED STATES, PAYMENTS
RATIO OF EARNINGS TO BOOK VALUE.
ALL UNITED STATES CORPORATIONS, EARNINGS
UNITED STATES DIRECT INVESTMENTS ABROAD, EARNINGS
1940
1941
1942
1943
1944
1945
NOTE: FOR A DESCRIPTION OF EACH SERIES SEE NOTES IN APPENDIX C
47-326

States investments in Latin America tends to be moderate in the aggregate, because of the large volume of American public-utility investments in that region, on which the rate of return has historically been very low. For instance, in 1943 the United States investment in Latin American public utilities was valued at more than three-quarters of a billion dollars but paid only about $25 million to United States investors. The yield to Americans from foreign investments [19] was largest from the American Republics during the war period, both in dollar terms and in relation to value of investment. The yields in relation to value of investment from the sterling area and Canada were lower, in that order. American income from the "Other" group (see table 14) was sharply reduced, since many of the American enterprises were in areas occupied by the enemy.

In the 5-year period 1941–45, American subsidiaries abroad earned (in millions of dollars) 1,839, paid dividends of 968, and reinvested 871 (see table 15). The yield to investors on all American direct investment capital averaged 5.1 percent during 1940–45.

American Republics.—In terms of dollars the largest income receipts were from Latin America, where intensified exploitation of petroleum resources yielded $107 million of total receipts of $242 million from all industries in the area in 1944 (table 16). The increased production of petroleum, principally in Venezuela, was the main factor in increasing income from Latin America, from 37 percent of United States income from direct investments in 1940 to 56 percent in 1945. Petroleum, mining, and agriculture accounted for about two-thirds to three-fourths of the income received from Latin America. The proportion increased in the latter part of the war as United States purchases of the output of these industries increased and the shipping situation became less critical; however, despite a large output, receipts from Latin American mining companies controlled by Americans declined after 1941, owing primarily to rising operating costs.

The effectiveness of enemy submarines (and the general shortage of shipping facilities) in preventing the shipment of products from Latin America to the United States is illustrated by changes in receipts of petroleum income. Income from that industry in Latin America rose from $36.4 million in 1940 to $47.5 million in the next year, only to fall to $39.8 million in 1942 at the height of the enemy's submarine activities in this area. By 1944, when our military effort had virtually eliminated this menace, income rose to $107.2 million.

The world-wide sugar shortage brought about by the absence of exports from some of the major sugar-producing countries (the Republic of the Philippines and the Netherlands Indies) and an increased demand for military purposes boosted sugar prices and redounded to the benefit of producers in the West Indies. The combined effect of increases in prices and in Caribbean production more than tripled American income receipts between 1940 and 1945. The approximate rise was from $5 million to $18 million. However, not all agricultural investments fared as well. The shortage of shipping facilities kept the income from banana plantations at a relatively low level until 1944.

[19] "Yield" includes only actual receipts by Americans, while "profit" or "earnings" represents the total American equity in earnings of the foreign enterprise, whether retained as reinvested earnings or paid out to Americans as dividends or earnings.

TABLE 15.—*American investments in foreign subsidiaries: Earnings on common stock, common dividends, and reinvested earnings,[1] by areas, 1940–45*

[In millions of dollars]

Item	Sterling area	Canada [2]	American Republics	Other	Total
1940					
Earnings on common stock	n. s. s.	114.6	n. s. s.	n. s. s.	313.4
Common dividends	49.9	104.5	69.0	47.1	270.4
Reinvested earnings	n. s. s.	10.1	n. s. s.	n. s. s.	43.0
1941					
Earnings on common stock	76.8	150.8	105.5	66.1	399.2
Common dividends	38.7	97.7	35.3	46.5	218.3
Reinvested earnings	38.1	53.1	70.2	19.5	180.9
1942					
Earnings on common stock	72.0	162.2	123.3	14.7	372.2
Common dividends	39.0	90.5	54.4	3.9	187.9
Reinvested earnings	33.1	71.7	68.9	10.7	184.4
1943					
Earnings on common stock	71.0	152.6	136.4	30.9	390.9
Common dividends	42.9	86.5	74.0	11.3	214.7
Reinvested earnings	28.1	66.1	62.4	19.5	176.2
1944					
Earnings on common stock	75.5	130.3	107.0	41.6	354.5
Common dividends	40.8	80.2	54.0	6.6	181.6
Reinvested earnings	34.7	50.1	53.1	35.0	172.9
1945					
Earnings on common stock	69.9	129.0	96.7	26.7	322.3
Common dividends	38.5	69.4	51.9	6.2	166.1
Reinvested earnings	31.4	59.6	44.8	20.5	156.3
Total, 1941–45					
Earnings on common stock	365.3	724.9	569.0	180.0	1,839.1
Common dividends	200.0	424.3	269.6	74.6	968.5
Reinvested earnings	165.3	300.6	299.4	105.3	870.6

[1] Foreign subsidiaries for this purpose are companies incorporated abroad 25 percent or more of whose voting shares were held in the United States. Included in this compilation, therefore, were companies that were closely held and those whose shares were widely scattered among United States holders. Branches were excluded from this table.

[2] Earnings have been reduced to the extent of withholding taxes paid on dividends which range from $4 million to $8 million.

n. s. s. Not shown separately.

NOTE.—Detail will not necessarily add to totals because of rounding. Data for 1940 are less complete than for other years.

TABLE 16.—*Income received from American direct investments, by area and industry, 1940–45* [1]

[In millions of dollars]

Area and industry	1940	1941	1942	1943	1944	1945
All areas, total	412.5	400.4	358.3	367.8	418.0	392.1
Manufacturing	112.9	105.8	97.5	96.5	85.4	76.2
Distribution	34.6	28.5	25.5	29.8	31.0	30.4
Agriculture	13.3	18.3	22.5	18.3	28.7	30.6
Paper and pulp	8.0	7.1	5.2	6.3	5.4	9.6
Fishing	(2)	(2)	(2)	(2)	(2)	(2)
Mining and smelting	86.3	89.1	79.6	75.4	64.8	50.9
Petroleum	93.7	90.9	66.7	77.7	140.0	137.8
Public utilities	35.8	37.5	40.3	42.1	42.6	38.5
Miscellaneous [3]	22.2	17.8	15.3	15.5	14.3	12.3
Undistributable	5.6	5.5	5.7	6.2	5.8	5.7

See footnotes at end of table.

TABLE 16.—*Income received from American direct investments, by area and industry, 1940–45*

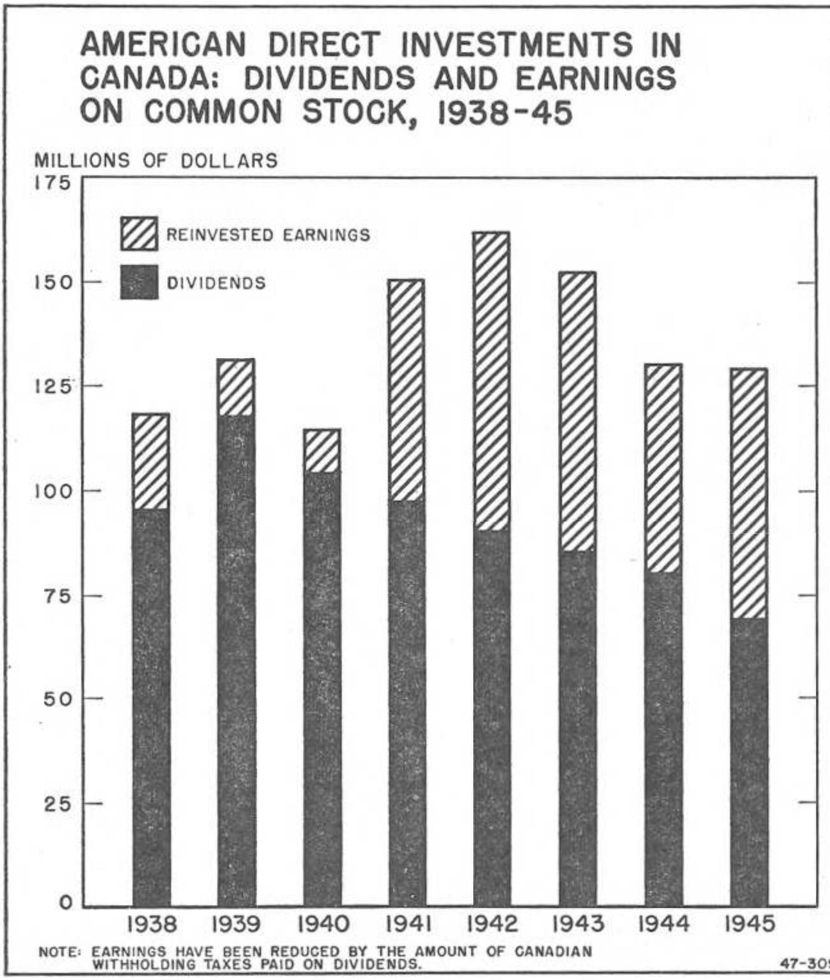
Area and industry	1940	1941	1942	1943	1944	1945
Sterling area, total	61.1	47.3	53.4	58.1	54.5	52.1
Manufacturing	26.7	23.2	22.5	24.2	21.3	20.2
Distribution	12.2	10.5	10.1	12.0	11.3	13.0
Agriculture	1.9	--------	.2	.2	.2	.3
Mining and smelting	2.1	1.1	1.6	1.8	1.2	.7
Petroleum	13.7	10.1	14.3	15.1	17.5	16.3
Public utilities	.1	.1	.2	.1	.1	.1
Miscellaneous	4.3	2.2	4.4	4.6	2.8	1.4
Undistributable	.1	.1	.1	.1	.1	.1
Canada, total	127.6	120.6	114.0	109.5	101.0	93.0
Manufacturing	51.8	50.3	51.0	44.3	41.1	34.4
Distribution	6.3	4.1	4.1	3.8	3.8	4.0
Agriculture	.1	.1	.1	.1	.1	.1
Paper and pulp	8.0	7.1	5.2	6.3	5.4	9.6
Fishing	(2)	(2)	(2)	(2)	(2)	(2)
Mining and smelting	31.2	32.0	25.8	25.1	24.7	20.9
Petroleum	5.3	7.1	6.2	6.2	4.7	4.6
Public utilities	16.6	14.1	15.4	16.8	14.7	13.2
Miscellaneous	3.2	.7	1.0	1.2	1.2	1.0
Undustributable	5.1	5.1	5.2	5.7	5.3	5.2
American Republics, total	152.9	179.2	176.6	180.9	241.7	220.1
Manufacturing	20.2	18.8	21.5	21.9	21.7	18.0
Distribution	9.8	9.9	11.5	11.7	14.9	12.5
Agriculture	11.3	18.1	22.2	18.0	28.4	30.2
Mining and smelting	53.0	56.0	52.2	48.5	38.9	29.3
Petroleum	36.4	47.5	39.8	51.1	107.2	100.8
Public utilities	16.9	21.8	24.5	24.8	25.1	25.2
Miscellaneous	4.9	6.8	4.5	4.5	5.0	3.7
Undustributable	.4	.3	.4	.4	.4	.4
Other, total	70.8	53.3	14.3	19.3	20.8	26.8
Manufacturing	14.2	13.5	2.5	6.0	1.3	3.6
Distribution	6.3	4.0	−0.2	2.3	1.1	.9
Petroleum	38.3	26.2	6.4	5.3	10.5	16.1
Public utilities	2.2	1.5	.2	.4	2.6	--------
Miscellaneous [3]	9.8	8.1	5.4	5.3	5.3	6.2
Undistributable	(2)	(2)	--------	(2)	(2)	--------

[1] For a cross-section view of the relative yields for the various industries in 1943 and a detailed statement of the types of income received from each industry in 1944, see appendix C, tables XVI, XVII, and XVIII.
[2] Less than $50,000.
[3] Includes income from agricultural and mining and smelting enterprises operating in "Other" area.
NOTE.—Detail may not add to totals because of rounding.

Though the returns from manufacturing enterprises were fairly steady, the experience within the industry was not uniform. Automotive profits virtually disappeared while pharmaceutical profits increased considerably, owing in large measure to the elimination of German drug firms in Latin America through the cooperative efforts of the American Republics. Increased income from public utilities reflected mainly increased industrial activity and the consequent demand for electric power, and the increased use of telephones and transportation. Among factors which contributed to maintain the flow of income during this period were the investment of new capital in manufacturing facilities, including rubber products and textiles, and a general easing of exchange controls affecting remittances of income.

Canada.—Unlike returns from Latin America, direct-investment income receipts from Canada, during the war years, fell both absolutely and proportionately to total direct-investment receipts, despite the fact that profits after taxes were higher during 1941–45 than in 1939 (see chart 20). Receipts declined from 31 percent ($127.6 million) of the total to 24 percent ($93 million) in this 6-year period, and yielded just under 5 percent.

Chart 20



The decline in income received in the United States after 1939 may be explained as follows:

(1) Beginning with the outbreak of the war in 1939, Canadian exchange-control regulations prevented the remittance of prewar profits.

(2) The depreciation of the Canadian dollar may also have affected adversely the remittance of dividends and, of course, reduced their United States dollar equivalent.

(3) In 1941 the Canadian withholding tax rate on dividends paid by Canadians to residents of the United States, by all except wholly owned subsidiaries, was raised to 15 percent from 5 percent.

(4) During this 6-year period, American direct-investment companies in Canada contributed to the expansion of Canadian industrial capacity by reinvesting over 35 percent of their net earnings.

(5) The production of gold was deemphasized as not essential to the war effort, thus reducing income on United States investments in gold-mining companies.

(6) Dividend payments were probably withheld during 1945 in anticipation of a return of the Canadian dollar to parity with the United States dollar.

The manufacturing industry accounted for an average of about 40 percent of total direct-investment receipts from Canada. Income from this industry, 75 percent of which is generally in the form of common dividends, declined by one-third in the 6-year period, although manufacturing companies were fully engaged. The decrease apparently reflected a general corporate policy of financing some plant expansion by reinvesting earnings, inasmuch as 50 percent of net earnings were retained by American direct-investment companies engaged in manufacturing in 1942. Nevertheless, the income paid out by the industry (including paper and pulp) amounted to $50.6 million in 1943, or a return of 5.4 percent on American capital. About one-third of the investment in all Canadian manufacturing companies was American-owned in 1939.[20]

Receipts from mining companies also declined by a third, from $31.2 million in 1940 to $20.9 million in 1945. The decrease reflected lower earnings, chiefly by gold-mining companies, owing largely to their inability to obtain much-needed equipment and to their loss of skilled labor to enterprises mining war-necessary metals. Reinvested earnings were negligible in this industry, averaging only a few percent of net income. Returns from investments in public utilities declined by 20 percent during the war.

Sterling area.—Receipts of income from the United Kingdom declined during the war and, as a result, accounted for only 49 percent of the total from the sterling area in 1944, compared with 59 percent in 1940. Earnings of American direct-investment companies in the United Kingdom apparently were somewhat larger in 1941 than in 1940 but, because there was a sharper increase in the proportion reinvested in 1941, income received in the United States declined from $35.8 million to $26.2 million. (See appendix C, table XV). Income receipts in subsequent years rose, following the easing of exchange restrictions.

The decline in income from South Africa occurred in manufacturing, owing in part to an inability to obtain subassemblies from the United States. On the other hand, receipts from petroleum enterprises raised sharply the receipts from Australia, Egypt, and India and accounted for more than half of the increase in income from all enterprises in the three countries during the war period. While recorded income receipts from petroleum investments in the sterling area increased, our figures do not include the profits of some companies in the Middle East that followed the practice of not declaring dividends. The effect of war damage in the sterling area on earnings and dividends is believed to have been small.

Other areas.—The income from enterprises in other areas dropped sharply, inasmuch as these areas included the enemy countries and the principal controlled and invaded countries. After 1941, earnings and income from those countries not under enemy domination rose.

[20] Report of Commissioners, Combines Investigation Act, Canada and International Cartels, Ottawa, October 10, 1945, p. 41.

Interest Receipts on Dollar Bonds Continued to Decline

The decline in interest receipts by American holders of foreign dollar bonds that began with widespread defaults in 1931 continued during the war period, although in 1945 receipts increased (see table 17). Among the factors influencing the level of receipts after 1939 were the continuous and increasing amortization of outstanding issues by Canadian—and to a lesser extent Latin American—borrowers and defaults by the Axis partners and overrun areas. Since the limited amount of new foreign borrowing in this country was mainly for the refunding of Canadian issues (at lower interest rates), even the new loans served to reduce interest receipts. On the other hand, debt settlements, particularly by several Latin American borrowers, and the relatively large volume of American purchases on American and Canadian security exchanges of Canadian bonds payable in United States dollars served to retard the rate of the decline in interest receipts and raised 1945 receipts almost to the 1942 total of \$78.6 million.

Between 1939 and 1942 interest received from the Axis and satellite nations fell from \$10.7 million to zero, while nonpayment by certain invaded countries lowered American receipts by about another million. Receipts from all other countries rose about \$4 million during the same period despite amortizations of \$132 million in excess of new issues of bonds. The increase was due mainly to the previously mentioned American purchases of Canadian securities from Canadian holders and to debt-adjustment plans on the defaulted obligations of Brazil, Colombia, Cuba, and the Republic of Panama.

During 1943 and 1944, large American purchases of outstanding Canadian securities offset only partly the effect on interest payments to the United States of the retirement of entire Canadian issues outstanding in this country and of the refunding of other Canadian issues at lower interest rates. In this period two important debt-settlement plans went into effect. One, affecting Mexican bonds, had an insignificant effect on bond interest, inasmuch as the principal of the defaulted obligations was scaled down to about one-fifth of the original value. However, bonds that originally had gone into default about three decades earlier were placed on an interest-paying basis. The second settlement affected the bonds of Brazil, this country's largest Latin American debtor, on which only token payments had been received since 1934, and added almost 20 percent to the interest received from that country in 1944 as compared with the preceding year.

Holders of Brazilian bonds were offered two settlement plans. Under plan A, the nominal value of the outstanding bonds remained unchanged, interest rates of 5 to 8 percent were scaled down to 1⅞ to 3½ percent, and maturity dates were extended an additional 22 to 84 years. Payments of interest and principal remained the responsibility of the original issuers. Plan B, provided for reductions of from 20 to 50 percent in the nominal value of each issue, cash payments of from \$75 to \$175 per \$1,000 bond to compensate for the loss in nominal values, and the issuance of new bonds with interest rates of 3¾ percent. The new securities became the direct obligation of the Brazilian Government.

In 1945 total dollar-bond interest receipts rose for the first time in 15 years as a result of additional American purchases of outstanding Canadian obligations, the readjustment of the debt of the Province of Alberta (Canada), and the acquisition of new bonds of the Spanish

Table 17.—*Interest receipts from American investments in foreign dollar bonds, 1940–45*

[In millions of dollars]

Area and country	1940	1941	1942	1943	1944	1945
All areas, total	82.3	79.0	78.6	72.2	69.8	77.4
Canada	58.8	57.8	61.7	56.5	55.0	61.5
American Republics	10.7	11.5	10.8	9.7	9.5	9.5
West Indies	1.3	1.4	1.4	1.1	.9	.8
Cuba	.9	1.0	1.0	.8	.5	.4
Dominican Republic	.2	.2	.2	.2	.2	.2
Haiti	.2	.2	.2	.2	.2	.2
Central America and Mexico	.3	1.3	.6	.6	.7	.6
Costa Rica	.1	.1	-	-	-	-
El Salvador	-	-	-	-	-	-
Guatemala	.1	.1	.1	.1	(1)	(1)
Panama	.1	1.2	.5	.5	.5	.5
Mexico	-	-	-	.1	.2	.1
South America	9.1	8.8	8.9	7.9	8.0	8.1
Argentina	2.9	2.8	3.0	2.3	2.2	2.1
Bolivia	-	-	-	-	-	-
Brazil	2.7	2.7	2.5	2.5	3.0	3.4
Chile	2.3	2.2	2.1	2.0	1.6	1.4
Colombia	.6	.5	.7	.6	.7	.7
Ecuador	-	-	-	-	-	-
Peru	-	-	-	-	-	-
Uruguay	.6	.6	.6	.5	.5	.5
Europe	6.8	4.2	3.1	3.0	2.3	3.5
Austria	-	-	-	-	-	-
Belgium	.4	.3	.3	.3	.3	.3
Bulgaria	.1	(1)	-	-	-	-
Czechoslovakia	-	-	-	-	-	-
Danzig	-	-	-	-	-	-
Denmark	1.4	1.4	1.4	1.4	1.4	1.4
Eire	(1)	(1)	(1)	(1)	(1)	(1)
Estonia	.1	-	-	-	-	-
Finland	.1	.1	.1	.1	(1)	.1
France	.2	.1	(1)	(1)	(1)	(1)
Germany	1.7	.7	-	-	-	-
Greece	.2	(1)	-	-	-	-
Hungary	.3	.2	-	-	-	-
Italy	.8	-	-	-	-	-
Norway	.8	.8	.8	.7	.5	.5
Poland	.1	-	-	-	-	-
Rumania	-	-	-	-	-	-
Spain [2]	-	-	-	-	-	1.2
U. S. S. R.[3]	.5	.5	.5	.4	-	-
Yugoslavia	.1	(1)	-	-	-	-
Africa (Liberia)	.1	.1	.1	.1	.1	(1)
Asia	3.3	2.8	.5	.5	.5	.5
China	-	-	-	-	-	-
Japan	2.7	2.3	-	-	-	-
The Philippines	.6	.5	.5	.5	.5	.5
Australia	2.6	2.6	2.4	2.4	2.4	2.4

[1] Less than $50,000.
[2] Bonds issued in 1945.
[3] Bonds retired in 1943.

Note.—Detail may not add to totals because of rounding.

Government. A Spanish issue of $50 million, taken by the International Telephone and Telegraph Company in 1945 as part payment for its telephone system in Spain sold to the Spanish Government, helped to increase the receipt of interest by $1.2 million.

During the period 1940–45 interest receipts on the dollar bonds of Canada rose from 71 percent of total receipts to almost 80 percent, although in the last year the par value of Canadian bonds held in this country aggregated only 57.7 percent of the par value of all foreign dollar bonds in American hands (see appendix C, table XXI). The importance of relatively high rates of return on Canadian dollar bonds was reflected in the yield on both the par and market values of all dollar bonds held in the United States during the 6-year period under consideration, which ranged from 3.4 to 3.7 percent on a par-value basis and from 4.4 to 5.7 percent on a market-value basis. As might be expected, the yield on a par-value basis of most Latin American, European, and Asiatic bonds was below 2 percent during most of the period, although market prices of many of these securities were low enough to provide attractive yields (see table 18).

TABLE 18.—*Average yield on par and market values of American investments in foreign dollar bonds, 1940–45* [1]

[In percent; intereset received to value at end of year]

Area	1940		1941		1942		1943		1944		1945	
	Par	Market	Par	Market	Par	Market	Par	Market	Par	Market	Par	Market
All countries	3.5	5.7	3.5	5.5	3.6	5.2	3.4	4.6	3.4	4.4	3.7	4.7
Canada	4.4	5.1	4.5	4.9	4.9	5.1	4.7	4.6	4.6	4.4	5.3	4.9
West Indies [2]	4.2	7.5	4.8	7.0	4.9	6.7	4.6	5.2	4.8	5.2	5.0	5.3
Central America	.4	3.3	1.7	[3] 11.2	.8	[3] 4.1	1.1	3.2	1.2	3.8	1.2	2.9
South America	1.7	7.3	1.7	6.9	1.8	5.4	1.7	4.2	1.9	4.3	2.0	4.1
Europe	2.5	10.0	1.7	8.5	1.3	8.4	1.3	8.0	1.0	5.0	1.3	3.5
Asia	5.5	9.6	4.9	8.8	.9	4.2	.9	4.0	.9	3.9	.9	3.8
Africa and Oceania	5.1	9.0	5.3	8.2	4.9	6.1	5.0	5.4	5.1	5.2	5.0	4.8

[1] After 1941 bonds of the following countries were included in the average yields on a par-value basis but were excluded from the yields on a market-value basis: Austria, Bulgaria, Germany, Hungary, Italy, Rumania, and Japan. The exclusion of these countries would have raised the total yield on par value for 1945 from 3.7 to 4.2 percent.
[2] Includes Mexico.
[3] Reflects payments by the Republic of Panama on coupons in arrears.

Interest Receipts on U. S. Government Loans and Investments

The volume of United States Government loans outstanding prior to 1940 was negligible by present standards (see table 27) and the amounts advanced during the war were moderate, inasmuch as the major financial assistance to the Allied countries was provided through lend-lease aid. Consequently, the Government received a relatively small volume of interest during the war (ranging from $3 million to $18 million per year), primarily on the loans of the Export-Import Bank and on the Reconstruction Finance Corporation loan of $425 million to the United Kingdom in July 1941 (see table 13).

Income Receipts on Miscellaneous Investments Increased Slightly

Income received by United States residents from miscellaneous investments abroad, that is, investments other than direct investments, dollar bonds, or Government loans, is estimated to have ranged from $51 million to $65 million during the war years. The low point of $51 million was reached in 1941 as receipts from Canada dropped off, but there were increases thereafter in every year except 1943, and a high point of about $65 million was reached in 1945 (see table 13). The fairly steady increases in receipts after 1941 were largely the result of continued purchases by Americans of Canadian corporate stocks and internal bond issues.

Income Paid to Foreigners on Investments in the United States

Investment income paid to foreigners, after deduction of United States taxes, declined by 26 percent, from $210 million in 1940 to about $159 million in 1942, and remained near this level through the remaining war years. However, these data include payments by the United States Government on foreign investments in long- and short-term Government securities and deposits with the Treasury. These payments increased from $6 million in 1940 to $8 million in 1942 and to $14 million in 1945. Thus, payments to foreigners on holdings of other than United States Government obligations were reduced by various war-induced factors to levels comparable with those in the period 1924–25 and the depression year of 1935.

The trend in income payments to foreigners from 1940 to 1945 was closely associated with the experience of American business as a whole in the period. Although payments to foreigners declined sharply while American industry enjoyed increased earnings and was able to increase domestic net dividend payments by about 20 percent from 1940 to 1945,[21] the decline in payments to foreigners was due to special wartime factors and did not reflect the profitability of foreign investments here. The most important factors causing reduced payments to foreigners were the large-scale liquidation of holdings of American securities, the increase in income tax rates applicable to income paid to foreigners, and an increased tendency on the part of American subsidiaries of foreign corporations to retain earnings in the United States during the war, although the latter factor cannot be accurately estimated.

The largest declines were in dividend payments on portfolio holdings, about $25 million, and in payments on direct investments (mainly dividends), about $20 million. Payments on portfolio holdings fell largely as the result of British liquidations of large holdings of high-grade United States securities to provide dollar exchange.

Net sales of United States corporate shares by foreigners from the end of 1939 through 1945 amounted to about $565 million, reducing foreign investments here, and, consequently, payments to foreigners. In addition, payments to foreigners were calculated after United States withholding taxes; the average withholding tax applied to the income paid to nonresident aliens not engaged in trade or business in the United States rose from about 12.3 percent in 1940 to about 26.1 percent in 1945.[22]

Income Payments on Direct Investments

The decline in payments to foreign parents by direct-investment enterprises in the United States was attributable to several causes. Early in the war, the British disposed of the controlling interest in the American Viscose Corp., which paid total dividends of a little over $4 million in 1940, while the Alien Property Custodian vested the enterprises in the United States controlled by the Axis nations, which had yielded about $2.5 million in 1937. A further element was the degree to which United States subsidiaries of foreign enterprises reinvested their earnings. Unfortunately, little is known about such reinvested earnings during the war period, although it was estimated that in 1937 they amounted to 15 percent of net earnings.[23] Figures for all Ameri-

[21] U. S. Department of Commerce, National Income, Supplement to Survey of Current Business, July 1947, tables 11 and 20.

[22] The United States withholding tax rate applicable to most types of income payments (except for Canada and Sweden, for which countries tax conventions established special rates) was 10 percent at the beginning of 1940, rose to 16½ percent in that year, reached 27½ percent in 1941, and finally increased to 30 percent during 1942, at which level it remained throughout the rest of the war period.

[23] U. S. Department of Commerce, Foreign Long-Term Investments in the United States, 1937–39. Economic Series No. 11, 1940, p. 41.

can corporations, however, indicate that the percentage may have been much larger in the late war years.

Income Payments on Portfolio Investments

Interest payments on corporate bonds, a relatively small component, fell sharply, from $22 million in 1939 to about $14 million in 1940 and to about $10 million in 1945. A primary factor in this reduction was the difficulty involved in the presentation of coupons for payment on bearer bonds held in countries occupied by the Germans, although payments were made on bonds held in custody in the United States. The operations of Foreign Funds Control in the United States prevented payment on bonds seized by the enemy. A contributing factor in the decline of interest payments was the continued amortization of funded debt by American corporations, as well as refunding operations which reduced the interest rates prevailing on outstanding issues.

Income payments to various foreign countries which were the principal recipients from the United States are shown in appendix C, table XIX, for the years 1942 through 1945. Similar compilations were not undertaken for 1940 and 1941. Relatively few countries accounted for most of the receipts from the United States, notably the United Kingdom, Canada, the Netherlands, and Switzerland. In 1942 these four countries accounted for 73.7 percent of the income paid out, and in 1945 for 69.2 percent. The smaller share of these countries in 1945 was due in part to increased payments to China on holdings of United States Government bonds and to larger payments made to the Netherlands West Indies on direct investments in the petroleum industry in the United States. The latter payments, however, were essentially the same as payments to the Netherlands, since they represented payments to the Batavian Petroleum Company, which had its head office in the Netherlands before 1940, and has returned since the war.

Interest Paid by the U. S. Government Relatively Unimportant

Although the United States Government made no specific effort to borrow from foreigners, the latter increased their holdings of obligations of the Government—particularly of short-term paper—and held roughly $1.8 billion of short-term obligations and $493 million of long-term bonds at the end of 1945. In addition, the Philippine Government had deposits with the United States Treasury of about $520 million on the latter date. The interest payments of the United States Government on these obligations amounted to $14.2 million in 1945 and ranged from about $6 million to $14 million during the war. It was not possible to measure interest payments to foreigners on Government bonds with a high degree of accuracy, because many of the issues were free of income tax, thus eliminating tax records as a source of information, and because of the lack of separate data on foreign purchases and sales of these securities.

Rates of Return on Foreign Investments

The rates of return on foreign investments in the United States and on United States direct investments abroad, together with rough comparisons with the experience of United States business as a whole, are presented in chart 19 (p. 71). The rate of income received by foreigners on direct investments in the United States seems to have been low, in the aggregate, throughout the war. This is not necessarily an indication that earnings were reduced, although many direct investments in the United States were adversely affected when contact with the home country was broken, but is probably an indication that for several reasons earnings in the United States were accumulated rather than paid out in dividends. Further, there was considerable variation among industrial groups, with the large Canadian investment in American railroads yielding little income while earnings on foreign investments in petroleum were substantial.

The rate of return on foreign direct investments in the United States was lower than the ratio of dividend payments to net worth for American companies as a group. This difference is due partly to the fact that the computed rate of return on direct investments included interest payments to parent companies on long- and short-term loans and the amount of such loans outstanding was included in the value of foreign equity on which the rate of return was based.

The yield to foreigners on their portfolio holdings of United States corporate stocks also is presented in chart 19.[24] The rates are necessarily only approximate, since they are based on estimates of income payments and market value of investments at year-ends. The yield on foreign holdings of corporate stocks appears to have been rather close to the prevailing yields for Moody's series of 200 United States common stocks. The lower yield to foreigners was to be expected since some preferred stocks were included among the issues held by foreigners and because foreign investors have generally preferred high-grade stocks.

Outlook

Receipts of income from American investments in foreign countries are expected to remain at relatively high levels in coming years, barring a world-wide depression. The same is expected of the volume of income payments to foreigners on investments in the United States.

Income receipts from direct investments abroad are expected to reach new high points. Increases are anticipated in all industries, with petroleum, mining, agriculture, and manufacturing providing the largest gains. Income from petroleum, the most important income-producing American investment, is expected to rise with the increased exploitation of foreign resources. In general, the yet-unsatisfied industrial and public demand for commodities, coupled with rising prices, will continue to affect favorably American industry abroad.

In mining, the income resulting from production to meet the very large world-wide demand for copper is expected to be augmented by increasing income from gold and nickel properties, despite rising production costs. It appears that Caribbean sugar producers will continue to prosper as sugar prices rise and there are record crops in that area, while the supply of sugar from the Far East will probably not be on the market in great volume until 1948. Banana-growing companies should experience increasing profits, as they did during the latter part of the war once the shipping situation eased and imports into the United States increased.

Income from branch plants and distributive enterprises should in-

[24] The calculated yield to foreigners on corporate bond holdings is not shown because of the inability of many foreigners to present bearer coupons for payment.

crease as manufacturing output increases in Europe and taxes are reduced in Canada. Income from companies producing paper and pulp can also be expected to rise because of favorable market conditions, which are expected to continue for these products for a considerable time. Returns from utilities are expected to follow the general level of receipts, although they may be unfavorably affected by sales of properties resulting from nationalization programs, notably in Argentina and elsewhere in Latin America.

During the war, the small amount of income that was received from continental Europe originated in the neutral countries. Increasing amounts of income are expected from these countries and also from Germany and countries that had been under German control or domination. In 1940 income from continental European countries, other than the neutrals, totaled about $20 million, and presumably was much higher in prewar years. Income from eastern European countries had never been large and approximated $5 million of the $20 million in 1940. Little or no income is expected from eastern Europe, since important American properties there suffered physical damage or were nationalized. Income from properties in Japan and in overrun territories in the Far East, which had produced about $33 million of income in 1940, can be expected to remain low for some years, because of political changes and wartime destruction.

A much-publicized, although not yet very important, source of income seems to be the export of American know-how, accompanied by minority participation by Americans in entrepreneurial investments. This form of participation may result in a growing source of dividend income and in the receipt of royalties on manufacturing processes (which are treated in the balance of payments as receipts on Miscellaneous Services account).

Interest receipts on foreign-dollar bonds will probably again resume their downward trend until new large-scale loans are made to foreign countries, through either direct flotations in this country or indirectly through the purchase by Americans of bonds of the International Bank for Reconstruction and Development. Until such loans take place, interest receipts will decline, at a pace determined mainly by the rate of amortizations and conversions to lower interest rates.

Receipts of interest by the United States Government will be second in importance only to receipts from direct investments in coming years, as a result of the large and growing volume of loans made by the Government after 1944. Beginning in 1951, when interest on the $3,750-million loan to the United Kingdom begins to be payable, receipts by the Government will probably aggregate about two and a half times the amount received in 1945 on dollar bonds.

The two factors of prime importance in determining income payments to foreigners in the next few years will be foreign sales or purchases of United States securities and the trends in American business as a whole. There is little likelihood that foreigners will make large new purchases of United States securities in the near future, primarily because a shortage of dollars will require the continuance of European and Canadian foreign exchange controls. As part of the same problem, there have been repeated reports that shortages of dollar exchange will force the liquidation of some of the extensive Netherlands and French holdings. However, it is likely that when the International Bank begins its lending operations the pressure for liquidation will be at least partly relieved. Therefore, the experience for the next few years will probably be a relatively small volume of foreign transactions, with perhaps a moderate liquidation of foreign holdings.

It is expected that payments on private foreign investments will probably average moderately higher in the 1947–50 period than the 1945 total of $150 million, but will not recover to the highest prewar levels of well over $200 million. Payments on foreign holdings of United States Government obligations will probably be reduced from the 1945 amount of $14 million, since there was a considerable reduction in foreign holdings of such bonds in 1946, and foreign holdings of United States Government short-term securities will probably be greatly reduced in the near future.

Private Miscellaneous Services

The principal items in this group are shown separately in table 19, and notes regarding their composition and methods of compilation appear in the appendixes. Most of the entries are relatively small and showed no significant fluctuations during the war.

On balance, the United States increased its net receipts in this category substantially during the war, primarily because of the rise in motion-picture rentals and foreign government administrative expenditures in the United States.

The relatively low level of motion-picture receipts in 1940 and 1941 reflected primarily the partial blocking of such remittances by British exchange control authorities, while the unfreezing of these blocked balances in 1942 led to an abnormally high total for that year. The wartime rise in administrative expenditures of foreign governments and international agencies in the United States resulted from a tremendous expansion in the number of personnel involved, as well as higher salaries and other costs. The establishment of purchasing missions and similar organizations increased the number of persons working for foreign governments many times in comparison with the prewar level.

TABLE 19.—*Private miscellaneous services, 1940–45*

[In millions of dollars]

Item	1940	1941	1942	1943	1944	1945
Receipts, total	149.9	210.1	334.1	379.6	382.8	381.9
Communications	20.0	27.0	27.1	32.2	37.4	39.4
Insurance	37.4	37.3	50.4	68.6	74.9	79.3
Motion picture rentals	49.2	48.9	125.0	114.1	109.9	111.3
Royalties, home office charges, etc	27.6	35.9	32.3	31.9	33.0	34.7
Foreign representation, etc	15.0	60.0	98.0	131.2	125.2	113.9
Other services	.7	1.0	1.3	1.6	2.4	3.3
Payments, total	95.4	92.0	114.5	135.5	148.3	158.2
Communications	17.0	20.0	18.4	23.3	22.3	24.1
Insurance	65.9	58.5	71.6	81.2	88.5	92.8
Royalties, home office charges, etc	8.1	7.7	9.3	8.0	10.4	10.4
Other services	4.4	5.8	15.2	23.0	27.1	30.9

Government Miscellaneous Services

In prewar times, miscellaneous service transactions of the United States Government were not significant in the United States balance of payments. During the war, however, the account assumed great importance with the increasing participation of the United States in the global conflict.

As might be expected, unilateral transactions—direct lend-lease and reverse lend-lease—dominated the account. Among government military transactions, payments far exceeded receipts, with so-called net troop pay being the major item.

TABLE 20.—*Government miscellaneous services, 1940–45*

[In millions of dollars]

Item	1940	1941	1942	1943	1944	1945
Services rendered (receipts)	20	167	963	1,936	2,090	1,448
Lend-lease services		125	905	1,853	1,930	1,285
Other military services		9	13	47	134	118
Other nonmilitary services	20	33	45	36	26	45
Services received (payments)	93	166	699	1,863	2,439	2,539
Reverse lend-lease services			88	805	907	1,006
Net troop pay	40	29	178	304	632	644
Other military services	31	104	385	674	809	793
Other nonmilitary services	22	33	48	80	91	96

Lend-Lease Services Large

The break-down of lend-lease services by purpose cannot be considered too exact, because of the method here used to take out lend-lease transportation costs (see appendix B, pp. 184 to 186) and because the official lend-lease fiscal statistics did not follow a purpose classification which was very informative for balance-of-payments purposes.

The largest service item shown in those statistics appeared to be the transfer of vessels to foreign control, which might more properly have been considered a merchandise, or, alternatively, a transportation, item. Also included is the cost of military or other installations furnished to foreign governments. Part of this may consist of items more properly classifiable as merchandise. The remaining amounts went for "servicing of vessels," which includes, but is not limited to, transportation services as defined in this volume, certain training programs, transportation of personnel, and other items.

In addition to the very large amounts of lend-lease "defense aid," which to an overwhelming extent was rendered free of charge to foreign governments and was thus offset in the unilateral transfer account, there were also certain Government cash receipts. The bulk of these, as might have been expected, went to the War and Navy Departments, but regular civilian agencies also received sizable sums in payment for various services rendered to foreign governments and persons. Transportation furnished by the Army to foreign civilian workers was one of the larger items appearing under this heading.

Services Received as Reverse Lend-Lease

On the payments side, reverse lend-lease services constituted an important item. These were of the same general nature as the direct lend-lease services just discussed, except that transfers of foreign vessels to the United States on a reverse lend-lease basis were not a significant item. The outstanding type of service rendered to the United States was the construction and maintenance of installations, such as roads, docks, airfields, and barracks. In the United Kingdom, especially, practically all such services were furnished gratis to the United States as "mutual aid," the British term for reverse lend-lease.[25]

Net Troop Pay Fails To Reach Expectations

Aside from reverse lend-lease, the most important type of Government payment was the personal expenditures of military personnel, herein referred to as net troop pay. More precisely, net troop pay is here defined as the gross amount of pay and allowances to troops stationed abroad less (1) all remittances to the United States through Army finance officers, (2) cash purchases of war bonds, and (3) purchases of American merchandise in Army post exchanges and Navy ship service stores.

In a few areas, United States military personnel was paid in and spent actual dollar currency. In others, the troops were paid in local currency which had been purchased from the country concerned against dollars (or a dollar liability). In still others, however, the local currency was furnished to the United States Army without reimbursement, and expenditures of such currencies were, therefore, offset by a credit entry in the unilateral transfer account. The occupation currencies issued to the United States Army in enemy countries fell in this category, although in the case of Italy a dollar obligation for the currency was subsequently recognized. Local currencies received gratis or against a dollar liability subject to adjustment were known as special currencies.[26]

In addition, payment in special currency were made for services other than net troop pay. For the most part, these were also nonredeemable.

It was anticipated that those countries in which net troop pay was regarded as a United States obligation would thereby obtain considerable quantities of dollars, and that this would be a valuable offset to their various war-created obligations to the United States. But in some countries this did not prove to be the case to the degree originally envisaged. This development, as is generally known, resulted from the unexpectedly high ratio of remittances to gross troop pay; for some time periods and areas the ratio was in excess of 100 percent. This high ratio in turn was produced by various circumstances, including the conversion into remittances of local currencies received from the sale of personal property, and other activities on the part of the troops.

The apparent overvaluation of most liberated-area currencies at the official rate of exchange was also a major deterrent to troop spending, leading the men to seek to satisfy their demands for local goods and services by bartering cigarettes, chocolate, soap, and other scarce goods. Again, the sheer shortages of things to buy in many countries led the military personnel to send larger portions of their pay home than they might otherwise have done.

[25] For a more extended discussion of lend-lease and reverse lend-lease operations in general, see p. 186.

[26] See appendix B, p. 000, for a more complete discussion of the special currency question.

Unilateral Transfers

For many years, private noncommercial remittances have been an important feature of our balance of payments. A large immigrant population led to large transfers of funds as gifts to relatives and friends in the "Old Country," while religious and charitable institutions also made large contributions to foreign countries. During the war, however, these transfers were far overshadowed by unilateral transfers under lend-lease, reciprocal aid, invasion currencies, and other schemes whereby one nation made large transfers of goods and services to other nations, either voluntarily or involuntarily, without receiving any quid pro quo in the form of goods, services, capital claims, or gold.

Government Transfers

As indicated elsewhere, unilateral transfers may be either in cash or in kind; Government transfers were overwhelmingly in kind as almost $60 billion of goods and services were transferred under lend-lease and reciprocal aid. In these cases, the entry in the unilateral account balances or offsets an entry of opposite sign in the goods and services group; the transactions involved have been previously discussed. The transactions in nonredeemable invasion or occupation currencies have been similarly handled in this report; the expenditure of such currencies has been entered as a debit in the goods and services account, offset by a credit of equal size in the unilateral account. Thus, only a few special transactions need be mentioned here.

In 1940 and 1941 the only Government unilateral item of a cash nature was the continued (from prewar) refund of certain taxes on Philippine imports to the Government of the Commonwealth amounting to about $20 million in each year.

In 1942 the first $200 million of the special aid to China authorized by Congress in February of that year was disbursed. Because of the rather nebulous provisions regarding possible repayment of this aid, we have treated the transaction as a unilateral transfer. Also during 1942 over $100 million of enemy alien property was vested by the Government; this has been entered as a unilateral receipt. Actually, under the Potsdam agreement such seized assets are to be retained by the United States as reparations.

Special currency transactions appeared in volume for the first time in 1944 and increased considerably in the following year. Another credit item in that year was profit on gold sales by the Stabilization Fund, here considered a unilateral receipt since such sales in effect resulted from permission to purchase certain foreign currencies (needed by the Army) at less than their official exchange rates.

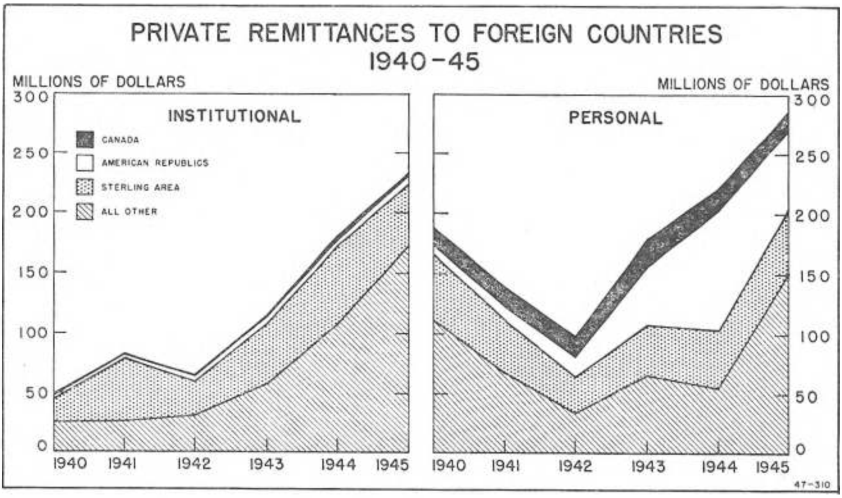
Final installments, totaling $225 million, on the aid-to-China program were disbursed in 1945. In that year, also, transfers through UNRRA got under way in significant amounts, and $92 million in cash was made available to that agency as part of the "free fund" portion of the United States subscription. A receipts item of some size was a special bonus in francs provided the American troops by the French Government to compensate partially for the overvaluation of the franc at the official rate of exchange.

Personal Remittances [27]

Personal remittances are any noncommercial payments between individuals. As with Government transfers and institutional contributions, these remittances may be made either in cash or in kind, although in normal times remittances in kind have not been very important. The estimates in this report are based largely on data furnished by banks and other remitting agencies, and, because the reporters are not always in a position to know the purpose for which a remittance is made, it is possible that some transfers for other purposes may be included.

The principal factor influencing the volume of personal funds sent abroad from the United States has undoubtedly been the size and character of the remitting groups (presumably almost solely foreign-born residents) and the strength of their ties with their mother countries. After the cessation of large-scale immigration, there was a noticeable secular decline in foreign personal remittances. Other factors operate in the short run, however, to vary the volume of remittances. Increased need abroad accounted for extremely large payments immediately following World War I, and the fluctuations in national income in the United States also had their effect. During World War II, the presence of foreign laborers temporarily imported into the United States markedly increased personal remittances to Mexico and certain Caribbean islands (See appendix C, table XII). Remittances broken down according to the areas discussed in chapter III are shown in chart 21.

Chart 21



Oversea Remittances Decline During War

The outbreak of war in Europe increased the need for funds from the United States, and total personal remittances in 1940 reached a post-depression peak of $188 million in that year. The much lower totals in 1941 and 1942 resulted entirely from reduced remittances to Europe, most of which was cut off from financial contact with the

[27] The estimates on personal and institutional remittances included in this chapter were prepared by Jessie L. C. Adams.

United States after our entry into the war. Italy was reopened to the receipt of personal remittances late in 1944 and in 1945, of the $155 million in total transfers to Europe, one-third was destined to Italy. Greece, also cut off during the war, received remittances of $23 million in 1945—the largest amount sent to that country in any single year since 1931.

The relatively high total payments in 1943 and 1944 were largely the result of deductions from wages of alien workers and their supplemental voluntary remittances. Because of the manpower shortage in the United States, two programs employing imported alien workers were in operation during the war.

One of these was the program of the United States Department of Labor, instituted under the auspices of the War Manpower Commission and put into operation in May 1943. This program, for the employment of Mexican nationals on United States railroads, was ultimately responsible for the importation of 67,000 workers into the United States. The effect of this program was reflected in the sharp increase in remittances to Mexico beginning in 1943. A portion of the wages earned by these workers was deducted by the employers and deposited with specified Mexican banks to the savings accounts of the Mexican workers, but additional large amounts were transferred through regular channels, such as postal money orders and bank remittances.

The second program was that sponsored by the United States Department of Agriculture for the employment of imported Bahamian, Barbadian, British Honduran, Jamaican, and Mexican workers. Approximately 16,000 were brought in for employment under this program from its beginning in 1943. Deductions were also made from the salaries of these workers, but again these sums were supplemented by voluntary remittances.

Gift Parcels Included

The personal remittances account includes the value of gift parcels—mostly food and clothing—sent to European and certain other areas suffering from the effects of the war. Such gifts are negligible in ordinary times, but it is estimated that packages valued at more than $30 million were shipped in 1945. Since in many European countries the problem was one of over-all shortages of goods, the food package was a more satisfactory gift than a money transfer. Local prices in some countries out of line with official exchange rates also made it much more desirable to send goods than money. Many of the packages, too, were sent by American families to Europeans whose names were furnished by various religious and charitable organizations, and not merely to friends and relatives, as is the usual case with personal remittances.

Receipts

Stability in personal remittance receipts during the war was due to conflicting trends. Decreased remittances from war areas were offset by increased receipts from the Western Hemisphere—chiefly from Latin America.

Outlook

As long as personal incomes in the United States are high and the needs abroad are substantial, personal remittances may be expected to maintain or exceed the 1945 rate. In the long run, however, the secular decline evident in the interwar period will undoubtedly be resumed, although immigration at a higher level than in the 1930's might tend to slow the rate of decline.

Institutional Remittances

Institutional remittances include noncommercial transfers of funds and materials by philanthropic, religious, educational, and scientific organizations. These organizations assist in the support of hospitals, missions, churches, schools, and scientific undertakings abroad. Contributions increase during periods of war and postwar rehabilitation, when substantial remittances in cash and supplies are made to alleviate suffering in war areas.

For balance-of-payments purposes, estimates of institutional remittances of the United States to foreign countries have been divided into the following groups:

1. Protestant churches and groups.
2. Catholic institutions.
3. Jewish organizations.
4. Nonsectarian institutions.

The fourth group, ordinarily comprising institutions devoted to educational, scientific, and philanthropic purposes, has been greatly augmented in recent years by organizations formed for the specific purpose of providing war relief. A break-down according to the areas discussed in chapter IV is shown in chart 21. For further detail see appendix C, table XIII.

Trends

From the close of World War I to 1935 there was a strong downward trend in institutional remittances. The initial drop after 1919 was the result of the reduced need for American assistance in the reconstruction and development of war-devastated Europe. During the 1920's, renewed interest in foreign religious missions and international nonsectarian philanthropies, accompanied by higher income levels, stimulated increased remittances to other countries, although the total continued to decline. Beginning in 1936, institutional gifts increased considerably, the development becoming more pronounced in 1940 as a result of large contributions for European and Asiatic war relief. This war-induced increase in institutional remittances continued throughout the period under study, except for a slight set-back in 1942, when entrance of the United States into the war severed connections with some countries that had been large recipients of these gifts.

Most agencies increased foreign remittances during the years 1940 to 1945, although the increase was proportionately larger in the Jewish and nonsectarian groups. Jewish contributions showed a marked rise in 1944 and 1945, after the war had progressed far enough to make possible the beginning of the task of resettling European Jews.

Nonsectarian agencies included, among others, the American Red Cross and the various specialized war-relief agencies other than those with definite sectarian connections. Expenses incurred by the Red Cross in serving the United States armed forces abroad are also included in the account.

Significances and Outlook

Remittances by nonsectarian agencies alone in 1945 were higher than the total for all institutions in the post-World War I peak year of 1919. Although the much higher level of United States national income in 1945 was undoubtedly a significant factor in this difference, it was also accounted for by the greater devastation and need abroad, the much vaster character of activities undertaken to maintain the morale of American troops in foreign countries, and, perhaps, a greater awareness of distress overseas and willingness to share the financial burden of relieving it.

Preliminary data indicate a continued high level of disbursements in 1946, with prospects for only a slight decrease, if any, in 1947. As long as foreign needs remain acute and American incomes remain relatively high, a continued large volume of foreign institutional remittances can be expected.

Chapter III

Capital Movements and Gold

Movements of Long-Term Capital [1]

The movement of long-term capital during World War II was characterized by an outflow of both American and foreign funds from the United States, paralleling in many respects the experience of World War I and in sharp contrast with the inward movement from 1931 through 1939.

The United States was a debtor to the extent of about $3.7 billion at the outbreak of World War I, but as a result of private loans (primarily to the British and French Governments) and the liquidation of foreign holdings of American securities, the United States emerged a creditor nation, at the end of 1919, to the extent of $3.7 billion.[2] Large annual investments of American capital in subsequent years increased the creditor position considerably.

In the latter half of 1928 and in 1929, the greater attractiveness of domestic investments diverted the flow of American capital to domestic securities, and after 1930 new United States investments abroad virtually ceased. Unsettled conditions at home and abroad discouraged the outflow of United States capital, and there was a continued net inflow until World War II.

In the period between the wars foreigners purchased large amounts of American securities. This uphill movement of capital contravened the concept of the progress of a country from a debtor to a creditor which holds that, in general, the repayment of foreign debt precedes the accumulation of foreign investments. It is abundantly clear, however, that in this instance the creation of new foreign debt by a country already a net creditor resulted from the initiative of foreign investors in taking advantage of both investment and speculative opportunities in this country while avoiding increasingly insecure conditions at home.

During the 6-year period, 1940–45, the net outward movement of long-term capital from the United States aggregated $2,371 million (see tables 21 and 22). Roughly three-quarters of the net movement reflected United States Government credits and loans—a sum that, owing to the financing provided by lend-lease, was small compared with Government loans during World War I.

[1] Prepared by the Investment Section.

[2] Lewis, Cleona. America's Stake in International Investments. The Brookings Institution, Washington, D. C., 1938, p. 447. Figure for 1919 adjusted to exclude sequestrated properties and intergovernment debts.

TABLE 21.—*Long-term capital transactions between the United States and foreign countries, 1940–45* [1]

[In millions of dollars; net receipt (+) or payment (−)]

Item	1940–45	1940	1941	1942	1943	1944	1945
I. Through movements of United States capital invested abroad:							
A. Receipts	1,984.9	208.7	193.5	219.4	402.0	406.1	555.2
Private	1,659.6	207.2	165.4	155.4	331.0	338.3	462.3
Portfolio investments	740.6	83.7	59.3	74.8	192.3	147.5	183.0
Amortization of foreign securities	669.3	42.1	59.3	59.3	192.3	133.3	183.0
Transactions in outstanding foreign securities, net [2]	48.5	41.6	--------	--------	--------	6.9	--------
Bank loans, net	22.8	--------	--------	15.5	--------	7.3	--------
Direct investments	919.0	123.5	106.1	80.6	138.7	190.8	279.3
U. S. Government	325.3	1.5	28.1	64.0	71.0	67.8	92.9
B. Payments	3,842.9	192.1	507.8	293.9	486.4	559.8	1,802.9
Private	1,890.5	139.5	98.5	219.7	291.0	329.3	812.5
Portfolio investments	1,233.6	47.9	39.7	157.8	249.8	209.4	529.0
New foreign issues [3]	390.4	--------	4.4	25.1	118.1	84.0	158.8
Transactions in outstanding foreign securities, net [2]	659.3	23.1	24.7	98.8	124.7	125.4	262.6
Bank loans, net	183.9	24.8	10.6	33.9	7.0	--------	107.6
Direct investments [4]	656.9	91.6	58.8	61.9	41.2	119.9	283.5
U. S. Government	1,952.4	52.6	409.3	74.2	195.4	230.5	990.4
II. Through movements of foreign capital invested in the United States:							
A. Receipts	629.5	156.9	78.2	87.2	43.3	233.6	30.3
Portfolio investments [5]	629.5	156.9	78.2	87.2	43.3	233.6	30.3
Transactions in outstanding domestic securities, net [6]	368.4	--------	5.7	56.6	42.3	233.5	30.3
United Kingdom capital assistance	254.2	150.8	72.5	29.8	1.0	.1	--------
Bank loans, net	6.9	6.1	--------	.8	--------	--------	--------
B. Payments	1,142.6	246.7	405.5	170.9	106.3	58.9	154.3
Portfolio investments	897.0	246.7	326.2	74.5	53.9	43.3	152.4
Amortizations of American securities	60.0	10.0	10.0	10.0	10.0	10.0	10.0
Transactions in outstanding domestic securities, net [6]	639.5	231.0	257.7	--------	4.5	12.8	133.5
United Kingdom capital assistance	140.2	5.7	52.7	56.8	16.1	8.9	--------
Vestings by Alien Property Custodian	51.4	--------	--------	7.7	23.2	11.6	8.9
Bank loans, net	5.9	--------	5.8	--------	.1	--------	--------
Direct investments	245.6	--------	79.3	96.4	52.4	15.6	1.9
Vestings by Alien Property Custodian	154.8	--------	--------	96.4	52.4	4.1	1.9
Other	90.8	--------	79.3	--------	--------	11.5	--------
III. Net movement of United States and foreign capital	−2,371.1	−73.2	−641.6	−158.2	−147.4	+21.0	−1,371.7
A. United States capital	−1,858.0	+16.6	−314.3	−74.5	−84.4	−153.7	−1,247.7
Private	−230.9	+67.7	+66.9	−64.3	+40.0	+9.0	−350.2
Portfolio	−493.0	+35.8	+19.6	−83.0	−57.5	−61.9	−346.0
Direct	+262.1	+31.9	+47.3	+18.7	+97.5	+70.9	−4.2
U. S. Government	−1,627.1	−51.1	−381.2	−10.2	−124.4	−162.7	−897.5
B. Foreign capital	−513.1	−89.8	−327.3	−83.7	−63.0	+174.7	−124.0

[1] A receipt (or an inflow) of capital results either from an increase in foreign assets in the United States or a decrease in United States assets abroad. Conversely, a payment (or an outflow) of capital results either from a decrease in foreign assets in the United States or an increase in United States assets abroad. The table covers only changes involving the flow of capital and does not reflect changes in the value of assets resulting from other factors.

[2] In those years for which both receipts and payments are shown, the payments represent unrecorded United States purchases of foreign securities (appendix B, p. 189). Totals for the period are sums of the annual net figures.

[3] Includes issues placed publicly and privately for new capital and for refunding purposes. Excludes discounts and commissions and issues of foreign-incorporated enterprises controlled in the United States. Includes the following estimated amounts of privately taken issues (for each year, in millions of dollars): 1940 and 1941, none; 1942, 25; 1943, 34; 1944, 70; and 1945, 99.

[4] Includes offerings in the following amounts by foreign-incorporated enterprises controlled in the United States (for each year, in millions of dollars): 1940, 1941, and 1942, none; 1943, 2; 1944, 27; and 1945, 12.

[5] There were no known inward movements of direct-investment capital.

[6] Includes foreign purchases and sales of U. S. Government obligations which cannot be separately estimated. Totals for the period are sums of the annual net figures.

TABLE 22.—*Long-term capital movements, by area, 1940–45*

[In millions of dollars]

Area and type of capital	Receipts					
	1940	1941	1942	1943	1944	1945
All areas, total	367.3	305.4	342.3	504.0	675.3	598.9
United States capital	210.4	222.4	240.6	428.0	428.1	562.3
Private	208.9	194.3	176.6	357.0	360.3	469.4
Government	1.5	28.1	64.0	71.0	67.8	92.9
Foreign capital	156.9	83.0	101.7	76.0	247.2	36.6
Sterling area, total	165.5	95.0	66.5	68.8	49.3	61.3
United States capital	11.7	22.5	36.4	67.8	49.2	61.3
Private	11.7	4.9	10.4	33.0	9.1	20.4
Government	--------	17.6	26.0	34.8	40.1	40.9
Foreign capital	153.8	72.5	30.1	1.0	.1	--------
Canada, total	48.2	46.3	82.1	195.2	226.7	205.3
United States capital	45.7	46.3	81.5	195.2	195.6	205.3
Private	45.7	46.3	57.5	195.2	188.4	193.4
Government	--------	--------	24.0	--------	7.2	11.9
Foreign capital	2.5	--------	.6	--------	31.1	--------
American Republics, total	60.1	85.9	84.0	112.4	167.7	154.1
United States capital	60.1	82.9	76.3	106.7	152.8	127.2
Private	58.6	72.4	70.3	99.4	132.3	101.5
Government	1.5	10.5	6.0	7.3	20.5	25.7
Foreign capital	--------	3.0	7.7	5.7	14.9	26.9
Other, total	93.5	78.2	109.7	127.6	231.6	178.2
United States capital	92.9	70.7	46.4	58.3	30.5	168.5
Private	92.9	70.7	38.4	29.4	30.5	154.1
Government	--------	--------	8.0	28.9	--------	14.4
Foreign capital	.6	7.5	63.3	69.3	201.1	9.7
	Payments					
All areas, total	440.5	947.0	500.5	651.4	654.3	1,970.6
United States capital	193.8	536.7	315.1	512.4	581.8	1,810.0
Private	141.2	127.4	240.9	317.0	351.3	819.6
Government	52.6	409.3	74.2	195.4	230.5	990.4
Foreign capital	246.7	410.3	185.4	139.0	72.5	160.6
Sterling area, total	219.6	744.2	119.8	82.3	167.4	711.1
United States capital	3.9	371.1	47.5	40.1	119.6	667.9
Private	3.9	21.1	7.5	2.7	11.3	27.0
Government	--------	350.0	40.0	37.4	108.3	640.9
Foreign capital	215.7	373.1	72.3	42.2	47.8	43.2
Canada, total	65.3	118.1	158.0	369.4	291.8	505.2
United States capital	50.0	89.3	157.0	356.3	290.8	406.6
Private	50.0	62.3	150.9	275.9	258.1	406.6
Government	--------	27.0	6.1	80.4	32.7	--------
Foreign capital	15.3	28.8	1.0	13.1	1.0	98.6
American Republics, total	68.2	38.0	98.2	111.4	61.1	218.6
United States capital	64.0	37.5	97.7	110.9	60.6	218.1
Private	44.8	35.7	69.6	34.3	54.2	192.1
Government	19.2	1.8	28.1	76.6	6.4	26.0
Foreign capital	4.2	.5	.5	.5	.5	.5
Other, total	87.4	46.7	124.5	88.3	134.0	535.7
United States capital	75.9	38.8	12.9	5.1	110.8	517.4
Private	42.5	8.3	12.9	4.1	27.7	193.9
Government	33.4	30.5	--------	1.0	83.1	323.5
Foreign capital	11.5	7.9	111.6	83.2	23.2	18.3

NOTE.—While the net receipts or payments shown in this table for any year agree with those shown in the global balance of payments table 1, the total receipts or payments may differ. Certain items are included on a net basis in table 21; obviously the global net figures may be the result of net receipts in one area and net payments in another. The global totals above are the sums of the area totals; they are thus generally larger than the figures in table 21.

The return flow of American long-term capital from foreign countries which began during the depression in 1931 was abruptly reversed during the war, primarily as a result of United States Government loans to the United Kingdom and other countries. For the 6-year period now under consideration, there was a small net outflow of private capital, although no consistent trend was apparent. Funds invested in controlled enterprises abroad continued to be returned to this country until 1945. Foreigners, particularly Canadians, continued to amortize their dollar bonds and only one foreign long-term loan for new money was publicly offered in this country.[3] About $700 million of outstanding Canadian securities was purchased in this period, as net transactions in outstanding foreign securities (i. e., excluding new issues sold in the United States and amortizations) resulted in an outflow of $611 million of United States capital.

Government Loans Dominating

Long-term loans, investments, and credits to foreigners by the United States Government during the years 1940–45 (after deducting repayments) amounted to $1,627 million. This total, which includes only those financial agreements carrying stipulated provisions for repayment,[4] can be compared with $7,685 million of Government advances to foreign governments in World War I (July 1, 1914, to December 31, 1918).[5] However, during and immediately following World War II, as discussed in chapter I, the foundation for a huge program of capital assistance to foreigners was laid, comprising lend-lease and surplus property credits, Export-Import Bank loans, special loans to the United Kingdom and the Republic of the Philippines, and investments in the World Bank and Fund.

The actual outflow of Government capital was relatively small until after VJ-day, except in 1941, when a loan of $425 million was made to the United Kingdom by the Reconstruction Finance Corporation to provide funds for war purchases ordered prior to the passage of the Lend-Lease Act. Of this credit, $350 million was utilized in 1941 and a further $40 million in 1942.[6] The expenditure by the Defense Plant Corporation of some $44 million for the construction of productive facilities in Cuba, Peru, Chile, and Ecuador, and lend-lease silver loans to certain sterling-area countries, provided most of the remainder of Government credits during the period of actual hostilities.

Net disbursements by the Export-Import Bank on loans made direct to foreigners totaled only $120 million during the years 1940–45. The bulk of this outflow occurred before the United States entered the war and was designed primarily to facilitate the development and operation of specific industrial projects; from 1942 through 1945 repayments by foreigners of loans granted earlier nearly equaled the dis-

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[3] By Steep Rock Iron Mines, Limited. However, a number of issues were floated here for refunding purposes and several small stock issues were also sold to the public (see appendix C, table XX).

[4] For a discussion of financial assistance without specific terms of repayment, see section on unilateral transfers, p. 87.

[5] Williams, John H., The Balance of International Payments of the United States for the Year 1920 With a Statement of the Aggregate Balance July 1, 1914–December 31, 1920, in The Review of Economic Statistics (Supplement), Harvard University Press, preliminary volume 3, June 1921, supplement 1, p. 201.

[6] The balance of this loan, $35 million, is still technically available for use by the United Kingdom, but presumably will not be drawn.

bursements on new loans. Although the sums actually disbursed by the Bank were relatively unimportant in 1945, credits of $665 million were granted to finance the purchase of goods and services which had been requested and approved under the lend-lease mechanism, but for which procurement contracts had not been signed on VJ-day. Additional reconstruction credits ($165 million) were extended by the Bank for the purchase of agricultural and industrial products. In all, the Export-Import Bank authorized loans in the last half of 1945 aggregating $1,040 million. However, loan disbursements in this period (including disbursements on previous commitments) were only $58.6 million (including guaranteed loans), reflecting the considerable length of time which elapsed between the placement of the loans and the delivery of goods.

Most of the outflow of $898 million of United States Government long-term credit in 1945 consisted of the so-called "3 (c)" lend-lease credits. Agreements signed in the early part of 1945 with France, Belgium, and the Netherlands provided substantially that lend-lease goods in the pipe line on VJ-day and required for peacetime needs could be shipped on credit terms after the end of hostilities. In October an agreement was reached with the U. S. S. R., and an informal agreement with the United Kingdom was confirmed in the comprehensive war-settlement agreement with that country on December 6, 1945.[7]

Among the important actions taken during 1945 was the passage of the Export-Import Bank Act of 1945, which, in addition to raising the limit on outstanding loans and guarantees of the Bank from $700 million to $3.5 billion, removed the prohibition on loans by the Bank to governments in default on their obligations to the United States Government. The previously mentioned agreement with Great Britain also provided for a loan to that country of $3,750 million; the agreement was ratified in the following year.

The granting of lend-lease credits, surplus property credits, and Export-Import Bank loans, together with the operations of the United Nations Relief and Rehabilitation Administration, provided for a considerable part of the food and other commodities so desperately needed abroad, although it was clear that additional large-scale grants and credits would be required to reconstruct foreign economies. It is expected that the major portion of the credits will be provided by the International Bank for Reconstruction and Development and will come from United States sources. However, other countries also contributed to the task of world-wide rehabilitation and in some cases to a greater proportion of their productive capacity than did the United States.

The general trend of the terms of United States Government long-term loans to foreigners during the period 1940–45 was toward a reduction of interest rates and an extension of maturities. The Reconstruction Finance Corporation loan to the United Kingdom in 1941 was at 3 percent for 15 years. Through 1944, Export-Import Bank loans were generally granted at 4 percent and varied in maturity up to from 10 to 12 years. In 1945 lend-lease pick-up credits extended by

[7] Shirer, John. Foreign Credits of the United States Government, Survey of Current Business, U. S. Department of Commerce, January 1947, pp. 19–23. The $650-million credit extended to Great Britain on December 6, 1945, constituted an over-all settlement of various transactions. Of the total, $472 million was to cover the transfer of the so-called lend-lease inventory in the United Kingdom, and the balance was for surplus property and the excess of pipe-line lend-lease deliveries over both (1) reverse lend-lease after VJ-day, and (2) net claims due the United Kingdom by the United States.

the Bank carried the same terms as those of the lend-lease "3 (c)" agreements, which generally called for $2\frac{3}{8}$ percent credits due in about 30 years. Other Export-Import Bank credits for reconstruction purposes in the second half of 1945 were made against $2\frac{1}{2}$-percent to $3\frac{1}{2}$-percent notes that fell due in about 20 years. Sales of surplus property on credit were made on terms similar to the lend-lease credits.

Direct-Investment-Capital Withdrawn

The net withdrawal of American entrepreneurial capital from foreign countries that became evident for the first time in 1933 continued during the war in amounts that ranged on balance from about $20 to $100 million per annum (see table 21). In 1945, the first net outflow of funds since 1936 was recorded. The withdrawal of capital during the war seemed closely related to a consideration for the safety of properties and for profit prospects in war areas. Elsewhere, large profits permitted the repayment of intercompany and other indebtedness by many foreign enterprises and in a few cases stimulated the purchase by foreigners of American-owned properties abroad. In some instances, the inability of foreign affiliates to obtain supplies from usual sources in the United States left them with unutilized cash balances, which induced the repayment of obligations to parent companies.

Although 400 American-controlled companies operating abroad were sold to foreigners or liquidated during the war years, an even larger number of new companies (see p. 98), but involving a smaller total investment, were reported to have been established abroad by Americans. Data were available to the Department of Commerce for about one-third of the sales and liquidations on which the total return of American capital approximated $290 million.[8] Among the largest liquidations were those of the International Telephone and Telegraph Corporation, which disposed of its Rumanian telephone-operating subsidiary in 1941 for about $14 million and its telephone-operating subsidiary in Spain in 1945 for approximately $88 million.[9]

These transactions, and other liquidations of holdings of public utilities in Latin America, were an evidence of the desire of many foreign countries to control their own basic industries. Similar transactions included the sale of a substantial interest in the stock of the China National Aviation Corporation by Pan American Airways Corporation to the Chinese Government, and of the majority shares of several of the same company's Latin American subsidiaries to local interests.

Additional capital inflows resulted from large profits in the Cuban sugar industry. These permitted the reduction of bonded indebtedness (as well as the payment of interest in arrears) held by Americans and also induced the purchase by Cubans of properties in that country, including several that had been taken over by American banks during the early 1930's to satisfy unpaid bank loans.

As already noted, favorable business conditions—particularly in petroleum, paper and pulp, and agriculture—enabled subsidiaries and branches to repay advances from, and even to make advances to, parent companies. The latter was a means of accumulating capital until such

[8] This figure does not include a large but unknown amount of capital losses resulting from war damage, nor does it include the value of nationalized American properties in eastern Europe and elsewhere for which compensation will presumably be received.

[9] Late in 1946, the same company sold its major Argentine subsidiary, the United River Plate Telephone Co., Ltd., to the Argentine Government for about $95 million.

time as capital equipment (such as refinery and related equipment) became obtainable in the United States for export, or of returning to the United States a portion of the foreign investment until inventories could be replenished from this country. From 1940 through 1944, the net inflow of intercompany funds approximated $170 million, while in 1945 the net movement turned outward (to the extent of $61 million).

As stated previously, although the net movement of funds was toward the United States, a large number of American companies increased their investments abroad by reinvesting foreign earnings, by making new investments, and by advancing additional funds to direct-investment enterprises. Some 1,000 new American enterprises were reported formed abroad during the war years. The capital outflow involved in less than 300 of these for which data were available to the Department of Commerce aggregated only $135 million,[10] and, as these figures suggest, involved no very large transactions. Almost all of the new investments were made in the Western Hemisphere, principally in Canada and, to a lesser extent, in Mexico and the Caribbean area. Capital was directed mainly toward manufacturing and distributing facilities. Important investments were also made in the paper and pulp industry.

Dollar-Bond Amortizations Continue

Retirements of foreign dollar loans in the 1940–45 period were $279 million in excess of new issues, placed privately and publicly. However, total United States holdings of foreign dollar bonds probably increased during these years, a substantial but unknown part of the net purchases of outstanding foreign securities[11] consisting of purchases of securities, chiefly Canadian, payable solely or optionally in United States dollars.

New issues exceeded $100 million in 1943 for the first time since 1931, although all but one of the publicly offered and most of the privately placed loans were for refunding purposes (see table 21). Many of the refundings involved the redemption of outstanding issues prior to maturity, as foreign, chiefly Canadian, debtors took advantage of favorable money-market conditions to reduce interest charges and extend maturities. (See table 27 and appendix C, table XXI for estimates of American holdings of foreign dollar bonds.)

Other Portfolio Investments Increase

American investors purchased, on balance, $611 million of foreign securities (excluding new issues and amortizations) in 1940–45, and American banking institutions made net advances of medium-term credits totaling about $160 million.

Transactions in outstanding foreign securities, as already indicated, undoubtedly include large purchases and sales of dollar bonds. During the interwar period, especially, the usual net inflow of funds in this account represented repurchases of foreign dollar bonds by debtor countries, and net purchases by residents of other countries from United States owners. From 1941 to 1945, however, Americans made increasingly large net purchases of foreign, chiefly Canadian, issues. As a matter of fact, in the whole 6-year period net American pur-

[10] The actual total was no doubt much larger than this figure. However, since the data obtained by the Department were primarily from published sources and since there were no requirements to report such transactions to it, the information regarding both new investments and liquidations was seriously deficient.

[11] See table 21 and appendix B.

chases of foreign securities in Canada were estimated at $695 million, having been offset by net sales to other areas to reduce the total net movement to $611 million.

Slightly higher interest rates in Canada, coupled with the speculative attraction (realized in 1946) of a possible return to par of the Canadian dollar, stimulated the large-scale purchases of Canadian issues from 1942 on.[12] Institutional investors, particularly insurance companies, seem to have been the principal purchasers involved.

Movements of Foreign Long-Term Capital

In the 6 years from 1940 through 1945, there was a net liquidation of $513 million of foreign long-term investments in the United States. This figure would no doubt have been many times larger if lend-lease aid had not been granted to our Allies and if they had had to resort to conventional methods of financing their war effort. The largest withdrawals of foreign capital from the United States occurred in 1940 and 1941—prior to the large-scale operation of lend-lease assistance—when Great Britain liquidated extensive American holdings to provide dollar exchange.[13] Substantial reductions also resulted from the vesting (seizure of title) by the Alien Property Custodian, mostly in 1942 and 1943, of $206 million of property in the United States that was under enemy control.[14]

Foreign Direct Investments Reduced

Relatively little information is available on the movement of foreign direct-investment capital in the United States, except for a few large transactions which received attention in the press. These included two British liquidations in 1941, which yielded about $80 million in dollar exchange, and the sale in 1944 by Canadian interests of the Puerto Rico Railway Light & Power Co., for about $11.5 million.

The Alien Property Custodian vested enemy-owned American enterprises during the war in which the enemy interest was valued at some $155 million. Since these transactions involved no payment to the owners, they were offset by a receipts entry in the Government unilateral account. About $93 million of the interest in these enterprises was German, another $52 million was Japanese, and the remainder was primarily Italian. Some of the more important enterprises which were vested were American Potash & Chemical Corp., General Aniline & Film Corp., Hugo Stinnes Corp., American Bosch Corp., and the United States branches of the Yokohama Specie Bank, Ltd. Most of the direct investments were vested in 1942 and 1943. A number of them, particularly banks and insurance companies, were liquidated; about two dozen were offered for public sale, and those that could contribute to the war effort were retained in active operation under Government control. German and Japanese enterprises were expected to be used to meet a portion of the reparations claims against Germany

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[12] Substantial amounts of these purchases were not reflected in the regular capital movement statistics published monthly in the Bulletin of the Treasury Department and the Federal Reserve Bulletin. See appendix B, p. 189.

[13] The proceeds of this liquidation and of the liquidation of other assets were partly loaned, in effect, to American producers of war material, particularly munitions, in an effort to speed the movement of products to the United Kingdom. Ultimately, American producers repaid most of these advances by filling the British orders.

[14] Excluding the value of assets that are not classified as international investments, such as personal property and royalty income.

and Japan,[15] unlike the experience after World War I, when up to 80 percent of the value of vested enemy properties was paid to their former owners.

The decline in the value of foreign direct investments in the United States is believed to have been largely offset by an increase of about $200 million, resulting from the retention of earnings by such companies in lieu of payment of dividends.[16]

Portfolio Investments Also Liquidated

Foreigners made net purchases of United States securities in each year from 1921 to 1939 except 1927 and 1932. There was a massive inflow from 1934 to 1939 as European funds sought safety in United States securities. It has been pointed out [17] that the net inflows were small by comparison with the gross transactions involved; for instance, the net inflow of $615 million in 1936 resulted from gross transactions of about $4,750 million. The inward movement was sharply reversed in 1939 as the British liquidation began and continued on a large scale until late in 1941.

In the years 1942 through 1944, there were net foreign purchases of $285 million of United States securities. From the data available, it appears that a very large part of the total represented purchases of United States Government long-term issues for official foreign account. The volume of trading for private foreign account was comparatively small, as was to be expected when most foreign-owned dollar funds were under governmental controls. A considerable part of the Canadian liquidation in 1945 resulted from sales of United States bonds purchased in the previous year. British sales of United States securities in 1945 amounted to $43 million and were very steady throughout the year. A moderate volume of purchases for British account was recorded throughout the war years—particularly in 1940 and 1941—but, in view of the restrictions by the British Government on such purchases, it has been assumed that the purchases were actually for the accounts of continental Europeans and others through British security dealers. They have, therefore, been eliminated from the data on British transactions and added to the transactions of other countries.

The figures for transactions in outstanding domestic securities include the purchase and subsequent resale of United States Government issues with a maturity of more than 1 year by the monetary authorities of foreign countries. Frequently, if not usually, these securities were within 1 year of maturity when purchased, and might more logically have been included in the short-term capital account. In each case, the foreign countries invested funds in interest-earning securities which would otherwise have been held idle in bank balances.

Orderly Liquidation of British Assets

As indicated, the liquidation of British assets in the United States during the early part of the war was the most important single factor affecting the movement of foreign long-term capital in the United

[15] Under the terms of the Paris Agreement on Reparations from Germany, the United States is entitled to all German external assets within the jurisdiction of the United States, estimated at some $200 million. See Department of State, The Distribution of Reparations from Germany, Publication No. 2584, European Series 12.

[16] See reference to income payments to foreigners on direct-investments, p. 80, and to note in appendix B, p. 181, which discusses the treatment of reinvested earnings in the balance of payments.

[17] Lary, Hal B., and associates, U. S. Department of Commerce. The United States in the World Economy, Washington, 1943, p. 107.

States. The British experience during World War I in obtaining dollars for securities was unsatisfactory. Individual investors had been permitted to make large-scale liquidations of dollar securities, and consequently liquidated at low values. During the recent war, the British Government planned carefully. An attempt was made to liquidate at favorable prices and at the same time preserve the flow of income from oversea investments as long as possible. In the latter connection, the British disposed of the bulk of their holdings of gold and short-term balances (these produced practically no income) and then proceeded to liquidate their holdings of readily marketable securities, intending to retain the most profitable for the last.

As part of this program, the British Government obtained its nationals' holdings of 484 issues of American stocks and bonds by issuing five vesting orders between February 1940 and April 1941. These represented portfolio investments and, as such, did not involve the control of the issuing companies. Underwriting syndicates acting for the British Treasury undertook to sell the securities in New York by offering blocks of listed issues off the market, after the close of regular trading hours on the exchanges. Large blocks of securities were sold in this manner at prevailing prices without depressive effects. Some of the securities—blocks small enough to be sold without materially affecting prices—were sold on the floor of the exchanges. This process facilitated the British sale of about $580 million of American securities from the beginning of the war until the end of July 1941.

As its dollar assets dwindled, the British Government found it necessary to begin disposing of some of its choice foreign investments, namely, American companies controlled in England. In April 1941, the American Viscose Corp., the United States subsidiary of Courtaulds, Ltd., was sold in this country at a substantial loss, following negotiations that lasted over a month. The British received about $55 million for a company whose book value exceeded $100 million. To avoid a similar liquidating loss, the Brown & Williamson Tobacco Co., an American subsidiary of the British-American Tobacco Co., Ltd., borrowed funds from the Reconstruction Finance Corporation and used most of the proceeds to pay off indebtedness to its parent and also to purchase its own preferred shares and securities of affiliated companies owned by its parent. In this fashion, the British-American Tobacco Co., Ltd., realized $25 million from its American subsidiary without relinquishing control over the latter.

Although the British Government was relieved of the further necessity for hurried liquidation of American assets by the passage of the Lend-Lease Act on March 11, 1941, there was a pressing need for funds to meet commitments made prior to that date and to pay for purchases of supplies in other countries. Consequently, it sold several plants in the United States for $46 million in April, and the demand for dollars was further eased by a loan of $425 million granted by the Reconstruction Finance Corporation in July 1941. The loan was secured by about $700 million of British-owned American securities. These represented a portion of the vested securities referred to earlier, and other British-owned American assets, including stocks of British-controlled companies in the United States and the earnings of United States branches of British insurance companies.

By the end of 1941, the British problem of financing the purchase of foreign material and supplies was largely solved. The situation was in sharp contrast with that in which the British found themselves in 1940 and earlier in 1941, when it had been necessary to liquidate assets to pay for purchases, to make advance payments on orders for future delivery, and to provide capital assistance to American producers. In June 1941, the amount of outstanding advance payments and capital assistance totaled $850 million.

Outlook

For the next few years, at least, the problem facing the rest of the world will be how to finance purchases from the United States in larger amounts than we will be able and/or willing to spend abroad. The answer can lie only in gifts or movements of capital and gold; a substantial outflow of long-term capital from the United States on an economically sound basis could be one of the principal means of bridging a gap between exports and imports. Some of the problems involved in increasing the outflow of long-term capital will be outlined briefly in the following paragraphs.

In the first place, it is extremely unlikely that there will be any substantial underwriting of foreign securities of the character which prevailed in the 1920's. It is probable that the American investment market would not be receptive to any large amounts of new foreign securities, except those of the World Bank, and it is quite likely that amortizations of outstanding issues will exceed new offerings in the foreseeable future—exclusive again of World Bank issues.

Some evidence of a moderate outflow of direct-investment capital has been apparent in the postwar period, but so far (June 1947) not on a scale at all commensurate with foreign-capital requirements. Moreover, a substantial portion of direct-investment capital is tied to exports of machinery and equipment which would likely not have been shipped had the investment not been made. Thus, only the local expenditures involved would add to the general supply of dollars available for unrestricted use in the United States.

Except for Middle East oil projects, most of the direct-investment capital will probably be placed in Canada and Latin America. The paper and pulp industry, petroleum, and, possibly, iron-ore mining in Canada, petroleum and iron-ore development in South America, and industrial development in Mexico would seem to be the most likely outlets.

A trend toward more participation by indigenous capital in direct-investment enterprise was strengthened during and after the war. Late in 1946, for instance, arrangements for joint participation were formalized in the Netherlands by the organization of the Institute for Netherlands-American Industrial Cooperation, which was formed to encourage United States participation in Dutch industry on a minority basis. Earlier in the year, the B. F. Goodrich Co. had participated to the extent of about 23 percent in the formation of a Netherlands company to manufacture tires.

A third source of funds would be the liquidation of foreign long-term investments in this country, estimated at $9 billion at the end of 1945. Although half of this total was in readily marketable securities, only France and the Netherlands have seriously discussed any organized liquidation of such holdings.

If the gap is to be filled during the next 3 or 4 years and exports maintained at, say, a level of $10 billion or more (at early 1947 prices), it will probably have to be through the direct aid of the United States Government or through loans by the World Bank, which would have the partial backing of the United States Government. If that institution is able to market substantial quantities of securities in the American market, it could conceivably loan a billion dollars or more a year for the next several years. Presently available Government loan funds, however, will probably be exhausted by mid-1948, if drawings continue at the rate of the first few months of 1947.

Short-Term Capital and Gold [18]

From 1934 through 1941, there was a constant gold flow to the United States of massive proportions. For the first 4 years of the period there was an inflow of $5.3 billion, which started with the devaluation of the dollar at the end of January 1934 and thereafter was caused by, and served to finance, a capital inflow of similar proportions (see chart 1, page 2). As is well known, this flow to the United States represented a flight from unstable conditions abroad rather than the result of a balance-of-payments disequilibrium as such.

Beginning with 1938, however, United States export surpluses were an increasingly important factor in the gold inflow, although capital flights remained the dominant factor from the latter half of 1938 until late in 1939. From 1940 until lend-lease became effective in 1941, the gold was used primarily for settling the United States export surplus, although there was considerable additional capital inflow. With the United States entry into the war, a large and growing cash deficit in our balance of payments led to a combined outflow of gold and inflow of short-term capital of about $6.2 billion in the 4 years ended in 1945. The net increase in foreign dollar balances plus gold purchased from the United States in the entire 1940–45 period amounted to $2.5 billion (see table 23).

The most significant aspect of the movement of gold and dollar funds, however, was not so much the aggregate increase of foreign gold and dollar holdings involved as the redistribution of these reserves that took place among foreign countries.

Foreign Reserves Liquidated Early in War

The tremendous influx of gold to the United States reached a peak of $4,095 million in 1940 (table 23) and continued on a large scale until May 1941. Most of the inflow was from the sterling area, continental Europe, and Canada, and served to finance the purchase of the huge amounts of goods required from the United States to carry on the war against the Axis.

Not all of the dollar proceeds of gold sales in 1940 intended for commodity purchases could be utilized at once for exports, because goods were not available. As a result, foreign dollar balances increased by $1,353 million in 1940. A large part of this increase in foreign claims on the United States took the form of advance payments by Great Britain to United States producers to stimulate production of war goods. British dollar funds were derived not only from the sale of gold but also from a drastic liquidation of long-term investments in the United States (see p. 100).

[18] Prepared by Samuel Pizer.

The flight of capital from neutral Europe continued on a large scale in 1940. Gold reserves of those countries were much reduced by the end of the year, but in the remainder of the war period the European neutrals were able to purchase about a billion dollars in gold from the United States. A large part of the private dollar balances accumulated earlier entered official accounts and were converted to gold and, in addition, substantial receipts accrued during the war. The operations of Foreign Funds Control, which partially froze the balances of European neutrals after the middle of 1941, tended to minimize withdrawals from accounts of these countries (see appendix C, p. 223).

The decline in foreign gold and dollar reserves continued through 1941, despite the relief afforded Britain by lend-lease and the Reconstruction Finance Corporation loan. Continued payments on pre-lend-lease procurement contracts cost the sterling area $720 million (net) in dollars and gold during the year, and Canada's dollar deficit also continued large.

TABLE 23.—*Changes in foreign gold holdings and short-term dollar claims through transactions with the United States, by specified areas, 1940–45* [1]

[In millions of dollars; net increase (+) or decrease (−)]

Area and type of asset	1940-45	1940	1941	1942	1943	1944	1945
All areas, total	+2,473	−2,742	−971	+297	+1,958	+1,814	+2,117
Gold	−2,047	−4,095	−571	+115	+736	+1,305	+463
Short-term claims	+4,520	+1,353	−400	+182	+1,222	+509	+1,654
Sterling area, total	−1,551	−1,514	−720	−189	+430	+567	−125
Gold	−1,889	−2,053	−551	−12	+50	+672	+5
Short-term claims	+338	+539	−169	−177	+380	−105	−130
Canada, total	+314	−351	−272	−47	+300	+125	+559
Gold	−937	−497	−205	−181	−7	−5	−42
Short-term claims	+1,251	+146	−67	+134	+307	+130	+601
American Republics, total	+2,410	−16	+12	+360	+737	+684	+633
Gold	+1,464	−122	+19	+109	+579	+406	+473
Short-term claims	+946	+106	−7	+251	+158	+278	+160
Other, total	+1,300	−861	+9	+173	+491	+438	+1,050
Gold	−685	−1,423	+166	+199	+114	+232	+27
Short-term claims [2]	+1,985	+562	−157	−26	+377	+206	+1,023

[1] Items included are gold, short-term claims on United States banks and brokers, United Kingdom advance payments, U. S. Government short-term securities, United States currency, and other short-term claims on the U. S. Government; changes in United States claims on foreigners are excluded. For an explanation of the differences between data on gold in this table and in table 1, see appendix B, p. 191.

[2] Includes increase in short-term dollar claims of international institutions amounting to $10 million in 1944 and $16 million in 1945.

United States War Expenditures Increase Foreign Balances

Beginning late in 1941 and extending through most of 1945, there was a remarkable increase in foreign gold and short-term dollar holdings. The total increase in such foreign assets through transactions with the United States over the 4-year period ended December 31, 1945, was $6,185 million, of which $2,620 million was in gold, $1,155 million in short-term banking funds and miscellaneous claims, $1,655 million in United States Government short-term securities, and $755 million in other short-term claims on the United States Government (table 24). A large part of the gold purchased in the United States was retained here in the form of earmarked gold, which totaled $4,294 million by the end of 1945 (table 25).

There were few countries which did not add to their gold and dollar resources after 1941. The largest gains were made by the American Republics, which, as a whole, increased their dollar reserves and purchased gold from the United States to the extent of $2,400 million. The group of countries covered in the "other" category also added a very large amount—$2,150 million—to their gold and dollar claims through transactions with the United States, with European neutrals accounting for a large part of this total.

In the 1942–45 period, Canadian gold and dollar funds increased by about $935 million and were held in the United States primarily in the form of United States Government short-term securities. Sterling-area reserves were also built up to the extent of $684 million, which was more or less embodied in the export of about $695 million of gold from the United States to the United Kingdom in 1944.

Foreign dollar claims arising from United States Government expenditures overseas took several forms. In the case of the Philippines,

TABLE 24.—*Short-term capital transactions between the United States and foreign countries, 1940–45*

[In millions of dollars; inflow (+) or outflow (−)]

Item	1940–45	1940	1941	1942	1943	1944	1945
Net short-term capital movement	+4, 130. 2	+1, 530. 2	−388. 6	+66. 8	+1, 224. 8	+356. 5	+1, 340. 5
Net movement of United States short-term capital abroad	−390. 5	+176. 9	+11. 4	−115. 5	+2. 6	−152. 7	−313. 2
Private	+111. 8	+176. 9	+21. 4	+95. 8	−12. 0	−84. 7	−85. 6
United States Government	−502. 3		−10. 0	−211. 3	+14. 6	−68. 0	−227. 6
Net movement of foreign short-term capital in the United States	+4, 520. 7	+1, 353. 3	−400. 0	+182. 3	+1, 222. 2	+509. 2	+1, 653. 7
Private	+1, 895. 7	+1, 363. 8	−622. 5	−245. 6	+624. 5	+247. 2	+528. 3
Banking and brokerage balances	+1, 520. 9	+708. 7	−483. 6	+56. 3	+615. 4	+167. 0	+457. 1
Holdings of United States currency and coin	+356. 5	+38. 3	+34. 2	+70. 6	+58. 6	+83. 6	+71. 2
United Kingdom advance payments, net	+18. 3	+616. 8	−173. 1	−372. 5	−49. 5	−3. 4	
United States Government	+2, 625. 0	−10. 5	+222. 5	+427. 9	+597. 7	+262. 0	+1, 125. 4

TABLE 25.—*Gold held in the United States for foreign account, by specified countries and areas at year ends, 1939–45* [1]

[In millions of dollars

Country or area	1939	1940	1941	1942	1943	1944	1945
Total	1, 183	1, 832	2, 242	2, 674	3, 477	3, 937	4, 294
Sterling area	20				52	39	48
Canada							
American Republics	112	154	251	440	1, 078	1, 290	1, 736
Enemy countries	11	27	13	13	13	13	13
Enemy-occupied Europe [2]	793	1, 177	1, 141	1, 131,	1, 127	1, 169	849
Neutral Europe	211	352	613	879	945	1, 087	1, 225
Other	36	122	224	211	262	339	423

[1] Partly estimated; with minor exceptions data represent gold held under earmark for foreign account.
[2] Includes all countries occupied by Germany prior to June 6, 1944.

dollar deposits with the United States Treasury for the account of that country increased by $300 million in 1944–45. In other countries, such as China, France, Belgium, or Italy, where our troops were actively engaged, local currencies were advanced for their use, creating a claim on the United States Government (see appendix B, p. 191). The claims arising out of these arrangements were included in the balance of payments, but did not appear in the statistics on United States short-term liabilities to foreigners, regularly published by the Treasury Department, until such time as they were converted into bank balances by the issuance of dollar checks.

With the end of the war and the termination of lend-lease, the conditions which had augmented the gold and dollar resources of foreign countries were soon removed. Although a total of about $2,150 million was added to foreign gold holdings (from United States stocks) and dollar claims in 1945—a record which will probably stand for some time to come—very heavy losses were suffered by France, the United Kingdom, and other nations, which had to make cash payments for a large part of the goods they required. United Kingdom dollar balances were drawn down by some $165 million from August 1945 to the end of the year, despite lend-lease credits and continued oversea expenditures by the United States Government, while France's loss of gold and dollars to the United States in the same 5-month period was over $200 million. The need for large-scale financing during the transition period was emphasized as British dollar balances dropped to $335 million in June 1946 and French balances fell to $250 million in August.

During 1945 large import surpluses from Canada and the American Republics expanded the reserves of those countries. The continued expenditures of United States troops overseas and, in the case of China, the utilization of $225 million of the special aid provided early in the war also provided substantial additions to foreign reserves.

Currency and Coin

The net export of United States currency and coin from the United States was a considerable factor in the increase in foreign dollar assets discussed above, amounting, so far as it can be measured, to about $355 million in the 6-year period. The net outflow was reduced from about $131 million in 1939 to $34 million in 1941 as foreign travel and personal remittances declined. After 1941 exports of currency and coin expanded to a maximum of about $80 million in 1944, followed by a decline to $70 million in 1945, although there were restrictions imposed by the Treasury Department on the movement of United States currency (see appendix C, p. 223, Foreign Funds Control). Much of the currency exported went to Cuba, where the dollar circulates freely with the peso. Because of the wartime shortages of currency in Cuba, the United States Government, which purchased the Cuban sugar crop, began in 1942 to supply United States paper currency to facilitate this transaction.[19] In addition, small shipments of currency were made to Haiti and Honduras to alleviate currency shortages in those countries. Another large outflow of United States currency resulted from payment in United States dollars to American troops in China and elsewhere.

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[19] About $255 million of United States currency was in Cuban banks and in the hands of the public on December 31, 1945, according to the Cuban Treasury.

United States Short-Term Capital Abroad

United States private short-term capital was withdrawn from abroad in every year from 1931 to 1943; from 1940 through 1945 there was a net inflow to the United States of $112 million. The inflow took place primarily in 1940, as the enemy occupied most of Europe, and in 1942, when our entry into the war further curtailed private exports and their financing. Beginning in the latter part of 1943, the trend was reversed and there followed an outflow of private United States short-term capital.

After October 1945, an accelerated outflow was apparently related to an increasing volume of cash exports to all areas and the improved outlook for the resumption of peacetime production throughout the world. By the end of 1945, short-term claims on foreigners amounted to $393 million, but this was a very moderate level of short-term credit by comparison with from $800 million to more than $1 billion outstanding during the early 1930's, when the United States export total was very much lower. Of course, the large volume of United States short-term capital still abroad in the 1930's was largely the result of foreign exchange controls which prevented withdrawal. While substantial amounts of claims payable in foreign currencies were outstanding in prewar years, the only foreign currency balances held in 1945, with minor exceptions, were in Canada and the sterling area, reflecting the increased disposition to finance American exports only on dollar terms. In 1946, the outflow of United States short-term credit was further accelerated, and by the end of March 1947 the amount outstanding was approaching the levels of the early 1930's.

Beginning in 1942, the United States Government accumulated short-term claims on foreigners through advance payments to various suppliers of strategic and critical war materials, and also through the acquisition of foreign currencies. For the entire 6-year period, the United States Government accumulated short-term assets abroad to the net extent of about $500 million. Advance payments of about $200 million outstanding in 1942 had been almost entirely repaid by the end of 1945. In 1944 and 1945 large amounts of foreign currencies were accumulated in Europe and elsewhere in connection with the operations of our armed forces.

Wartime Changes in Foreign Reserves

Table 26 indicates roughly the redistribution of gold and dollar reserves which came about during the war years, primarily through transactions with the United States and new gold production. It is estimated that at the end of 1939 the gold stock of foreign countries amounted to about $12.5 billion, and that of the United States to $17.8 billion. In the 6 years of war that followed, there were net sales of gold to the United States of about $2 billion.

The greatest loss of gold was suffered by the United Kingdom, France, and Canada, while the European neutrals and some Latin-American countries were able to accumulate large reserves. However, this loss of gold, most of which occurred early in the war, was more than offset by production of new gold, which totaled about $6.4 billion from 1940–45, including production which entered private stocks estimated at some $850 million. The net effect of these gains and losses of gold was to bring the reported gold reserves of foreign countries up to about $16 billion by the end of 1945. Thus, at the end of the war period world gold reserves amounted to about $36 billion; $16 billion of the total was held abroad and $20 billion in the United States.

TABLE 26.—*Gold and short-term dollar assets of foreign countries at year-ends, 1939 and 1945* [1]

[In millions of dollars]

Area	Gold [2]		Dollar assets [3]		Total	
	1939	1945	1939	1945	1939	1945
Total	12,500	16,000	3,270	7,791	15,770	23,791
Sterling area	2,225	3,476	526	864	2,751	4,340
Canada	214	388	278	1,529	492	1,917
American Republics	730	2,717	340	1,286	1,070	4,003
Other	9,331	9,419	2,126	4,112	11,457	13,531

[1] Includes both private and official holdings except that an estimated $850 million of gold which entered private stocks is eliminated.

[2] Includes all gold at home and abroad except for the addition to private stocks noted above. The total gold holdings at the end of 1945 were estimated in the Annual Report, Board of Governors of the Federal Reserve System, 1945, p. 29. The total for 1939 was based on the estimate for 1941 given in the same source after adjustment for production and transactions in 1940 and 1941. The area distribution was estimated as follows:

Sterling area—based on totals for the end of 1941 as published in the Federal Reserve Bulletin (end of September figure for the United Kingdom), with adjustments for production and transactions carried back to 1939 and forward to 1945.

Canada—end of 1939 total as published in the Federal Reserve Bulletin; end of 1945 total as published in the Annual Report, Foreign Exchange Control Board, 1946.

American Republics—end of 1939 as published in Federal Reserve Bulletin; end of 1945 based on 1939 totals adjusted for transactions and production.

Other—the total for this group is a residual.

It should be noted that there were transfers between the various areas which could not be estimated and which may affect the area distribution to some extent.

[3] Dollar assets at end of 1939 include only banking and brokerage balances in the United States; the total at the end of 1945 includes banking and brokerage balances totaling $6,987 million and United States currency, advance payments, and claims on the U. S. Government acquired through transactions with the United States, 1940–45. It is estimated on the basis of the Treasury's Census of Foreign-Owned Assets in the United States that there are roughly $500 million of foreign short-term dollar assets not included in this table, although an estimate for these items is included in the statement of the international investment position of the United States (table 27).

The short-term dollar funds of foreign countries increased by $4.5 billion during 1940–45 (see table 23), with the American Republics, Canada, and countries where our troops were located as the principal beneficiaries. The total of $7.8 billion held by foreigners at the end of 1945 included $6.9 billion of banking balances,[20] about $100 million of brokerage balances, and some $800 million in the form of United States currency and claims on the United States Government which are not ordinarily included in published data on United States short-term liabilities to foreigners as reported by banks and brokers. Of the total, about $4.2 billion was in official banking balances.

Although there was a net increase of about $8 billion in foreign gold and dollar holdings during the 1940–45 period, there was a wide difference in the experience of individual countries. The losses suffered in 1940 and 1941 by the United Kingdom, France, and the Netherlands followed earlier large flows to the United States and reduced their reserves to extremely low levels. France held about $5 billion in gold in 1934, but this was reduced to about $2 billion at the end of 1941; United Kingdom gold reserves of about $4.2 billion early in 1938 were negligible by late 1941; Netherlands gold holdings of about

[20] Including U. S. Government short-term securities.

$1 billion in 1938 were reduced to $575 million at the end of 1941 and continued to decline throughout the war.

After 1941, as mentioned earlier, most countries were able to add to their reserves of gold and dollars. The sharpest relative increase was registered by Canadian reserves, which rose from 3 percent of the 1939 total shown in table 26 to 8 percent of the 1945 total. Aggregate reserves of the American Republics expanded nearly as swiftly, from 7 to 17 percent of the total—more than recouping losses of the 1930's and reaching a share in the total nearly equal to that of the sterling area. Argentina and Brazil made the largest gains among the American Republics; Argentina increased its total foreign exchange and gold holdings by $1.1 billion in the 1940–45 period, while Brazil added $475 million of gold and dollars to its reserves in the war period. The sterling area had about regained its 1939 position, by the end of 1945, by virtue of the gold production of South Africa. The annual production of this area averaged about $500 million from 1940 to 1945 and the gold reserve of the Union of South Africa increased from $249 million to $914 million. The share of the countries grouped under "Other" dropped to 58 percent of the total as the gains of the European neutrals, principally Switzerland, were more than offset by the losses of France and the Netherlands.

Although foreign gold and dollar holdings increased in the aggregate during the war years, there were relatively few countries at the end of 1945 with sufficient reserves to view their needs from the United States without some apprehension. Many nations had built up reserves during the period when goods were not obtainable in the United States and, faced with a tremendous pent-up demand for United States exports as the war ended, limited expenditures in the United States to goods considered essential. Sweden and Canada held substantial reserves at the end of the war and were encouraged to appreciate their currencies in 1946, but were experiencing some difficulties by the end of that year as their reserves declined. It was clear that additional funds would have to be provided to those countries which used a great part of their gold and dollar reserves to fight the Axis, or which, through the devastation of war, were faced with needs from the United States far greater than their prewar experience. Nevertheless, the total of nearly $24 billion of foreign gold and dollar assets at the end of 1945 provided a substantial cushion for the reconversion period.

International Investment Position

The war left the net debtor-creditor position of the United States relatively unchanged, with an increase of something over $4 billion in United States investments abroad and nearly $5 billion in foreign investments in the United States between December 31, 1939, and December 31, 1945. Significantly, however, practically all of the increase in foreign investments in the United States was in the form of short-term balances, due to be drawn down heavily in the immediate postwar period, while increased United States holdings abroad consisted mainly of long-term, interest-bearing or income-producing assets (see table 27).[21]

[21] For reconciliation statement showing annual changes in the international investment position of the United States through balance-of-payments movements and other factors, see appendix C, tables XXII and XXIII.

Changes in international assets and liabilities resulting from balance-of-payments transactions have been discussed previously. The increase in foreign short-term investments in the United States resulted primarily from our negative cash balance of payments on current transactions during the war years. Foreign long-term investments were approximately the same at the end of the period as at the beginning, the increase in market value of portfolio securities (not, of course, reflected in the balance of payments) about offsetting reductions in holdings due to British liquidations and the vesting of enemy-owned assets.

The rise in the value of American long-term private investments abroad reflected mainly a rise in the quoted values of foreign securities (principally Canadian), reinvested earnings of more than $900 million by American direct-investment enterprises, and a net capital outflow of $231 million during the war period. There was a moderate decline in the value of American short-term assets during the period, although the estimated total of American deposits abroad remained almost unchanged. At the end of 1939 the claims of the United States Government on foreigners were (excluding World War I debts) approximately $35 million. Beginning with the Reconstruction Finance Corporation loan to the United Kingdom in 1941, loans, advances, and other investments abroad by the United States Government increased rapidly, reaching about $1.6 billion by the end of 1945.

TABLE 27.—*International investment position of the United States, 1939–45*

[Year-end data in millions of dollars]

Item	1939	1940	1941	1942	1943	1944	1945
United States investments abroad, total	12,480	12,275	12,990	13,640	14,170	14,810	16,760
Private	12,445	12,195	12,505	12,930	13,340	13,765	14,590
Long-term	11,385	11,310	11,635	12,175	12,575	12,930	13,675
Direct	7,280	7,340	7,525	7,740	7,845	7,960	8,120
Foreign dollar bonds	1,685	1,445	1,445	1,510	1,560	1,590	1,650
Securities payable in local currencies	1,240	1,280	1,375	1,565	1,795	2,010	2,425
Estates and trusts	150	170	190	210	210	210	210
Other long-term	1,030	1,075	1,100	1,150	1,165	1,160	1,270
Short-term	1,060	885	870	755	765	835	915
Deposits	405	375	375	370	370	385	395
Other	655	510	495	385	395	450	520
U. S. Government	35	80	485	710	830	1,045	2,170
Long-term	35	80	475	490	620	770	1,585
Short-term			10	220	210	275	585
Foreign investments in the United States, total	12,820	13,535	12,300	12,605	14,145	15,085	17,740
Private obligations	12,495	13,225	11,770	11,645	12,560	13,080	14,207
Long-term	8,695	8,100	7,200	7,275	7,570	7,865	8,502
Direct	2,900	2,875	2,700	2,615	2,605	2,630	2,675
Corporate stocks	3,255	2,625	1,950	2,120	2,445	2,700	3,370
Corporate bonds [1]	525	500	475	525	610	715	692
Estates and trusts	850	800	775	745	700	665	655
Other	1,165	1,300	1,300	1,270	1,210	1,155	1,110
Short-term	3,800	5,125	4,570	4,370	4,990	5,215	5,705
Deposits	3,225	3,915	3,510	3,665	4,290	4,425	4,855
Other	575	1,210	1,060	705	700	790	850
U. S. Government obligations	325	310	530	960	1,585	2,005	3,533
Long-term	150	150	150	150	200	425	493
Short-term	175	160	380	810	1,385	1,580	3,040
Net debtor (−) or creditor (+) position	−340	−1,260	+690	+1,035	+25	−275	−980
Net private	−50	−1,030	+735	+1,285	+780	+685	+383
Net U. S. Government	−290	−230	−45	−250	−755	−960	−1,363
Net long-term, private and U. S. Government	+2,575	+3,140	+4,760	+5,240	+5,425	+5,410	+6,265
Net short-term, private and U. S. Government	−2,915	−4,400	−4,070	−4,205	−5,400	−5,685	−7,245

[1] Corporate bonds include an estimate of $100 million of State and municipal obligations.

NOTE.—For information regarding concepts and methods of valuation employed, see appendix B, p. 225.

Chapter IV

Transactions by Areas[1]

Introduction

Some brief observations on the international transactions of the United States, by areas of the world, are presented in the following pages. These areas, representing a logical grouping of the various countries for purposes of this discussion, are the sterling area, Canada, the 20 American Republics, and the rest of the world.

Even in peacetime, the sterling bloc was a fairly close-knit international financial entity; and during the war, when the bloc was transformed into the sterling area, the compulsory pooling of dollar balances in London and other features increased its economic and financial unity considerably. Thus, the importance of the sterling area in trade with the world in general and with the United States in particular need hardly be emphasized. Canada ranks even above the United Kingdom in importance as a trading partner of the United States; moreover, the markedly triangular pattern of transactions between Canada, the United Kingdom, and the United States makes an isolation of United States-Canadian transactions of special interest. The 20 American Republics constitute a geographically contiguous area, with many common characteristics and problems, and thus are treated as a unit. Finally, to complete the data to cover United States transactions with all countries of the world, and because of the considerable intrinsic interest attaching to "all other countries," these, treated as one area, are discussed in a separate statement.

Certain United States transactions included in the global balance of payments cannot be identified with any particular country. These include two quite distinct sorts of transactions: First, those with international institutions, such as UNRRA or the International Bank for Reconstruction and Development; and, second, those which are actually domestic but which are shown in the global balance of payments because of their effect on the international reserve position of the United States. In this bulletin, both types of transactions are included in a fifth "area" group, namely, International Institutions. In practice, there is only one transaction of the second type mentioned above, i. e., that portion of the increase (or decrease) in the stock of monetary gold which is attributable to the net domestic production (or consumption) of gold.

A certain amount of caution must be exercised in using the figures given for bilateral balances of payments. The degree of accuracy of these figures is usually less than in global balances. Moreover, there

[1] This chapter was prepared by William McCarroll and Judah E. Smith.

is an important conceptual difference between a global and a bilateral balance of payments in that the latter does not have to "balance." It follows from this consideration that the residual item in a bilateral balance-of-payments statement is composed of two quite distinct kinds of things: It is partly the result of (nonoffsetting) errors and omissions in the estimates of the other items, and partly the result of multilateral transactions. Since the latter cannot usually be isolated, it is impossible to tell to what extent the size of the residual is due to each of these two kinds of "transaction" (if errors and omissions can be regarded as transactions).[2]

Some small attempt has been made at suggesting the probable source of the residuals appearing in the following statements, but at the present time no systematic investigation of the subject can be undertaken.

TABLE 28.—*Transactions of the United States with the sterling area, 1940–45*
[In millions of dollars]

Item	1940	1941	1942	1943	1944	1945
I. Receipts, total	1,821	3,209	7,427	12,958	14,085	7,644
A. Goods and services, total	1,647	3,111	6,532	11,043	11,986	5,753
1. Goods	1,403	2,621	5,206	8,635	9,375	4,430
2. Income on investments	77	66	81	78	80	76
3. Other services	167	424	1,245	2,330	2,531	1,247
B. Unilateral transfers	8	3	829	1,846	2,050	1,830
C. Long-term capital, total	166	95	66	69	49	61
1. Movements of United States capital invested abroad	12	23	36	68	49	61
2. Movements of foreign capital invested in United States	154	72	30	1	-------	-------
II. Payments, total	1,240	2,988	7,150	13,647	14,669	7,766
A. Goods and services, total	946	1,254	2,127	3,485	3,793	3,365
1. Goods	743	1,009	1,536	2,019	1,916	1,966
2. Income on investments	74	60	49	43	46	47
3. Other services	129	185	542	1,423	1,831	1,352
B. Unilateral transfers	74	990	4,903	10,080	10,708	3,690
C. Long-term capital, total	220	744	120	82	168	711
1. Movements of United States capital invested abroad	4	371	48	40	120	668
2. Movements of foreign capital invested in United States	216	373	72	42	48	43
III. Excess of receipts (+) or payments (−), total	+581	+221	+277	−689	−584	−122
A. Goods and services	+701	+1,857	+4,405	+7,558	+8,193	+2,388
B. Unilateral transfers	−66	−987	−4,074	−8,234	−8,658	−1,860
Net goods and services and unilateral transfers	+635	+870	+331	−676	−465	+528
C. Long-term capital	−54	−649	−54	−13	−119	−650
IV. Net inflow (+) or outflow (−) of funds on gold and short-term capital account, total	−1,492	−721	−231	+404	+550	−133
A. Net United States gold sales (+) or purchases (−)	−2,053	−551	−12	+50	+672	+5
B. Net movement of United States short-term capital abroad	+22	−1	−42	−26	−17	−8
C. Net movement of foreign short-term capital in United States	+559	−169	−177	+380	−105	−130
V. Errors, omissions, and third-country transactions	+911	+500	−46	+285	+34	+255

Transactions With the Sterling Area

The transactions between the United States and the sterling area[3] during 1940 and 1941 were marked by extraordinarily heavy United

[2] For a more detailed discussion of these conceptual problems, see appendix A.

[3] Since its formal inception on July 17, 1940, by the issuance of Statutory Rules and Order No. 1254 of the Defence (Finance) Regulations, the sterling area has consisted essentially of British Empire countries, with the exception of Canada and Newfoundland. It also includes certain non-British countries, notably Egypt and Iraq. In response to changing conditions during the war, such other non-British countries as the Belgian Congo and Ruanda-Urundi, French Equatorial Africa and other French possessions, Iceland, and the Faroe Islands have adhered for varying periods of time to the sterling area.

Kingdom sales of gold to the United States and by the partial liquidation of United Kingdom long-term investments and dollar balances, the proceeds of which were used to procure the vast quantities of equipment necessary to carry on the war with Germany. These outlays were so extensive that, by the end of 1941, the United Kingdom's holdings of gold and dollars[4] were close to the vanishing point and the bulk of its readily disposable investments in the United States had been liquidated or pledged against the Reconstruction Finance Corporation loan.

In the opening months of the war, the United Kingdom relied upon the industrial strength and self-sufficiency of the British Empire and its Ally, France, to supply the necessary equipment and materials. Earlier, however, when the danger of war threatened, measures were taken to insure the conservation of foreign-exchange resources. Imports of nonessentials were restricted and steps were taken to shift the source of supply for many commodities to areas within the British Empire. Registration of foreign assets was required late in August of 1939, and in September exchange control was imposed to curb the flight of capital. Similar controls were undertaken by the rest of the British Empire.

With the emphasis on the conservation of foreign exchange, British procurement of war supplies outside the sterling area was very small up to March of 1940. But with the invasion of Norway in April and of the Low Countries in May, and the collapse of France in June, Britain entered upon the procurement of the greatest amount of war supplies in the shortest possible time, regardless of the effect on its exchange resources.

The expenditure made under this procurement program and the capital flows which occurred in the first few months before the exchange-control regulations were tightened produced unprecedent deficits in the sterling-area balance of payments.[5] For the 16 months from the beginning of the war in September 1939 to the end of 1940, the sterling-area deficit with the United States amounted to $1,030 million on merchandise and services account alone.

In addition, advances and capital-assistance payments amounting to $720 million (net) were made to American concerns for the production of war materials.[6] Capital withdrawals precipitated by the outbreak of war were estimated to have totaled $735 million, of which $200 million represented the repayment of American export credits in accordance with the cash-and-carry requirements of the Neutrality Act and $235 million, the amount employed in the liquidation of a

[4] It may be noted here that the major movements in sterling-area dollar assets were for the account of the United Kingdom as a result of the operations of the sterling-area exchange pool. As a means of conserving exchange resources and to provide for their replenishment for essential war purposes, the members of the sterling area agreed to relinquish specified currencies, particularly dollars, to the pool in exchange for sterling. They also agreed to limit their demands on the pool for such currencies to amounts required for essential payments. This was reinforced by the general agreement to confine purchases outside the sterling area to items which could not be obtained within the area itself. In this system, then, surpluses of dollars above the minimum requirements of the member countries accrued to the United Kingdom account.

[5] The data regarding the gold and dollar transactions of the sterling area for September 1939–December 1940 have been taken from a letter, dated January 21, 1941, from the Secretary of the Treasury to Mr. Bloom, Chairman of the Foreign Affairs Committee of the House of Representatives. See the Federal Reserve Bulletin, February 1941, p. 99; and Department of Commerce, The Balance of International Payments of the United States, 1940, p. 9.

[6] A revised estimate for advances and capital assistance outstanding at the end of 1940, $762 million, has been used in table 28.

short forward position in dollars. The remainder, estimated at $300 million, represented capital withdrawals through the sale of free sterling.[7]

The sterling area's procurement of war supplies in Canada and in other countries also required the payment of substantial sums of gold and dollars. During this 16-month period, its current-account deficit with Canada and Newfoundland amounted to $555 million. Of this sum, $225 million was settled by gold, which was in turn transferred to the United States in partial settlement of Canada's deficit with the United States. The gold and dollar deficits of the sterling area with countries other than the United States and Canada amounted to an additional $500 million.

The total drain on the United Kingdom's gold and dollar resources during this period amounted to $2,316 million and sales of newly mined and dishoarded gold amounted to an additional $965 million.[8] Of the drain in resources held at the beginning of the period, $1,764 million consisted of gold sales, $334 million in sales of American securities, and $234 million in the liquidation of dollar balances.

At the end of 1940, a total of about $3 billion in American long- and short-term assets remained in the hands of the British, of which a maximum of about two-thirds could be sold or readily pledged to meet immediate commitments. These assets consisted of American securities valued at a little over $775 million, direct investments having a liquidation value estimated at $990 million, and gold and dollar balances of $300 million. But, on the basis of war orders already entered into, the sterling area's gold and dollar deficit for 1941 was estimated at about $1,500 million. It was obvious, therefore, that the sterling area's ability to purchase equipment and to wage war successfully was rapidly being exhausted. The introduction of the lend-lease program in March, however, removed the financial obstacles to the necessary flow of materials and services, and before the end of the year $740 million in lend-lease transfers had been made.

Further Needs for Dollar Exchange

The pressure of the United Kingdom's dollar resources was not eased, however, until 1942, when the cash procurement of war materials was virtually completed. For the year 1941, the sterling area's deficit with the United States on "cash" current-account items amounted to $870 million, equal to the deficit on "cash" merchandise trade as services receipts and payments were in balance. The settlement of this deficit (as well as dollar deficits with other countries) was accomplished chiefly through the sale of $551 million in gold to the United States, and the utilization of $350 million from the $425-million loan granted in July by the Reconstruction Finance Corporation. Liquidations of United Kingdom investments in the United States also continued on a large scale, the sale of securities amounting to $237 million and direct investments to $79 million. The short-term capital flows in this year consisted principally of a net reduction

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[7] The estimate of $735 million for capital withdrawals appears to have been indirectly derived from the estimates of current-account transactions, advances, and capital assistance, and the recorded flows from the gold and dollar resources of the United Kingdom. Because data bearing directly on these capital movements were not available to the Department of Commerce, the estimate has not been entered into table 28, and it is probably partly for this reason that the residual item for 1940 is so large.

[8] The various deficit items estimated above total $3,210 million. Other payments totaling $71 million are not accounted for.

(through deliveries) of $173 million in advances made to American manufacturers.

By the end of 1941, the bulk of British long-term investments in the United States had been sold outright or had been pledged against the Reconstruction Finance Corporation loan. British holdings of dollar securities available for liquidation had been reduced from $1,055 million to $255 million, and direct investments from $1,030 million to $455 million. Of these declines, $205 million in securities and $495 million in direct investments were held as pledges against the $425-million Reconstruction Finance Corporation loan.

A similarly drastic decline had occurred in the United Kingdom's gold and dollar balances.[9] From approximately $2,225 million at the end of 1939, these resources fell to $300 million in 1940. By the end of 1941 they had recovered to $395 million, probably because of additional newly produced gold from the Empire.

United Kingdom Position Improves in 1942

The year 1942 marked the beginning of a period extending through 1944 in which there was a sharp improvement in the United Kingdom's gold and dollar holdings. These resources were reported as $700 million at the end of 1942, $1,300 million in 1943, and $1,710 million in 1944.[10]

In 1942, the sterling area's deficit with the United States on merchandise and services transactions was still very large, $330 million, but this represented a reduction of more than 60 percent from the 1941 deficit. On merchandise account, while lend-lease exports soared to $4,032 million, United States "cash" exports fell by $700 million to a total of $1,174 million (see table 29). The United Kingdom's share was about equal to the prewar level of $500 million but, since very large amounts of war materials delivered against advance payments were included, the effects of United Kingdom restrictions on the importation of nonessentials and consumer goods are apparent.

The diversion of materials and productive facilities in the British Isles and elsewhere in the sterling area to war production forced a reduction of about $460 million in purchases by private United States importers. Despite an increase in procurement by United States Government civilian agencies and purchases abroad by the United States armed forces during the year, this reduction resulted in a decline of payments on merchandise account of $218 million. The trade deficit of the sterling area thus amounted to $382 million, compared with $872 million in 1941.

Another factor of importance in the reduction of the sterling-area deficit was the expenditure of the United States armed forces on installations, the maintenance of troops, and the purchase of services in many countries of the sterling area. During the year, a total of $311 million was spent—a sum which more than offset (by $52 million) sharp increases in receipts on other services. Previously, in 1940 and 1941, the sterling area's net receipts from the United States on services account were negligible, arising from a volume of transactions comparable with prewar, although rising freight rates enlarged the freight and shipping account on both the receipts and payment sides. In 1942,

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[9] White Paper: Statistical Material Presented During Washington Negotiations, Cmd. 6707. These amounts are net of outstanding liabilities to provide gold against sterling liabilities and liabilities to convert United States holdings of sterling into dollars on demand.
[10] Ibid.

United States receipts on this account rose very sharply, as did remittances of motion-picture rentals from the United Kingdom. Film-company earnings, which had been partially blocked under the exchange-control regulations since the beginning of the war, were released as the lend-lease program promised to relieve the United Kingdom's exchange situation.

Because of the very large reductions in the United Kingdom's dollar balances in 1940 and 1941 for making advance payments to United States manufacturers, the "cash" deficit of $330 million on merchandise and services account in 1942 did not result in a corresponding decline in exchange reserves. Transactions in gold and long-term capital were small. Total deliveries in repayment of advances were $528 million which, if eliminated from the computation of the deficit in the current account, leave a surplus of almost $200 million as the increase in United Kingdom dollar balances.[11]

TABLE 29.—*Merchandise transactions of the United States with the sterling area, 1940–45*

[In millions of dollars]

Item	Private	Gov-ern-ment	Total	Private	Gov-ern-ment	Total	Private	Gov-ern-ment	Total
	1940			1941			1942		
United States exports, total	1,381	22	1,403	1,881	740	2,621	1,161	4,044	5,205
"Cash"	1,381	22	1,403	1,881	-------	1,881	1,161	12	1,173
Unilateral transfers	-------	-------	-------	-------	740	740	-------	4,032	4,032
United States imports, total	704	40	744	870	139	1,009	405	1,131	1,536
"Cash"	704	40	744	870	139	1,009	405	386	791
Unilateral transfers	-------	-------	-------	-------	-------	-------	-------	745	745
United States export surplus (+) or import surplus (−) on "cash" trade	-------	-------	+659	-------	-------	+872	-------	-------	+382
	1943			1944			1945		
United States exports, total	346	8,290	8,636	397	8,978	9,375	529	3,902	4,431
"Cash"	346	192	538	397	405	802	529	1,086	1,615
Unilateral transfers	-------	8,098	8,098	-------	8,573	8,573	-------	2,816	2,816
United States imports, total	462	1,556	2,018	483	1,432	1,915	500	1,566	2,066
"Cash"	462	446	908	483	282	765	500	334	834
Unilateral transfers	-------	1,110	1,110	-------	1,150	1,150	-------	1,232	1,232
United States export surplus (+) or import surplus (−) on "cash" trade	-------	-------	−370	-------	-------	+37	-------	-------	+781

United States Deficits in 1943 and 1944

The trend toward improvement in the sterling area's position vis-à-vis the United States was accelerated in the years 1943 and 1944 as the peak of United States war activities abroad was reached. Lend-lease transfers of merchandise to the sterling area amounted to $8,098 mil-

[11] The net outflow of $177 million in foreign short-term capital in 1942, shown in table 28, is composed almost exclusively of the outflow of $528 million representing the reduction of advances through deliveries of materials, an inflow of $156 million of new advances made in 1942, and an inflow (increase) of United Kingdom and other sterling-area balances of $193 million. The differences between this increase of $193 million and the $305 million given in the White Paper mentioned above probably consists principally of the net change in United Kingdom gold holdings arising mainly from new production.

lion in 1943 and $8,573 million in 1944—approximately equal to the peak dollar volume of United States exports to the world in 1920. When price increases are taken into account, this dollar volume represented perhaps six or seven times the average 1936–39 physical volume of exports to the sterling area. Compared with these enormous amounts, "cash" exports of $538 million in 1943 and $802 million in 1944 were relatively insignificant. The 1943 "cash" exports to the United Kingdom of approximately $215 million represented only 40 percent of the 1936–39 average value and only 30 percent of the volume. The exports to the other sterling area countries, $323 million, represented 118 percent of the average 1936–39 value and 87 percent of the volume.

Almost 40 percent of the total "cash" exports to the sterling area in 1943 consisted of transactions by United States Government agencies and included sales from military stocks abroad of $78 million,[12] lend-lease transfers of silver valued at $30 million,[13] Commodity Credit Corporation sales of tobacco amounting to $72 million, and reimbursable lend-lease transactions of $10 million. Nearly all of the increase in total "cash" exports in 1944 arose from such transactions; silver deliveries on credit increased to $99 million, sales from military stocks to $200 million, and reimbursable lend-lease transfers to $38 million. Commodity Credit Corporation sales amounted to $60 million.

While "cash" exports fell to the lowest levels of the war period in 1943 and 1944, United States purchases in the sterling area continued at higher than prewar levels. Increased procurement by the armed forces in the field and by private importers brought total payments for merchandise to $908 million in 1943, while some decline in procurement by United States Government civilian agencies accounted for a decline to $765 million in 1944. Instead of very large surpluses as in the previous war years, the United States experienced a deficit of $370 million on merchandise trade in 1943 and a small surplus of $37 million in 1944.

Expenditures by the United States armed forces rose correspondingly as the fighting in all parts of the world reached its climax in 1943 and 1944. Net expenditures in the sterling area climbed to $465 million in 1943 and to $673 million in 1944 (see table 30). On other services, the United States continued to have large receipts balances. Motion-picture rental receipts declined from 1942, since remittances went back to a current basis. But the lack of competition from most European sources of films, as well as increased theater attendance stemming from high wartime incomes in the sterling-area countries and the presence of large numbers of American troops, resulted in remittances almost three times those of prewar years. Freight and shipping receipts also increased as the participation of American vessels in carrying United States exports became greater and as freight rates continued to rise.

No large variations occurred in other service items. Some decline in payments on sterling-area investments occurred, owing to the effects of the liquidations of the early war years and to increased United

[12] Consists principally of sales by the Army, directly or through contractors, of food, clothing, and other supplies and materials necessary for the maintenance of civilian labor.

[13] From 1943 through 1945, large quantities of silver were transferred under lend-lease on a loan basis to India, the United Kingdom, Australia, and a number of other countries, principally for currency purposes. This silver must be repaid in kind within a period of 5 years from the end of the war.

States withholding taxes on income. Of the remaining services, the most noteworthy were the sterling-area countries' expenditures in the United States for the maintenance of purchasing missions and diplomatic establishments, and insurance and reinsurance payments by the United States to the United Kingdom. Both these items were substantial, with net insurance and reinsurance payments amounting to $22 million in each year.

TABLE 30.—*"Cash" services transactions of the United States with the sterling area, 1940–45*

[In millions of dollars]

Item	1940	1941	1942	1943	1944	1945
United States receipts, total	251	339	516	527	643	646
Government services [1]	7	17	20	43	153	90
Freight and shipping	84	137	161	171	167	245
Income on investments	77	66	81	78	80	76
Travel	7	7	23	18	27	28
Other services	76	112	231	217	216	207
United States payments, total	276	341	568	834	1,145	900
Government services [1]	2	40	311	508	826	563
Freight and shipping	58	73	74	111	64	69
Income on investments	74	60	49	43	46	47
Travel	7	9	8	9	20	31
Other services	135	159	126	163	189	190
Excess of payments (−)	−25	−2	−52	−307	−502	−254

[1] Does not include receipts or expenditures on Government account for income on investments (interest on loans) or for freight and shipping transactions, but expenditures for Government travel are included.

In all, United States net receipts on services other than Government transactions averaged $165 million in 1943 and 1944. On all services accounts including the Government account, the United States had net deficits of $307 million and $502 million. Together with the balances on merchandise account, the United States current-account deficits amounted to $676 million and $465 million. This situation was reflected in the growth of United Kingdom balances in 1943 and the purchase and withdrawal of $696 million in gold by the United Kingdom in 1944.

Sterling-Area Deficit Reemerges in 1945

The pattern of transactions between the United States and the sterling area reverted in 1945 to that prevailing in the years 1940 through 1942, with a huge United States surplus on merchandise and services account again appearing. This was due principally to the settlement of the lend-lease and the reciprocal-aid account [14] under which $472 million of lend-lease goods and $60 million of surplus war property were transferred against the $532-million credit provided in that agreement. In addition, $112 million in lend-lease goods were included in "cash" trade and offset against reciprocal-aid transfers to the United States and sums due to the United Kingdom in the settlement of various claims arising out of the war. Direct sales by United States Government corporations, chiefly the Commodity Credit Corporation, amounted to $206 million, and additional loans of silver on credit amounting to $104 million were made. Reimbursable lend-lease, other surplus property, and military sales amounted to $132 million. In all, the above

[14] See p. 121.

Government "cash" merchandise transactions amounted to $1,086 million, which, together with private exports of $529 million, resulted in total receipts on merchandise account of $1,615 million, or more than double the 1944 total.

Imports also continued at the previous high levels, amounting to $834 million, but the United States export balance which emerged was $781 million as against only $37 million in 1944. This amount was offset on services account to the extent of $254 million, half the United States deficit in 1944, as United States armed forces expenditures decreased sharply with the ending of the war and as United States freight and shipping receipts climbed with rising freight rates. The sterling-area deficit on merchandise and services of $528 million was liquidated chiefly through the grant of credit mentioned above. But it also required a reduction of United Kingdom and other sterling-area short-term dollar assets of $130 million.

British Balance-of-Payments Problem

The net effect of the transactions of the sterling area with the United States since 1940 has been to permit the United Kingdom to regain a substantial portion of the gold and dollar reserves lost during the war. But, in terms of its ability to balance its international accounts and lift the standard of living of its people from the low levels of the war and immediate postwar period, Britain's war effort has cost it dearly. Its expenditures in the next few years for goods and services in volumes comparable with those of prewar years will, because of higher prices, involve far greater than prewar outlays. At the same time, its international resources and earning capacity have sharply declined.

As a result of the high degree of mobilization for war, the volume of British exports shrank to a third of its prewar level and the efficiency of British production greatly deteriorated.[15] Foreign markets for a volume of exports equal to that of prewar could not be regained before the end of 1946,[16] it was estimated. Shipping income would be substantially smaller than prewar, since the British merchandise fleet had been reduced to three-fourths the tonnage available as of the outbreak of the war.

The liquidation of American assets (described on previous pages) was only a portion of the total carried out during the war by the United Kingdom. In all, the British disposed of oversea investments to the value of $4,500 million between September 1939 and June 1945. In addition, the huge cash expenditures by the United Kingdom in the conduct of the war increased its oversea debt from $1,920 million to $13,500 million by June 1945 ($14,100 million on December 31, 1945). The interest payable on this huge debt plus the loss of income on oversea assets would, it was estimated, reduce Britain's net income on investment account to about half that of 1938.

Government expenditures, insignificant before the war, would be of considerable importance in the immediate future, because of occupation expenses in enemy countries and other postwar commitments.

The increase in the volume of exports which would be necessary to pay for the prewar volume of imports, after allowing for the decline

[15] For full data on the British balance-of-payments problem as it appeared in mid-1945, see the White Paper: Statistical Material Presented During the Washington Negotiations, Cmd. 6707, from which the following outline has been taken.

[16] Actually, as it developed, the prewar volume was regained by July 1946.

in other sources of income and assuming a doubling of import and export prices over the 1938 level, is of the order of 50 percent. But it was estimated that added requirements for working capital to finance oversea trade, for maintaining the standard of living of a larger population, and for repaying war and postwar debts would require a volume of exports 75 percent above that of 1938. Before this goal could be reached, a deficit on current account in 1946 of $3,000 million was foreseen,[17] and $2,000 million for 1947 and 1948 taken together.

American Assistance

The exchange resources available to the United Kingdom [18] and the funds which might become available from the International Monetary Fund ($325 million per year at the maximum) could not cover deficits of the size estimated in the White Paper.[19] Nor could further liquidations of British oversea investments be counted upon to provide much additional money, since the most marketable securities had already been sold or pledged.

On the basis of the analysis in the White Paper, negotiations for direct aid to the United Kingdom were entered into between the Governments of the United States and the United Kingdom in November 1945. An agreement was announced by President Truman on December 6, 1945,[20] and ratified by the United States Congress in July 1946. This agreement provided for the extension of a line of credit to the United Kingdom in the amount of $3,750 million to be available until December 31, 1951. Service charges are to begin on that date and are to consist of 50 equal annual instalments, including interest at 2 percent per annum on the amount outstanding at the beginning of each year.

To ease the conditions of repayment when the "present and prospective conditions of international exchange and the level of the United Kingdom's gold and foreign exchange reserves" make it necessary to do so, the agreement provides that the United States will grant a waiver of interest in certain circumstances. Specifically, this waiver is conditioned upon the certification by the International Monetary Fund that the United Kingdom's income from exports and net services for the five preceding years was on the average less than its imports during the period 1936–38 (here fixed at $866 million) as such figure may be adjusted for import price changes.

One of the stated purposes of the loan was to aid the United Kingdom in assuming the obligations inherent in a multilateral system of world trade. In recognition of this aim, the United Kingdom agreed to permit all sterling-area countries, within 1 year from the effective date of the agreement, to dispose freely of their receipts of sterling earned in current transactions with the United Kingdom. This provision will have the effect of doing away with the wartime operations of the sterling-area dollar pool. In addition, effective immediately, the United Kingdom agreed not to apply exchange controls in such a manner as to restrict payments on current account to the United

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[17] The actual deficit amounted to $1,600 million. See p. 121.

[18] Net holdings of gold and dollars were estimated at $1,840 million as of October 31, 1945, in the White Paper.

[19] Although the International Bank offered greater possibilities for "economies destroyed or disrupted by the war," the use of its facilities had not been considered, in view of the more immediate plans for balance-of-payments aid.

[20] "Financial Agreement between the Governments of the United States and the United Kingdom." See State Department Bulletin, vol. XIII, No. 337, December 9, 1945.

States or the use of sterling balances arising out of current transactions and owned by United States residents.

The United Kingdom also committed itself to lift, within 1 year, restrictions on payments and transfers for current transactions in respect of all countries. It further agreed to enter into negotiations with countries holding blocked balances looking toward the settling of such balances, freeing a portion of them for use in other currency areas.

In a "Settlement for Lend-Lease, Reciprocal Aid, Surplus War Property and Claims" [21] arising out of the conduct of the war, the United Kingdom agreed to pay the United States $650 million, subject to accounting adjustments for services and supplies furnished through lend-lease and reciprocal-aid channels after VJ-day. Payments by the United Kingdom on this credit were to be made on the same terms as those specified for the repayment of the credit provided in the Loan Agreement.

In a separate statement, the two Governments indicated their agreement on a set of principles [22] designed to promote multilateralism in world trade. These deal with the relaxation or abolition of (1) tariffs and preferential agreements, (2) quantitative restrictions on imports, (3) subsidies on exports, (4) cartel arrangements, (5) state trading, and (6) other types of barriers to free trade. These proposals were presented to other governments and a preliminary charter for an International Trade Organization was drawn up. At the present writing (June 1947), delegates from 18 nations are meeting at Geneva in order to agree on concrete measures for facilitating multilateral trade.

Outlook for United States-Sterling Area Transactions

Developments during 1946 have borne out to a substantial degree the analysis and forecasts made in the White Paper presented in the negotiations for the $3,750-million United States loan to the United Kingdom. The United Kingdom's balance-of-payments deficit of £400 million [23] in 1946 represented a great improvement upon the deficit of £750 million anticipated in the White Paper. But the circumstances surrounding this improvement indicate continued balance-of-payments difficulties and restricted living standards for the British people.

In the first place, the physical volume of imports into the United Kingdom rose to only a little more than two-thirds that of 1938. Primarily, this represented a failure to fulfill the minimum import program covering consumer goods and industrial materials and machinery considered essential for reconstruction. Moreover, instead of the specialized machinery and urgently needed industrial raw materials which the United Kingdom hoped to import from the United States, expenditures in the United States have been principally for consumer goods. In the 6 months from June to December 1946, for example, of total British expenditures in the United States for civil imports and films amounting to $496 million, 56 percent have been for food and tobacco and 7 percent for films, while only 11 percent were for raw materials, 12 percent for petroleum products, and 14 percent for machinery,

[21] "Joint Statement Regarding Settlement for Lend-Lease, Reciprocal Aid, Surplus War Property and Claims," ibid.

[22] "Proposals for Consideration by an International Conference on Trade and Employment," ibid.

[23] National Income and Expenditure of the United Kingdom, 1938 to 1946, HMSO, Cmd. 7099, April 1947.

ships, and other manufactured products (including some consumer goods). Growing demands in the United Kingdom for more freely available foodstuffs and other consumer goods may still further increase the rate of importation of such items, which, by October of 1946, had already reached four-fifths of the 1938 level.

On the export side, a more encouraging picture is presented, the volume of exports having reached the 1938 level by July and surpassing that level each month until the end of the year. But by the last quarter of 1946, the high rate of increase of 1945 and the early part of 1946 had slowed and the rising trend of exports appeared to have reached a plateau. The prospects for continued shortages of raw materials and lagging export production, as well as increased competition in export markets, may slow the rate of increase in exports in 1947 even below the lessened rate of the last months of 1946.

One of the most unfavorable aspects of the United Kingdom's drive for a volume of exports 75 percent above the 1938 level is the fact that the smallest gains have been made with the countries which loom largest in that country's total expenditures abroad. Exports to the United States, for example, were only $156 million, compared with $118 million in 1938, an increase of 32 percent in value but a drop of 40 percent in volume. United Kingdom imports from the United States, on the other hand, rose to $856 million, an increase of 64 percent above 1938, and the trade deficit thus amounted to the huge sum of $700 million. Among other countries with which similar situations exist are Canada, Argentina, Sweden, and Cuba. When the United Kingdom's continued needs for food, industrial manufactures, and raw materials from these countries are considered in the light of its failure to expand exports to them during a period of peak economic activity, little reduction in the size of the balance-of-payments deficit can be foreseen.

According to the Chancellor of the Exchequer, the size of the United Kingdom deficit anticipated for 1947 may be put at £400 million, equal to the 1946 deficit, or perhaps even larger. The deficit with the "hard currency" countries may be larger yet if the unfavorable trend of trade with those countries continues. It is estimated that drawings on the $3,750 million United States loan in 1947, for the direct deficit with the United States, as well as for dollar payments in connection with the occupation of Germany and for possibly increased conversion of other countries' sterling holdings, will amount to $1 billion in addition to the $2,050 million already drawn by June 30, 1947. This rate of withdrawal suggests the possibility of the exhaustion of the credit early in 1948.

Transactions With Canada

The development of the Canadian economy during the war years was remarkable. Under the stimulus of war-born necessity, Canada extended its position as one of the world's greatest producers of raw materials by developing the output of such products as mica, tungsten, chromium, molybdenum, mercury, petroleum, iron ore, aluminum, chemicals, plastics, and synthetic rubber.

The greatest progress was made in the industrial field, however. The vast expansion of existing plant and the construction of new productive facilities which were undertaken by both private industry and Government during the war made Canada one of the world's

TABLE 31.—*Transactions of the United States with Canada, 1940–45*

[In millions of dollars]

Item	1940	1941	1942	1943	1944	1945
I. Receipts, total	1,116	1,352	1,645	2,019	2,107	1,827
A. Goods and services, total	1,054	1,300	1,546	1,800	1,858	1,600
1. Goods	722	998	1,234	1,459	1,487	1,210
2. Income on investments	232	216	216	205	206	205
3. Other services	100	86	96	136	165	185
B. Unilateral transfers	14	6	17	24	22	22
C. Long-term capital, total	48	46	82	195	227	205
1. Movements of United States capital invested abroad	46	46	81	195	196	205
2. Movements of foreign capital invested in United States	2	--------	1	--------	31	--------
II. Payments, total	716	966	1,353	2,188	2,047	1,868
A. Goods and services, total	634	829	1,175	1,794	1,733	1,345
1. Goods	447	622	942	1,447	1,317	999
2. Income on investments	36	34	37	33	32	35
3. Other services	151	173	196	314	384	311
B. Unilateral transfers	17	19	20	25	22	18
C. Long-term capital, total	65	118	158	369	292	505
1. Movements of United States capital invested abroad	50	89	157	356	291	406
2. Movements of foreign capital invested in United States	15	29	1	13	1	99
III. Excess of receipts (+) or payments (−), total	+400	+386	+292	−169	+60	−41
A. Goods and services	+420	+471	+371	+6	+125	+255
B. Unilateral transfers	−3	−13	−3	−1	--------	+4
Net goods and services and unilateral transfers	+417	+458	+368	+5	+125	+259
C. Long-term capital	−17	−72	−76	−174	−65	−300
IV. Net inflow (+) or outflow (−) of funds on gold and short-term capital account, total	−339	−265	−109	+314	+151	+525
A. Net United States gold sales (+) or purchases (−)	−497	−205	−181	−7	−5	−42
B. Net movement of United States short-term capital abroad	+12	+7	−62	+14	+26	−34
C. Net movement of foreign short-term capital in United States	+146	−67	+134	+307	+130	+601
V. Errors, omissions, and third-country transactions	−61	−121	−183	−145	−211	−484

leading industrial nations. Capital employed in the manfacturing industries rose from (Canadian) $3,600 million in 1939 to $6,300 million in 1943. The gross value of products of the manufacturing industries rose during the same period from $3,500 million to $8,700 million and amounted to $9,100 million in 1944.[24] After the end of the war, the expansion of industry continued, private industry spending more than $1,000 million in 1946 on industrial plant,[25] 60 percent of which was devoted to machinery and equipment and the remainder to new construction.

Canada's close economic relationships with the United States were extremely important to this growth. A large share of the materials and equipment which went into the plant development in Canada was imported from the United States. This was made possible in a large degree by the sale of war materials to the United States as a result of the agreement reached in April 1941 at Hyde Park between the Governments of the two Nations. It was also aided by a large inflow of capital funds from the United States and by the direct expenditures of the United States armed forces on defense projects undertaken jointly with Canada.

[24] Department of Trade and Commerce, Dominion Bureau of Statistics, Canada Yearbook, 1946; and Canada, 1947. Official Handbook.
[25] House of Commons Debate, April 29, 1947, Appendix to Budget, 1947–48.

At the beginning of the war, in 1940 and 1941, these factors were not yet operative. Canada's import requirements from the United States for fulfilling United Kingdom war orders and for its own war preparations were so great that in 1940 its visible trade deficit almost doubled as compared with 1939. Together with the usual large net payments on services, Canada's current-account deficit with the United States amounted to $417 million,[26] or about 55 percent above the 1939 figure. In 1941, Canada's deficit was $458 million.

This led to heavy liquidations of Canadian gold and dollar reserves, the Foreign Exchange Control Board reporting its balances at the end of 1941 as $188 million, against a total of $404 million held at the end of 1939, a decline of $216 million.[27] In addition, $225 million of gold received from the United Kingdom was transferred to the United States, together with gold equivalent to current production. Previously, Canada was able to liquidate its usual deficits wtih the United States by transferring sterling earned in equally persistent surpluses on current account with the United Kingdom. But at the outbreak of war, when the United Kingdom instituted exchange control, such transfers could no longer be made and the drain on Canadian resources occurred.

From 1942 through 1945, Canada's current-account deficits were very much smaller, owing principally to heavy United States Government purchases resulting from the Hyde Park agreement and United States armed forces expenditures. Together with heavy capital flows from the United States, current gold production in Canada, and heavy dollar receipts from third countries,[28] the gold and dollar holdings of the Canadian Foreign Exchange Control Board at the end of 1945 were reported at $1,508 million, or almost four times the sum held at the outbreak of the war.

Merchandise Trade

Trade between the United States and Canada reached record levels during the war years. Early in the war, Canada drew heavily on the United States for capital equipment in order to expand production on United Kingdom account. As the war became intensified, British and other Allied demands upon Canadian production, financed first by the building up of Canadian sterling balances, then by loans, and finally through gifts under the Canadian Mutual Aid program, exerted

[26] All figures in this section refer to Canada and Newfoundland and are based on Department of Commerce estimates. Because of the different sources used, it has not been possible completely to reconcile the figures presented herein with the estimates in "The Canadian Balance of International Payments" of the Dominion Bureau of Statistics. Moreover, it should be noted that the Canadian estimates include, in effect, their domestic gold production as an export to the United States, although only that portion actually sold to the United States would appear in our estimates.

[27] Canadian Foreign Exchange Control Board, Report to the Minister of Finance, Ottawa, March 1946, p. 20. It may be noted that the actual loss of gold and dollars was much greater than the difference between the two year-end figures, since this does not take into account transfers of gold produced currently in Canada. See section on "Gold and Capital Movements."

[28] While Canada could not convert sterling holdings into dollars in the United States, from time to time the United Kingdom transferred dollars to Canadian account and over the war period Canada received about $230 million from the United Kingdom, in addition to the $225 million in gold received in 1940. On the basis of the recorded trade statistics, Canada would have had to release dollars only to Latin America, among the major trading areas of the world, although special agreements with several of the American Republics permitted Canada to use sterling or Canadian dollars in partial settlement of its deficits. An agreement with Brazil, for example, which operated between 1941 and 1944, permitted Canada to make payment for Government-procured imports to the extent of 50 percent in sterling and 50 percent in United States dollars. Private trade with Brazil continued on the normal United States dollar basis. Canada's trade with other nonsterling-area countries resulted in large export surpluses and undoubtedly contributed substantially to Canadian receipts of United States dollars.

a very strong influence upon imports from the United States—the only source of many of the component parts needed to fill these orders. Finally, Canada's requirements for its own war effort and for the higher consumption levels stemming from the intense economic activity of the Canadian people also led to large imports from the United States.

Canadian War Production Spurs United States Exports

The extraordinary growth in Canadian economic activity is illustrated in the following data: From 1939 through 1944 gross national expenditures in Canada increased from (Canadian) $5.5 billion to $11.8 billion; Government expenditures for war purposes rose in the same period from $75 million to $4.3 billion.[29] An indication of Allied participation is furnished in the following estimates: Of total Canadian war production [30] in the year ended March 31, 1943, 45 percent was for the United Kingdom and other countries, 19 percent for the United States, and 35 percent for Canada itself.[31]

All categories of United States exports were increased by the growth in Canadian production. The metals, machinery and vehicles, and fuels groups showed the largest increases, because of the expansion in Canadian industrial plants throughout the war. Aside from military items, exports in the machinery and vehicles group rose from an average of about $120 million in 1938–39 to $321 million in 1942, and were maintained at about $270 million in each of the years 1943–45. Large numbers of machine tools and other metalworking machines were included, and it may be expected that this equipment will be very important in shaping the postwar economy of Canada. United States exports in the metals group, consisting mostly of iron and steel and their manufactures, rose from an average of $45 million in 1938–39 to $195 million in 1942, and amounted to $125 million in 1945. Exports of coal increased steadily from $48 million in 1938 to $89 million in 1943 and averaged close to $78 million in 1944–45. War equipment and supplies, including tanks, other combat vehicles, aircraft, aircraft parts and engines, and artillery and communications equipment, rose from negligible quantities before the war to a total value of $260 million in 1942, $350 million in 1943, $340 million in 1944, and then fell to $90 million in 1945.

Hyde Park Agreement Stimulates U. S. Government Purchases

United States imports from Canada were influenced principally by the Hyde Park Agreement of April 1941, under which the United States undertook to increase its purchases of urgently needed war supplies in order to bring about a better balance in the trade between the two countries and at the same time maximize production by preventing the duplication of productive facilities. The agreement provided that "in mobilizing the resources in this continent each country should provide the other with the defense articles which it is best able to produce, and above all, produce quickly, and that production pro-

[29] Department of Trade and Commerce, Dominion Bureau of Statistics. National Accounts: Income and Expenditure, 1938–1946.

[30] Not equivalent to "government expenditures for war purposes." Consists of production of war materials and construction on orders placed only by Department of Munitions and Supply totaling almost $3,500 million for the calendar year 1943. Delivery of war exports through other Government and private agencies are excluded. Canada at War, August 1944, p. 51.

[31] H. J. Carmichael, Coordinator of Production, and Chairman, Production Board, Department of Munitions and Supply, in an address before the Canadian Manufacturers Association in June 1944, published in Industrial Canada, July 1944, p. 143.

grams should be coordinated to this end." It stated that "there is existing and potential capacity in Canada for the speedy production of munitions, strategic materials, aluminum, and ships, which are urgently required by the United States" and "it is hoped that during the next 12 months Canada can supply the United States with between $200 million and $300 million worth of such defense articles." It was noted that such action "will materially assist Canada in meeting part of the cost of Canadian defense purchases in the United States." As a direct contribution to the easing of Canada's exchange problem, the agreement provided that component parts for equipment produced by Canada for the United Kingdom could be obtained from the United States under lend-lease.

During 1941, before the United States entered the war, little beyond the placing of an Export-Import Bank loan of $25 million for the production of aluminum had been accomplished under this agreement. However, under the direction of the Joint Economic and War Production Committees, set up to implement it, the way was paved for the participation of Canadian industry on a par with United States industry in United States war-production plans. The agreement led to enormous purchases in Canada by United States Government agencies after the United States entered the war. Between 1942 and 1945, $154 million was expended for the purchase of ships and vessels by the War Shipping Administration, $220 million for wheat and other grains by the Commodity Credit Corporation, and $293 million for refined aluminum and other metals by the Metals Reserve Company; and the U. S. Commercial Company, the Treasury Department, and the Defense Supplies Corporation spent about $105 million for other commodities.

Military equipment purchased by the War and Navy Departments went far beyond what was originally envisaged at the time the agreement was made, both in volume and in the type of equipment. It is estimated that, over the period of the war, a total of $1,087 million was expended by these departments for equipment, including items requiring complicated production efforts, such as aircraft, aircraft engines, artillery, Diesel engines, and radio and communication equipment.

Private United States Imports Rise

Private imports from Canada, stimulated by war-induced demands in the United States, also reached peak levels. By 1941, United States imports on private account amounted to $598 million, an increase of 75 percent above the total for 1939. In 1942, with procurement largely in Government hands and with restrictions on imports for consumption, private purchases from Canada fell to $498 million. However, the expansion of productive facilities in Canada made available large quantities of goods which could be fitted into the production plans of manufacturers in the United States, and private purchases from Canada rose to $776 million in 1943. Certain consumer goods, relatively more plentiful in Canada, were also imported in greater quantities, while wheat and other grain imports for industrial and feed purposes rose to $45 million, in addition to Commodity Credit Corporation purchases of about $94 million. Total private importations rose to $796 million in 1944, principally because of imports of grains amounting to $177 million, the result of continuing shortages in the United States.

With the end of the war in 1945, both imports and exports declined, with private imports at $771 million and United States Government purchases at $227 million for the year, 55 percent of the 1944 volume. The total decline in imports amounted to $318 million. Exports to Canada fell from $1,487 million to $1,210 million, a decline of $277 million, as exports of war equipment were sharply cut. Iron and steel products, nonferrous metals, and other products for war production also declined, while exports of foods, textiles, and other products for consumption and for peacetime production increased or remained at the abnormally high levels of the preceding war years.

Service Items

The customary prewar pattern of United States net surpluses on service transaction, arising principally from excesses of receipts of income on investments, was not maintained unbroken during the war period. From $145 million in 1940, the United States surplus on service accounts dwindled to $95 million in 1941 and $79 million in 1942, principally because of the reduction in Canadian travel in the United States and a decline in income payments to the United States. From 1942 through 1944, United States Government expenditures in Canada, almost exclusively by the armed forces, were so large that net deficits, negligible in 1943 but amounting to $45 million in 1944, appeared. With the curtailment of such expenditures in 1945, the prewar pattern of United States surpluses reemerged with a balance in favor of the United States of $44 million.

Investment Income Declines

United States receipts of income from investments in Canada delined from $232 million in 1940 to $216 million in 1942 and to $205 million in 1945. This drop was due principally to a decline in dividend payments by American-controlled companies. Canadian exchange-control regulations prevented the remittance of some prewar earnings which normally would have been transferred in 1940 and 1941. Also, in June 1941, withholding-tax rates on dividends paid to residents of the United States by all except wholly owned subsidiaries of American companies were raised from 5 percent to 15 percent.

Another reason for the decline appears to have been the reinvestment of larger-than-usual proportions of earnings, in line with the general Canadian program of industrial expansion. Earnings in general declined with the leveling off of production in 1944 and the cancellation of orders and reconversion efforts in 1945. It also appears that the anticipation of an appreciation of the Canadian dollar may have adversely affected the payment of dividends in 1945.

Income payments to Canadians on their investments in the United States showed practically no decline over the war years. Approximately $36 million in income was paid in 1940 and $35 million in 1945, higher earnings offsetting the effects of a small reduction in Canadian holdings of United States securities during the period.

Transportation Payments to Canada Show Small Increase

In the transportation account with Canada, an excess of United States payments, amounting to $8 million, $17 million, and $12 million, respectively, emerged in the years 1943 through 1945, succeeding approximate balances in the account in 1940–42. These increases arose from higher payments on rail-freight account and a slight decline in net receipts on ocean shipping.

While there was a sharp increase in Canadian exports transported by rail for oversea shipment from American ports, the receipts by American railroads in this trade are charged to the country receiving the goods and not to Canada. On the other hand, payments for services rendered by Canadian railroads in carrying United States goods from one point in the United States to another rose, as did the expenditures of American railroads operating in Canada. These were the principal reasons for the increase in net payments to Canada on rail freight account from $15 million in 1940 to $26 million in 1945. Receipts and payments on direct United States-Canadian trade by all means of transportation during the period were approximately in balance. Slight increases in port expenditures incurred in Canada by American vessels and increases in freight payments on Great Lakes shipments through 1944 augmented the decline (due principally to diversion to rail transportation) of United States surpluses of shipping receipts earned in the ocean-borne trade between Canada and the United States.

Travel Expenditures Sharply Cut—Recover to Prewar Levels

One of the reasons for apprehension on the part of the Canadian authorities regarding their dollar position was the sharp decline from $149 million in 1939 to $89 million in 1940 in receipts from United States residents on tourist account. The introduction of restrictions on travel from Canada, however, cut Canadian expenditures in the United States from $61 million in 1939 to $36 million in 1940, thus reducing the net loss of dollars.

In 1941, United States expenditures for travel in Canada rose to $97 million, owing in part to Canadian promotional efforts in this country. At the same time, increasingly stringent application of travel restrictions cut Canadian expenditures in the United States to $17 million. Canadian net receipts on tourist account thus increased sharply from $53 million in 1940 to $81 million in 1941.

From 1942 on, Canadian travel expenditures increased, especially in 1944 and 1945 as restrictions on travel were relaxed with the improvement in Canada's exchange position. Travel by United States residents in Canada was affected primarily by severe gasoline and tire shortages in 1942 and 1943, but sharp increases in expenditures were recorded in 1944 and 1945, when the prewar 1939 level of $150 million was reached. Net Canadian receipts were smaller than in 1939, their expenditures in the United States having risen to $76 million as against $61 million in 1939.

U. S. Government Expenditures Aid Canada's Exchange Position

United States armed forces expenditures on such defense projects undertaken jointly with Canada as the Alcan Highway, the Canol petroleum development, the telephone line from Edmonton to the Alaska boundary, and many landing fields and air strips provided large sums of dollars to Canada as the war progressed. In all, United States Government expenditures, including those by military and civilian personnel, but excluding purchases of merchandise by the

Government agencies as such, mounted rapidly from $1 million in 1940 to $19 million in 1941 and $59 million in 1942. At the height of these activities, expenditures amounted to $149 million in 1943 and $187 million in 1944. They totaled about $77 million in 1945. Most of these outlays were for Canadian labor and for transportation and other services rather than for troop maintenance, as in other countries, since relatively few American troops were used in connection with these projects.

Gold and Capital Movements

Gold and short-term capital movements between the United States and Canada were essentially of a "balancing" nature during the war. The movements in Canadian funds, controlled as they were by the Foreign Exchange Control Board in the interest of maintaining an adequate supply, were, of course, unmarked by any active or autonomous influences. The movements of United States short-term funds were negligible, apart from advances of $72 million made by the United States Government in connection with contracts in Canada. In table 31, the net movement of all short-term capital items is shown, the principal movement consisting of the growth of Canadian dollar balances in the last few years under the influence of factors which have been indicated previously.

Gold Exports Provide Dollars

In the first 3 years of the war period, 1940–42, exports of gold were the principal "balancing" item. In 1940, total shipments from Canada for its account amounted to $497 million, of which $225 million had been received from the United Kingdom in partial settlement of its deficit with Canada. The shipments were in excess of the current-account deficit and resulted in a substantial increase in dollar holdings. Gold receipts from the United Kingdom ceased in 1940 with the near-exhaustion of the United Kingdom's reserves, and Canadian gold sales to the United States in 1941 and 1942, amounting to $205 million and $181 million, consisted wholly of Canadian production and withdrawals from stocks.

Since Canadian gold production amounted to an annual average of about $186 million in 1940 and 1941 and $169 million in 1942, Canadian sales to the United States represented withdrawal of $117 million from the $214 million reported as held by the Bank of Canada at the end of 1939. In 1943 and 1944, gold shipments to the United States for Canadian account practically ceased, but in 1945 Canada sold $42 million of gold to the United States.

U. S. Security Purchases Also Provide Dollars

A striking feature of the balance of payments between the United States and Canada during the war years was the movement of capital funds from the United States, which contributed greatly to the maintenance of the necessary flow of goods and services to Canada. The movement began in 1941, as mounting Canadian economic activity and a relatively high rate of return attracted American investors. The magnitude of the movement was due also to the accumulation of available funds in the hands of insurance companies, foundations, and other institutions in the United States. Purchases by such organizations, particularly the insurance companies, were heavy during the period.

Between 1941 and 1945 nearly $700 million of outstanding securities were purchased in Canada by American investors, an annual average of $140 million. This was a sharp reversal compared with the situation in 1936–39, when net Canadian purchases of foreign securities held in the United States averaged $9 million per year. The peak year of this movement was in 1945, when Canadian securities in the amount of $245 million were purchased.

In addition to purchases of outstanding securities, United States residents provided $336 million to Canada by subscriptions to new Canadian corporate and governmental issues, practically all of which, however, were for refunding purposes. This was about equal to prewar lending, which amounted to $372 million during the 1936–39 period.

The return flow of capital to the United States was also unprecedented, as the favorable exchange position and low interest rate in the United States spurred the retirement or refunding of Canadian debt held here. From $23 million in 1940, amortization payments by Canada rose to $181 million in 1943 and amounted to $112 million in 1944 and $151 million in 1945. The total for the war years as a whole was $551 million.

Trading in United States securities was small from 1940 through 1944, repurchases by American residents being slightly greater than purchases by Canadians. In 1944, however, some $50 million of long-term United States Government securities were purchased near maturity and liquidated in 1945, which together with other liquidations brought net sales to the United States in that year to $98 million.

The movement of direct investment capital during the war years was negligible; the most noteworthy changes occurred in 1944, when several small United States investments totaling about $25 million were liquidated. Over the period as a whole, however, substantial changes in the position of United States direct investments occurred, because of the reinvestment of earnings.

Outlook for United States-Canada Transactions

Canada's expanded industrial and agricultural economy operated in 1946 at levels comparable with those attained during the war. Employment, income, and consumption regained most of the ground lost when war production slackened late in 1944. Gross private investment in construction and equipment of $1.1 billion was equal to the levels reached in 1940 and 1941 and was more than double that of 1938.[32] In foreign trade, exports amounting to $2,312 million exceeded all previous peacetime levels, while imports for consumption, amounting to $1,859 million, established an all-time record.

The progress which has been made in the industrial field appears to be making itself felt upon Canada's external trade. It is significant that in the first full year of peace this industrialization was accompanied by the greatest inflow of imports in Canadian history, while, of its exports, 70 percent consisted of manufactured and partly processed goods, compared with 60 percent before the war.

The extraordinary level of economic activity and trade in 1946 was not, however, without its attendant problems. With heavy dependence upon the United States for goods consumed at home, as well as for

[32] Department of Trade and Commerce, Dominion Bureau of Statistics. National Accounts: Income and Expenditure, 1938–46.

components of materials sent abroad, imports from the United States amounted to $1,460 million—almost 80 percent of the total and approximately equal to the levels reached during the war years. Exports to the United States, on the other hand, fell to $884 million, owing principally to the discontinuance of United States Government purchasing. Thus, Canada's trade deficit with the United States amounted to $576 million, the highest in history.

Service transactions, according to preliminary estimates, resulted in an additional Canadian deficit of approximately $116 million. The net flow on long-term capital account, instead of being toward Canada as in the preceding few years, was toward the United States, to a small extent.

The recorded losses of Canadian gold and dollars to the United States amounted to $441 million. Although this was almost 30 percent of Canada's holdings at the beginning of 1946, the losses were mitigated by substantial gold and dollar receipts from third countries, particularly from the United Kingdom. However, Canada's deficit with the United States in the first quarter of 1947 was running at a higher rate than in 1946.

To slow the dwindling of dollar resources, Canada must either reduce imports or receive a larger volume from the European countries, especially the United Kingdom, and from other countries to which it is exporting on credit terms. The utilization of Canadian export credits and loans in 1946 amounted to (Canadian) $750 million, of which the United Kingdom's share was $540 million. In return, Canada's imports from the United Kingdom were only $130 million and imports from other debtor countries were only $22 million. More balanced trade between Canada and these countries would probably reduce Canada's dependence upon the United States, but, in view of the slowness of rehabilitation in the United Kingdom and elsewhere, as well as price, quality, and other competitive barriers to imports into Canada, no great improvement can be foreseen in the near future.

The best solution would lie, of course, in greater exports to the United States. If Canadian industries, particularly the newly developed ones, could participate to a larger extent in the United States market, the present high levels of Canadian consumption, investment, and production for export to other foreign countries could be maintained. At the same time, however, a further increase in the volume of United States exports might develop as higher incomes and investment create new demands in Canada.

Transactions With the American Republics

The outstanding characteristic of the various developments of transactions between the United States and the 20 other American Republics [33] was the large excess of United States imports over exports, and the resultant accumulation of gold and dollars by the American Republics. An excess of exports over imports characterized the transactions of the area with all the rest of the world as well, so that the

[33] The terms "American Republics," "Latin American Republics," and "Latin America" are used interchangeably in this section to mean the 20 independent countries of the Western Hemisphere to the south of the United States. None of these expressions, except perhaps "Latin American Republics," is strictly accurate, but they are all employed here for the sake of convenience and variety. The 20 countries are Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, El Salvador, Uruguay, and Venezuela.

TABLE 32.—*Transactions of the United States with the American Republics, 1940–45*

[In millions of dollars]

Item	1940	1941	1942	1943	1944	1945
I. Receipts, total	1,088	1,415	1,214	1,457	1,903	2,101
A. Goods and services, total	1,017	1,321	1,116	1,328	1,718	1,921
1. Goods	682	902	711	830	1,112	1,284
2. Income on investments	170	198	196	200	260	239
3. Other services	165	221	209	298	346	398
B. Unilateral transfers	11	8	14	17	18	26
C. Long-term capital, total	60	86	84	112	167	154
1. Movements of United States capital invested abroad	60	83	76	107	152	127
2. Movements of foreign capital invested in United States	-------	3	8	5	15	27
II. Payments, total	971	1,409	1,602	2,073	2,415	2,428
A. Goods and services, total	891	1,356	1,443	1,763	2,065	2,108
1. Goods	670	1,076	1,166	1,445	1,726	1,772
2. Income on investments	10	9	8	8	8	8
3. Other services	211	271	269	310	331	328
B. Unilateral transfers	12	15	61	199	289	101
C. Long-term capital, total	68	38	98	111	61	219
1. Movements of United States capital invested abroad	64	37	97	110	60	218
2. Movements of foreign capital invested in United States	4	1	1	1	1	1
III. Excess of receipts (+) or payments (−), total	+117	+6	−388	−616	−512	−327
A. Goods and services	+126	−35	−327	−435	−347	−187
B. Unilateral transfers	−1	−7	−47	−182	−271	−75
Net goods and services and unilateral transfers	+125	−42	−374	−617	−618	−262
C. Long-term capital	−8	+48	−14	+1	+106	−65
IV. Net inflow (+) or outflow (−) of funds on gold and short-term capital account, total	−22	−14	+345	+732	+648	+606
A. Net United States gold sales (+) or purchases (−)	−122	+19	+109	+579	+406	+473
B. Net movement of United States short-term capital abroad	−6	−26	−16	−5	−36	−27
C. Net movement of foreign short-term capital in United States	+106	−7	+252	+158	+278	+160
V. Errors, omissions, and third-country transactions	−95	+8	+43	−116	−136	−279

aggregate accumulation of gold and foreign exchange was larger than the accumulation due to transactions with the United States alone.

The American Republics have traditionally been exporters of products of the extractive industries—agriculture, livestock raising, and mining. Exports of manufactured goods (except for meat and a few other products directly connected with primary industry) have been negligible.

Moreover, most of the American Republics have depended on only one or two products for the bulk of their exports. For example, in 1938 petroleum accounted for more than 90 percent of Venezuela's exports, and coffee for more than 80 percent of El Salvador's. In 9 of the 20 American Republics, the leading export accounted for more than 50 percent of the total, and in 7 more the two leading exports together accounted for more than 50 percent.

As a consequence of this situation, the volume of exports of the American Republics has tended to be even more sensitive to cyclical fluctuations than has world trade generally. The great depression of the 1930's, during which prices of raw materials fell to unprecedentedly low levels, had catastrophic effects on the exports of these countries.

The prices of manufactured goods, on the other hand, did not fall to the same extent, and imports into the American Republics consisted in the main of goods in this category. The result was that during the depression period the value of exports from the area tended to fall more than the value of imports into it.

In "normal" times, the American Republics generally had an export surplus which, supplemented by some foreign lending, was sufficient to compensate for the characteristic deficit on the invisible items. The dominant items in this group were (and are) payments for transportation services and payments of income on investments. The American Republics' investments abroad were negligible and their merchant marines relatively small, so that outpayments for these services were heavy, and an export surplus was necessary in order to compensate for them.

The relatively steeper decline in exports brought about by depression conditions consequently presented the American Republics with very pressing balance-of-payments problems. The solution which most of them chose as the easiest way out was exchange control, designed to allocate the reduced volume of available foreign exchange in the most desirable way from the point of view of the economy as a whole, and to reduce the demand for exchange insofar as possible. However undesirable such controls may be under happier circumstances, at the time it was probably the only practicable choice for most of the countries concerned.

If depression conditions were especially unfavorable to economies of the type which prevails in Latin America, war conditions tended to be especially favorable. The demand of the chief belligerent nations, and of the United States in particular, for raw materials essential to war production was almost insatiable during the war years; and as the conflict drew to a close, world demand for foodstuffs and feedstuffs from the Western Hemisphere was also greatly increased as the result of the disruption of agricultural production in the war-devastated regions.

The favorable effects of war developments on the balance-of-payments position of the American Republics are dramatically demonstrated by table 33, showing the reported gold and foreign-exchange holdings of the 20 American Republics, 1941–45.

The Situation in 1940

Even with respect to their transactions with the United States, however, the real transition from a "normal" basis to the new war footing came about between 1940 and 1941. In the year 1940, although the war in Europe was well under way and the United States was beginning to arm under its defense program, the full impact of these events on Latin American transactions with other countries, especially with the United States, had not yet made itself felt. There was, it is true, some increase in most of the larger items entering into our transactions with Latin America, but apparently both receipts and payments on these various accounts rose in much the same proportion, leaving the general structure of the balance of payments very much the same as it had been in the immediate prewar years.

TABLE 33.—*Reported gross gold and exchange holdings of the American Republics, 1941–45*

[In millions of dollars]

Country	As of Dec. 31—				
	1941	1942	1943	1944	1945
Total	1,070.0	1,693.6	2,888.5	3,808.1	4,385.0
Argentina	459.2	624.3	1,136.6	1,434.7	1,703.6
Bolivia	15.7	19.3	19.0	21.4	34.2
Brazil	146.9	267.6	538.3	663.4	669.2
Chile	45.4	59.6	87.8	116.3	125.6
Colombia	22.5	61.8	113.3	158.2	176.8
Costa Rica	2.7	10.1	15.9	14.2	9.1
Cuba	67.9	205.9	263.6	462.6	553.5
Dominican Republic	5.7	8.7	12.1	11.5	11.5
Ecuador	7.8	17.2	29.1	36.2	33.2
El Salvador	8.2	17.4	25.3	28.1	31.3
Guatemala	13.2	23.8	30.3	31.1	38.0
Haiti	4.8	5.9	7.9	9.0	11.8
Honduras	1.3	4.1	3.9	9.6	15.5
Mexico	53.0	104.0	250.0	300.0	[1] 376.0
Nicaragua	1.9	4.7	7.4	6.7	6.7
Panama [2]	27.0	28.8	47.8	80.4	61.0
Paraguay	2.5	5.9	8.6	9.4	10.3
Peru	27.4	39.1	46.5	46.9	48.7
Uruguay	103.7	95.7	129.8	207.4	228.9
Venezuela	53.0	89.7	115.2	161.0	240.2

[1] Aug. 31, 1945.
[2] All figures are for June 30 and include United States currency in circulation and held by banks and foreign deposits of banks.

Source: U. S. Department of Commerce, Office of International Trade.
NOTE.—Detail will not necessarily add to totals because of rounding.

Merchandise Trade in Balance

Merchandise trade between the two areas in 1940 was relatively balanced, exports of the United States being valued at \$682 million and imports at about \$670 million. In the immediately preceding years, merchandise-trade transactions had resulted in surpluses for the United States, but this state of affairs was a comparatively new development. Prior to 1938, the United States, like the rest of the world, had usually imported somewhat more from the area as a whole than it had exported to it. The new situation apparently arose as a consequence of the business recession of 1938, which was considerably more severe in this country than elsewhere. As already mentioned, both our imports and our exports rose moderately in 1940, the increase in imports being somewhat greater than the increase in exports but not enough to wipe out the surplus completely and restore the more usual relationship.

Invisible Items Yield a Surplus

The 1940 surplus on account of invisible, or service, items was \$114 million. This surplus was primarily attributable to the very heavy net receipts of investment income, which in that year reached \$160 million. A deficit of \$46 million was incurred on the other service items.

These other services consist of freight, shipping, and passenger-fare charges, travel expenditures, and a host of small accounts conventionally lumped together as miscellaneous services. In the particular case of Latin America, both the transportation account and the travel account were important, although the seeming importance of the travel account is deceptive in relation to the area as a whole, since the bulk of travel transactions took place between the United States and one Latin American country, Mexico.

American travelers spend much larger sums in all the American Republics than do residents of those countries here. In 1940, travel receipts from all Latin American countries were estimated at $39 million, and payments at $84 million. The Mexican share in these amounts was $31 million on the receipts side and $57 million on the payments side.

Receipts on account of transportation services were only slightly in excess of payments in 1940. This may have been fairly typical of the peacetime pattern. It should be remembered, however, that the situation varied greatly from one individual Latin American country to another. With respect to a number of countries whose vessels receive a large proportion of our total transportation payments (e. g., Panama and Honduras), those payments were in effect partially offset by receipts of investment income from the shipping companies involved, which are largely American-owned.

As a result of all transactions in goods and services, our receipts from the American Republics were in the neighborhood of $1,017 million and payments were about $891 million, leaving a surplus on such transactions of some $126 million to be settled in other ways.

Net Long-Term Capital Movements Small

To a very small extent, the American Republics did find additional sources of United States dollars through long-term borrowing. The funds came from the United States Government through the Export-Import Bank. In 1940 this institution authorized loans—to Argentina, Brazil, Colombia, Peru, Uruguay, and Chile—totaling $168 million. But only a small proportion of these credits, about $19 million, was actually disbursed in 1940; and most of the remaining balance held was subsequently canceled (see p. 95). The net flow of private capital was toward the United States, however, so that the American Republics derived only $8 million net from all long-term capital transactions taken as a group.

Third-Country Transactions and the Residual Item

The net outflow of funds from the United States on account of gold and short-term capital movements combined was only $22 million—an amount which falls short by $95 million of equaling the excess of Latin American payments to the United States.

It has already been noted that in the case of a bilateral balance of payments there is no necessity, as there is for a global statement, that the so-called "balancing item" (i. e., gold and short-term capital movements) cancel out the excess of receipts or payments resulting from other transactions. In the present case, the residual item of $95 million may be due either to an underestimate of United States payments to Latin America, to an overestimate of United States receipts from Latin America, or to the fact that the Latin American countries derived net receipts from other countries which they used to cover their deficit with the United States.[34] Still another possibility is that

[34] If, for example, Argentina settles its deficit vis-à-vis the United States by drawing on dollars held by the United Kingdom, which latter country in turn has a deficit vis-à-vis Argentina, the transaction will appear as one between the United States and the United Kingdom instead of between the United States and Argentina—i. e., United Kingdom dollar balances will be drawn down rather than Argentina dollar balances.

the Latin American "receipts" of dollars from third countries may have come about not indirectly, from the building up of balances as a result of trade or service transactions, but directly, from the transfer of dollar balances from third-country to Latin American ownership through a simple change in residence of the holders of the balances. This may have happened in 1940 on a fairly extensive scale.

The War Period, 1941–44

In 1941, the expansionist effect of the war on our trade with the American Republics began to be apparent. During this year, the United States was playing in earnest its role of "Arsenal of Democracy." The stepping-up of production for our own defense and for aid to Britain required greatly increased imports of strategic materials and of raw materials in general. The American Republics, being among the world's greatest storehouses of such materials (other than the basic minerals, iron and coal), benefited greatly from this expanded import program.

Imports Rise

United States payments to Latin America on account of merchandise trade went up from $670 million in 1940 to $1,075 million in 1941, an increase of 61 percent. Though imports continued to grow year by year throughout the war years, including 1945, this was by far the largest annual increase, both relatively and absolutely. In terms of volume, furthermore, comparatively little increase occurred after 1941; in 1942, indeed, when the shipping shortage was particularly acute, import volume fell off heavily. The continuous rise in import values after 1941 appears to be due mainly (in some years perhaps entirely) to rising import prices.

As would be expected, there was a shift in the composition of imports toward materials essential for war production. The greater degree of concentration on such commodities was observable throughout the war years, but was especially marked in the critical year 1942, when the shipping shortage made it imperative to confine imports as far as possible to the essential category. In that year, three-fifths by value of our imports from the American Republics were classified as strategic or critical materials, compared with only 46 percent in 1939. Moreover, since European and Asiatic sources of these materials had been largely cut off, the Latin American share in our global imports of these commodities also increased. After 1942, imports from the region began to increase once more, not only because of the easing of the shipping situation but also because programs begun in that year for increasing production of rubber and many other strategic and critical materials got well under way only in later years.

Rise in Exports Less Marked

The rise in United States exports to Latin America was much more moderate during this period. The value of exports in 1941 was 32 percent higher than in 1940, but in 1942 it was 20 percent lower than in 1941. This drop corresponded to a precipitous decline of about one-third in export volume, which was below the volume which had been reached in 1940. The value of exports did not reach the 1941 level even in 1943. By 1944 it had advanced considerably beyond the 1941 level, however.

The principal reason for the small increase in United States exports, compared with the increase in imports, was the tight supply situation for many of the manufactured goods which constitute the greater part of our exports to the area. As mentioned elsewhere,[35] a licensing system was instituted for all exports, in order to curtail their volume and to ration equitably the permitted quantity. A deliberate effort was made in many instances to supply the American Republics with many scarce commodities, lest their economies collapse altogether; nevertheless, it was often not possible to maintain exports even at prewar levels, let alone to meet the vastly expanded Latin American demand.

One result of this scarcity of manufactured goods which will doubtless prove beneficial to these countries in the long run was the expansion of domestic manufacturing industries. Brazil—to take a particularly striking example—built up its cotton textile industry to the point where it was able not only to supply the home market but in addition to export to other countries whose normal sources of supply had also been cut off. Developments of this sort in turn led to a great expansion of trade among the Latin American Republics, themselves. It is hardly an exaggeration to say that inter-Latin American trade was nonexistent before the war, with the exception of a few pairs of contiguous countries, like Argentina and Paraguay, Chile and Peru, or Mexico and Guatemala. In 1940 imports of the American Republics from one another were only a little more than one-tenth of their total imports; by 1944 this fraction had risen to about one-fourth.

Mexico and Panama Experience Deficits

While a heavy deficit on merchandise-trade transactions characterized our account with the American Republics as a group, our trade balance was not negative with every country individually (see table 34). The chief exceptions were Mexico and Panama.

United States trade transactions with Mexico resulted in fairly substantial surpluses in every year except 1943. In compensation, however, there were net United States payments to Mexico on certain other accounts (e. g., travel and personal remittances) to an extent that did not exist in connection with other Latin American countries.

The existence of the Panama Canal Zone puts the Republic of Panama in a very special balance-of-payments situation vis-à-vis the United States. Panama always had an enormous deficit on recorded merchandise-trade transactions with the United States, and no change in the situation occurred during the war years, except for roughly proportionate increases in both imports and exports. This trade deficit was offset by large net receipts on service transactions with the Zone. A large part of these "services" actually consisted of unrecorded exports of merchandise to the Zone, through purchases by Zone residents in Panamanian shops, and similar transactions. In addition, there are large United States payments of wages and salaries to persons who reside in Panama but work in the Zone. It is believed that by these means Panama during the years 1940–45 more than offset its trade deficits with the United States, and in fact had sizable surpluses on current account.[36]

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[35] See p. 17.

[36] We are indebted for much information on Panama-United States transactions to a very valuable unpublished study of the subject made by Findley Weaver, of the United States Foreign Service.

TABLE 34.—*United States trade with the American Republics: exports, including reexports, and general imports of merchandise, 1940–45*

[In millions of dollars]

Country	1940		1941		1942	
	Exports	Imports	Exports	Imports	Exports	Imports
Total	683	619	902	1,008	718	977
Argentina	107	83	109	167	72	150
Bolivia	8	6	12	27	11	26
Brazil	111	105	148	184	105	165
Chile	43	65	58	112	41	140
Colombia	52	48	66	53	30	78
Costa Rica	12	4	13	9	7	6
Cuba	85	105	126	181	133	161
Dominican Republic	7	5	9	10	9	8
Ecuador	6	5	8	7	9	9
El Salvador	5	7	6	7	6	12
Guatemala	9	11	11	13	9	15
Haiti	5	4	6	7	5	6
Honduras	7	9	9	9	6	5
Mexico	97	76	159	98	148	124
Nicaragua	6	3	9	3	4	5
Panama	19	4	35	5	28	3
Paraguay	1	2	1	3	2	3
Peru	23	18	32	24	28	21
Uruguay	11	18	18	40	17	21
Venezuela	69	42	68	49	47	20

Country	1943		1944		1945	
	Exports	Imports	Exports	Imports	Exports	Imports
Total	813	1,319	1,055	1,594	1,257	1,623
Argentina	32	145	29	177	39	170
Bolivia	14	32	12	39	14	28
Brazil	156	228	218	293	219	311
Chile	43	141	52	154	52	137
Colombia	46	98	60	105	88	103
Costa Rica	11	9	13	8	16	11
Cuba	134	292	167	387	196	338
Dominican Republic	12	12	14	17	19	14
Ecuador	11	14	14	15	15	14
El Salvador	7	14	7	14	3	17
Guatemala	10	16	11	18	15	24
Haiti	7	8	9	12	10	16
Honduras	6	5	9	7	10	9
Mexico	186	192	264	204	309	231
Nicaragua	7	5	7	6	8	5
Panama	35	2	23	2	34	3
Paraguay	2	4	2	4	3	6
Peru	34	26	37	30	42	34
Uruguay	14	49	19	48	29	66
Venezuela	45	26	87	54	137	87

NOTE.—Detail will not necessarily add to totals, because of rounding.
Source: U. S. Department of Commerce, Bureau of the Census.

United States Investments Prosper

The greatly expanded demand for the mineral and agricultural products of the American Republics—and the inflation which usually resulted from the influx of foreign money—naturally brought financial prosperity to business enterprises located in the American Republics. As a consequence, remittances of interest and dividends to foreign owners or creditors of those enterprises increased, in spite of the restrictions imposed by some Latin American countries on the transfer of investment income. Just as in the case of merchandise trade, there was a sharp upward movement between 1940 and 1941, United States receipts of income on investments rising from $170 million to \$198 million, or 16 percent. Investment income remained approximately stable at this level through 1942 and 1943, but shot up in 1944, primarily as a result of increased income of American-owned petroleum companies.

The increase in investment income is attributable entirely to the profits of United States direct investment. Interest on dollar bonds did not rise—on the contrary it fell during the latter part of the period as various bond issues were redeemed or otherwise repatriated without an equivalent volume of new issues taking their place.

Receipts of interest on Government (Export-Import Bank) loans to Latin America have varied with the Bank's expanding or contracting loan program, which was at its pre-1945 height in 1943. The sums involved in these interest receipts were small, never running higher than \$4 million per annum.

Payments to Latin America on account of interest and dividends have never been of major significance, and they tended to decline during the war years.

Other Private Service Transactions

Just as commodity prices increased during the war years, so did the "prices" of transportation services—a phenomenon which led to great increases in expenditures on transportation services. This factor alone would have brought about parallel changes in both receipts and payments, leaving the net balance, which had been small in 1940, almost unchanged. In reality, however, other factors came into operation (see p. 49), as a result of which our payments to Latin America actually fell during this period. They reached a low point in 1942 of less than two-thirds of what they had been in 1940, and not until 1944 did they pass the 1940 level. Receipts, on the other hand, rose steadily in every year except 1942, when they declined concomitantly with the merchandise-trade decline of that year. By 1944, United States receipts on account of transportation services had risen to more than \$200 million, or 220 percent of the 1940 receipts.

The travel picture remained comparatively static during the war years. The new prosperity of 1941 brought a spurt in travel payments, which totaled almost \$100 million, but in the next year travel restrictions (especially gasoline rationing) counteracted the influence of high incomes in this country and travel payments dropped abruptly. Thereafter, they gradually recovered; in 1943 they were approximately equal to the 1940 figure of \$84 million, and in 1944 somewhat above it. Receipts varied only between a high of \$39 million and a low of \$33 million. As in the past, most of these travel transactions took place between the United States and Mexico.

Government Service Payments Expanded

In contrast with the behavior of payments for services by private persons, United States Government payments to Latin America for various kinds of services increased greatly. These consisted of military expenditures and of expanded outlays by civilian agencies for various programs connected with the war (including work on the Pan-American Highway). The amounts involved in this account were small by comparison with the corresponding figures for other areas, because the American Republics were not the scene of any large-scale fighting. Still, Government expenditures for services rendered by Latin Americans were more than $125 million in each of the years 1942, 1943, and 1944.

Receipts for services rendered by this Government to the American Republics also rose as a consequence of various war-inspired activities, but not as much as did payments; net payments consequently went up. Moreover, a considerable part of our "receipts" actually consisted of services rendered gratis—i. e., the receipts are offset by equivalent amounts of unilateral transfers in the balance-of-payments statement.

Role of Lend-Lease Not Dominating

While unilateral transfers became much more significant after 1940 than they had been previously, they never assumed the predominant status that they did in our transactions with many other areas. This again is traceable to the fact that Latin America was not a battleground, and consequently its needs for military equipment were limited in comparison with those of European and Asiatic countries. Nevertheless, the American Republics were involved in the war; many of them had declared war on the Axis Powers and the remainder had broken relations with them. The problem of the defense of the Americas was urgent—both for its own sake and because of its connections with the defense of the United States proper.

The American Republics did therefore receive considerable quantities of lend-lease goods and services necessary for building up the security of the Western Hemisphere. During the 3 years 1942–44, transfers of lend-lease materials to the American Republics on a nonreimbursable basis were estimated at $235 million. In addition, there were $93 million in nonreimbursable lend-lease services, so that total unilateral transfers on lend-lease account were about $328 million.

Further lend-lease transfers to Latin America valued at $59 million were reimbursable on cash or credit terms, and thus are not offset by an equivalent value of unilateral transfers.

The United States Government also made moderate unilateral transfers of cash, consisting of expenditures in the area by the Coordinator of Inter-American Affairs, and small sums for pensions and annuities to persons resident in the area, totaling $38 million through 1944. The Office of the Coordinator of Inter-American Affairs was established for the purpose of fostering good will between the United States and the Latin American countries by promoting closer cultural relationships. It provided considerable aid to Latin American countries through various cultural, educational, and health and sanitation projects.

Remittances to Mexico Expand

There was also some growth in private unilateral transfers in the period 1941–44, especially beginning in 1943, when personal remittances to Latin America rose sharply, being more than double the 1942 estimate of $13 million; by 1944 they were more than $85 million. This tremendous growth was due primarily to the presence of laborers imported from Mexico. The dollars earned by these workers and remitted to their families at home were a major source of foreign exchange to Mexico during this period.

No Trend in Long-Term Capital Movements

Long-term capital movements were somewhat erratic. Over the entire period, there was an excess of United States receipts amounting to about $140 million, but most of these came in 1944. United States private portfolio capital was withdrawn from Latin America to the extent of about $55 million; private direct-investment capital was also withdrawn in every year except 1942, the net withdrawal for the 4 years amounting to about $125 million. Latin Americans also increased their holdings of United States securities and amortized some of their obligations to the United States. Altogether, private long-term capital movements resulted in a net positive balance of some $180 million.

Government Lending Not a Major Factor

This balance was only partially offset by Government lending to the American Republics; United States Government credits outstanding increased by only $69 million from the end of 1940 to the end of 1944. It has already been mentioned that large Export-Import Bank commitments were made to Latin American countries in 1940, but many of these were for projects which could not be completed on account of the war, with the result that the credits lapsed or were canceled. The increase in Latin America's outstanding obligations as direct loans to the Export-Import Bank was only $39 million between December 31, 1940, and December 31, 1944. However, many private loans to Latin America were guaranteed by the Export-Import Bank and presumably would not have been made without such guarantee. Table 35 shows the total of direct and guaranteed Export-Import Bank loans outstanding as of the end of each wartime year.

TABLE 35.—*Export-Import Bank: Direct and guaranteed loans, outstanding as of December 31, on account of the American Republics, 1939–45*

[In thousands of dollars]

Country	1939	1940	1941	1942	1943	1944	1945
Total	18,669	29,405	37,693	70,386	93,302	122,275	155,125
Argentina	----------	105	75	245	156	----------	----------
Bolivia	----------	----------	----------	1,506	2,142	----------	----------
Brazil	15,930	13,621	9,125	12,232	30,879	50,158	59,425
Chile	485	2,890	5,106	7,866	11,307	15,318	13,778
Colombia	36	5,825	8,916	13,438	8,162	8,666	15,815
Costa Rica	----------	4	1,000	4,295	6,395	6,645	6,950
Cuba	----------	----------	----------	----------	1,462	815	7,739
Dominican Republic	----------	----------	802	1,395	2,023	2,809	2,459
Ecuador	----------	15	368	966	2,255	3,890	5,701
El Salvador	----------	----------	----------	250	600	900	1,431
Guatemala	----------	----------	----------	----------	----------	----------	----------
Haiti	1,905	3,435	4,775	7,010	7,936	8,917	8,110
Honduras	----------	----------	----------	----------	165	310	715
Mexico	136	130	77	9,401	8,280	7,134	14,363
Nicaragua	50	1,080	2,271	2,586	3,510	3,068	2,961
Panama	----------	965	2,121	2,064	----------	----------	----------
Paraguay	125	1,206	2,210	2,805	3,555	4,553	4,992
Peru	----------	----------	----------	----------	----------	----------	----------
Uruguay	----------	----------	----------	34	304	5,677	8,139
Venezuela	----------	130	848	4,293	4,172	3,414	2,647

Source: Export-Import Bank of Washington.

NOTE.—Detail will not necessarily add to totals because of rounding.

More than half of the total increase in United States Government investment in the American Republics did not take the form of Export-Import Bank loans but arose in connection with productive facilities constructed by other United States Government agencies in various countries. A noteworthy example was the Nicaro nickel plant, which was erected in Cuba with Defense Plant Corporation funds. Against both these amounts must be offset regular payments by Mexico to the United States Government in settlement of claims arising from the Mexican expropriation of petroleum resources and agricultural property belonging to United States citizens.

The net balance on all United States transactions with the American Republics—goods, services, unilateral transfers, and long-term capital—was negative in every year except 1941, in which year payments and receipts were almost equal, the excess of receipts on long-term capital account offsetting the comparatively small excess of payments on the other accounts. Over the entire 4 years, the estimated excess of payments was $1,500 million.

Great Expansion of Latin American Gold and Dollar Holdings

Correspondingly, we find that Latin American gold and dollar holdings increased in each of the years 1941 through 1944. In the latter year, Latin America gained some gold from this country but drew down its balances to an almost equal extent. The cumulated increase in gold and dollars balances due to transactions with the United States was $1,710 million.

The increase in Latin American gold and short-term assets acquired from this country was thus greater by some $210 million than the amount necessary to balance the excess of United States payments. However, the situation varied from year to year. The residual item was small in 1941; it had a positive sign in 1942, indicating that Latin American gold and dollar holdings did not increase sufficiently to equal the United States deficit. The results for 1941 and 1942 were very likely due to errors and omissions in the estimates, but the negative residual for 1943–44 of $252 million is somewhat large to be accounted for entirely in this way and probably reflects Latin American receipts of dollars from third countries. Although the extent of such dollar transactions is not known with certainty, it is known that they did occur.

Events of 1945

United States exports to Latin America continued their rising trend in 1945; imports also increased, but by a smaller amount. The United States import surplus consequently was less than $500 million as contrasted with more than $600 million in the previous year. Receipts of investment income declined slightly from the peak year 1944, largely as a result of higher taxes on the oil companies operating in Venezuela; but receipts from other services rose by more than $40 million. The most important source of this increment was the increase in receipts on account of transportation services, which presumably reflects the larger volume of United States exports. Travel expenditures of United States residents also rose to a certain extent.

As a result of these changes, the excess of United States payments on goods and services was considerably reduced as compared with the previous years. Unilateral transfers were about $100 million, of which only about one-fourth represented transfers from the United States Government under the lend-lease and other programs. The remainder consisted primarily of remittances by Mexican laborers, which continued throughout 1945. Receipts of unilateral transfers by private residents of this country and by the United States Government brought net United States payments on this account down to $75 million.

Long-term capital movements in 1945 resulted in net payments of $65 million, in spite of rather high receipts. New Latin American investment in this country is normally quite small; there was a very considerable increase over the previous war years, but this increase brought the total amount of new Latin American investment for the year up to only slightly more than $25 million. At the same time, United States capital moved into Latin America in a net amount of $90 million. As for movements of United States Government capital, the net figure was small, since Government lending to Latin America and Latin American repayments of outstanding obligations were almost equal.

The United States deficit on all transactions with the American Republics was some $330 million. The inflow of funds on account of short-term capital movements and gold movements was, however, very much larger than would have been necessary to offset this deficit, amounting, indeed, to more than $600 million. The resulting residual item was, therefore, about $280 million; it presumably reflects the revival of Latin American exports to the Eastern Hemisphere as fighting came to an end, with payment being made in dollars.

The Outlook at the End of 1945

The extensive settlements of war accounts which dominated the balance-of-payments outlook for transactions between the United States and many European and sterling-area countries toward the end of 1945 and during 1946 did not possess a corresponding importance for the future of financial relations between the United States and the American Republics, since the net amount of Government loans and lend-lease transactions had been quite small.

At the end of 1945, it could reasonably have been expected that the predominant feature of 1946 transactions with Latin America would be a marked increase in the relative position in the total balance of payments of United States exports, but with perhaps some diminution in the value of merchandise trade and in both directions. It would have been reasonable to expect the service accounts to remain small by comparison with merchandise trade and to fall off somewhat by comparison with the wartime figures. On the other hand, it would have been natural to envisage substantial increases in the flow of American long-term capital into the area, especially Government capital. As a result of these trends, Latin American gold and dollar assets could have been expected to decline.

Insofar as the events of 1946 are known at present, these expectations have been fulfilled only partially. This development was primarily the result of the very sharp rise in world prices in general and in United States prices in particular—a factor which perhaps should have been anticipated at the end of 1945, in view of the course of events following World War I. The value of merchandise trade between the United States and the American Republics rose considerably, and many Latin American countries—especially the larger ones, such as Argentina, Brazil, and Cuba—enjoyed a "favorable" balance of trade in 1946. Price rises were, of course, particularly spectacular for agricultural export commodities. At the same time, inflation and scarcities in the United States held down the volume of Latin American imports from this country to somewhat smaller levels than might have been expected.

It still remains true, however, that several American Republics actually had the expected drain on external assets. The exchange—and particularly the dollar—problem assumed serious proportions in Costa Rica, Nicaragua, and Ecuador, to name only the hardest hit.

Transactions With All Other Countries

Discussed here are transactions with the remaining parts of the world—sections other than Latin America, Canada, and the sterling area. This group of countries includes continental Europe, the oversea territories of the continental European countries (except for certain French and Belgian territories which belonged to the sterling area throughout most of the period under review), the U. S. S. R., China, and the independent countries of Asia and Africa, except Egypt and Iraq.

TABLE 36.—*Transactions of the United States with "all other countries," 1940–45*

[In millions of dollars]

Item	1940	1941	1942	1943	1944	1945
I. Receipts, total	1,609	1,123	2,734	5,341	6,425	7,690
A. Goods and services, total	1,490	1,019	2,482	4,963	5,877	6,799
1. Goods	1,170	676	1,943	4,192	4,995	5,297
2. Income on investments	85	65	22	25	27	36
3. Other services	235	278	517	746	855	1,466
B. Unilateral transfers	26	26	142	251	316	713
C. Long-term capital, total	93	78	110	127	232	178
1. Movements of United States capital invested abroad	93	71	47	58	31	168
2. Movements of foreign capital invested in United States		7	63	69	201	10
II. Payments, total	1,419	1,250	3,090	5,861	7,014	8,783
A. Goods and services, total	1,165	1,048	610	1,032	1,351	2,520
1. Goods	853	780	321	494	586	1,008
2. Income on investments	90	84	65	70	75	77
3. Other services	222	184	224	468	690	1,435
B. Unilateral transfers	167	155	2,355	4,741	5,529	5,727
C. Long-term capital, total	87	47	125	88	134	536
1. Movements of United States capital invested abroad	76	39	13	5	111	518
2. Movements of foreign capital invested in United States	11	8	112	83	23	18
III. Excess of receipts (+) or payments (−), total	+190	−127	−356	−520	−589	−1,093
A. Goods and services	+325	−29	+1,872	+3,931	+4,526	+4,279
B. Unilateral transfers	−141	−129	−2,213	−4,490	−5,213	−5,014
Net goods and services and unilateral transfers	+184	−158	−341	−559	−687	−735
C. Long-term capital	+6	+31	−15	+39	+98	−358
IV. Net inflow (+) or outflow (−) of funds on gold and short-term capital account, total	−712	+39	+178	+511	+302	+789
A. Net United States gold sales (+) or purchases (−)	−1,423	+166	+199	+114	+232	+27
B. Net movement of United States short-term capital abroad	+149	+30	+5	+20	−126	−245
C. Net movement of foreign short-term capital in United States	+562	−157	−26	+377	+196	+1,007
V. Errors, omissions, and third-country transactions	+522	+88	+178	+9	+887	+304

With respect to United States transactions with these countries, it is obvious that only a few broad generalizations of rather limited significance can be made about the behavior of aggregate quantities whose components are so heterogeneous. The chief observations to be made are, first, that both receipts and payments, after falling sharply in 1941, expanded at a tremendous rate through 1944; and, second, that unilateral transfers and their offsets came to dominate the figures, leaving "cash" transactions in a relatively minor position (see table 37).

The countries included in this "all other" group could be divided into three fairly distinct subgroups, namely, the European neutrals, the enemy countries, and the Allies. Only with the first of these groups, the neutrals, did the United States maintain economic and financial relations along lines bearing some resemblance to the "normal" pattern of transactions. Dealings with the enemy countries were, of course, completely suspended after we entered the war; and even before that time they had been cut down far below their prewar level. The same thing held true of the enemy-occupied Allied countries in Europe and Asia after they were overrun, except for some dealings with the governments-in-exile. But transactions did continue, or were resumed at an earlier time, with the oversea possessions of these countries. Private trade also came to a standstill with those European and Asiatic countries which did manage to stay actively in the war on their own territory, but, insofar as the total volume of trade is concerned, this stoppage was compensated many times over by the tremendous expansion of Government transactions.

TABLE 37.—*"Cash" transactions of the United States with "all other countries," 1940–45*

[In millions of dollars]

Item	1940	1941	1942	1943	1944	1945
I. Receipts, total	1,609	1,085	524	518	801	1,918
A. Goods and services, total	1,489	981	408	390	545	1,661
1. Goods	1,169	645	223	214	353	1,355
2. Income on investments	85	65	22	25	27	36
3. Other services	235	271	163	151	165	270
B. Unilateral transfers [1]	26	26	6	1	24	79
C. Long-term capital, total	94	78	110	127	232	178
1. Movements of United States capital invested abroad	93	71	47	58	31	168
2. Movements of foreign capital invested in United States	1	7	63	69	201	10
II. Payments, total	1,419	1,212	880	1,038	1,390	3,011
A. Goods and services, total	1,165	1,048	579	857	1,075	1,898
1. Goods	853	780	312	447	507	825
2. Income on investments	90	84	65	70	75	77
3. Other services	222	184	202	340	493	996
B. Unilateral transfers [1]	167	117	281	168	197	588
C. Long-term capital, total	87	47	20	13	118	525
1. Movements of United States capital invested abroad	76	39	13	5	111	517
2. Movements of foreign capital invested in United States	11	8	7	8	7	8
III. Excess of receipts (+) or payments (−), total	+190	−127	−356	−520	−589	−1,093
A. Goods and services	+324	−67	−171	−467	−530	−237
B. Unilateral transfers	−141	−91	−275	−167	−173	−509
Net goods and services and unilateral transfers	+183	−158	−446	−634	−703	−746
C. Long-term capital	+7	+31	+90	+114	+114	−347
IV. Net inflow (+) or outflow (−) of funds on gold and short-term capital account, total	−712	+39	+178	+511	+302	+789
A. Net United States gold sales (+) or purchases (−)	−1,423	+165	+199	+114	+232	+27
B. Net movement of United States short-term capital abroad	+149	+30	+5	+20	−126	−245
C. Net movement of foreign short-term capital in United States	+562	−156	−26	+377	+196	+1,007
V. Errors, omissions, and third-country transactions	+522	+88	+178	+9	+287	+304

[1] Government financial unilateral transfers and personal and institutional remittances. The latter are predominatly cash, but include some remittances in kind.

Trade With the Neutrals Fluctuates

Trade with the neutral countries of Europe [37] during 1940 was of the same general order of magnitude as it had been in prewar days, though exports were somewhat higher and there was a marked diminution in imports owing principally to a change in imports from Sweden (see table 38). In the following year, both exports and imports—but especially the former—decreased considerably. These decreases were brought about by the shipping situation (trade with these countries could not be carried on in American ships), by the British blockade, and by the general political and military situation, including pressure from the Axis Powers and, in some cases, worsening political relations on our side. The progressive declines in our trade with the neutrals were not arrested until 1943. In that year, however, there was a great improvement. The shipping situation had eased, the tide of victory was beginning to turn toward the Allies, and some of the sea lanes formerly blocked had been cleared. This upward trend was continued in 1944 and 1945.

TABLE 38.—*United States trade with five neutral countries: Exports, including reexports, and general imports of merchandise, 1936–38 and 1940–45*

[In millions of dollars]

Year	Portugal	Spain	Sweden	Switzerland	Turkey	All neutrals
	Exports					
1936–38 average	11.5	13.3	57.3	9.3	11.5	102.8
1940	18.1	27.0	38.5	22.6	8.3	114.5
1941	16.2	14.3	22.4	13.4	6.8	73.1
1942	7.0	2.9	8.6	15.2	16.0	49.7
1943	9.4	28.2	7.6	32.2	87.3	164.7
1944	12.3	25.8	13.1	79.7	11.6	142.5
1945	23.3	40.7	45.9	63.5	15.6	189.0
	Imports					
1936–38 average	6.6	13.8	50.6	23.5	15.5	110.1
1940	11.1	14.6	17.3	27.2	13.9	84.0
1941	19.0	14.5	4.4	30.3	10.7	78.9
1942	10.3	8.1	.4	33.2	17.4	69.5
1943	22.9	18.6	.4	49.5	32.7	124.1
1944	35.9	49.6	.7	56.2	50.0	192.2
1945	20.9	57.4	46.0	83.4	69.9	277.7

Source: U. S. Department of Commerce, Bureau of the Census.

NOTE: Detail will not necessarily add to totals because of rounding.

No lend-lease aid was received by any of the neutral countries of Europe and Asia except Turkey. That country, however, was in a unique position, controlling as it did the Dardanelles—the Mediterranean link between the western Allies and the Soviet Union. This strategic position made it vital to provide for Turkey's defense against possible Axis aggression.

Trade With the Enemy Countries Cut Off

With respect to the Axis Powers—Germany, Italy, and Japan—trade with Germany had already been eliminated, for all practical purposes,

[37] For present purposes this term includes Portugal, Spain, Sweden, Switzerland, and Turkey. The latter country is a somewhat doubtful case, since it is not "European" in the strictest sense of the word and since it did eventually enter the war; but our wartime transactions with Turkey resembled more closely those with the European neutrals than they did transactions with the enemies or the Allied countries of the Eastern Hemisphere. Eire could also be grouped very logically with these neutral countries but has been included in the sterling area.

in 1940, and merchandise trade with Italy was also markedly curtailed. On the other hand, the value of our trade with Japan, both exports and imports, was actually above the 1936–38 level, indicating that the "voluntary" restrictions on trade with that country had not been very successful.

In the following year, 1941, trade with Italy also vanished, but trade with Japan, while very sharply reduced, was still going on in appreciable amounts. Not until 1942, when the United States was officially at war with all three of the Axis powers, were dealings with all three entirely absent.[38]

In 1945, with the collapse of the Axis Powers and the end of the war, there was a minimal volume of exports to Germany and Japan. In the case of Italy, which had now become a cobelligerent, our cash exports had a value of $58 million and even imports were not completely negligible.

In 1944 and 1945, in addition to the recorded lend-lease exports to Italy, there were also large relief shipments in connection with the American Army's "disease and unrest" program. It was not definitely known to what extent these supplies were procured in this country; some of them may have been obtained in other parts of Europe and elsewhere.

In 1945, three additional programs for aid to Italy came into operation. First, it was arranged that the dollar equivalent of net troop pay spent by American soldiers in Italy would be credited to a special fund set up in the United States Treasury for Italy's benefit and from which the Italians were permitted to draw for the purchase of supplies in this country. The use of this money was not extensive in 1945, however. Second, a part of the 1945 lend-lease appropriation was devoted to procuring civilian supplies for Italy; and, third, UNRRA sent some relief supplies to Italy, though UNRRA operations there were on a rather restricted scale in 1945.

The War Department was obliged to bring relief supplies into the other enemy countries as well, though in 1945 the amounts involved were smaller than in the case of Italy. Some UNRRA supplies, to be used for the relief of displaced persons, also found their way to the enemy countries, especially Austria. The lend-lease program for Italy was unique, however; nor did any of the other enemy countries receive any compensation for net troop pay. The more favorable treatment of Italy was due to its later status as a cobelligerent.

Trade With Allied Countries Also Severely Restricted

Trade transactions with Allied countries on the European continent (other than the U. S. S. R.) developed similarly to those with the enemy countries in that they were almost completely absent during the war years (see table 39). Transactions did take place with some of the non-European possessions of these countries, however—especially those in the Americas and in Africa.

Trade was particularly heavy with the Dutch possessions in the New World, because of the huge oil refineries in Curaçao and Aruba and the valuable bauxite deposits in Surinam (Dutch Guiana). Transactions

[38] The very small amounts shown in the recorded trade statistics represent, on the export side, prisoner-of-war packages, and on the import side, goods released from bonded warehouses and similar delayed imports.

The trade statistics also show large United States exports to Italy in 1944. These were shipments of lend-lease materials to that country for the use of the other Allied armies in the Italian campaign.

with the Netherlands Indies, on the other hand, came to an end early in 1942, after the Japanese invasion. The surprisingly large merchandise-trade figures which appear in the trade statistics for 1942 are due mostly to reporting lags. The time lag between the date of exportation from the Indies and the date of importation into the United States was often considerable, because of the distance and the fact that many of the products of the Netherlands Indies were transshipped through third countries. Trade was not resumed with the Indies (or with the Philippines, which were in a similar situation) until 1945, and even then only to a very limited extent.

Beginning in 1943, large lend-lease shipments were directed to French North Africa, as a consequence of the North African campaign which had begun in the fall of 1942. Not only military shipments but also civilian relief supplies were sent, and the latter program continued on a smaller scale through the next 2 years.

TABLE 39.—*Total and "cash" exports, including reexports, of the United States to selected Allied countries, 1940–45*

[In millions of dollars]

Country	1940	1941	1942	1943	1944	1945
	Total exports					
Belgium [2]	25.0	(1)	----------	(1)	----------	135.0
Netherlands	34.0	(1)	(1)	(1)	----------	81.8
France	252.2	4.4	1.1	(1)	17.9	472.3
French North Africa [3]	4.5	6.7	2.9	325.6	135.3	136.4
U. S. S. R.	86.9	107.5	1,417.5	2,955.8	3,459.8	1,838.3
China	105.2	127.7	79.6	50.5	51.8	94.4
	"Cash" exports					
Belgium [2]	25.0	(1)	----------	(1)	----------	47.4
Netherlands	34.0	(1)	(1)	(1)	----------	46.3
France	252.2	2.4	1.1	(1)	.8	125.9
French North Africa [3]	4.5	6.7	4.9	2.1	7.3	40.5
U. S. S. R.	86.9	107.0	63.0	28.9	29.9	55.0
China	105.2	104.9	12.4	8.9	10.3	42.5

[1] Less than $50,000.
[2] Including Luxemburg.
[3] Algeria, Tunisia, and French Morocco.

Source: U. S. Department of Commerce, Bureau of the Census.

The most impressive feature of our merchandise-trade transactions with Allied countries was, of course, the huge lend-lease program for Soviet Russia. Exports of merchandise to the U. S. S. R. underwent a thirteenfold expansion between 1941 and 1942. United States commercial trade with the Soviet Union had never been large in prewar times, considering the size and resources of the two countries, and did not become so during the war. In 1936–38, United States exports were valued at $49 million and imports at $25 million. Cash exports and imports rose somewhat above the prewar level in 1940 and 1941 (they were about double the 1936–38 figure in 1941) but declined again after the commencement of the lend-lease program.

Although the Lend-Lease Act had been passed in March and the U. S. S. R. had entered the war in June, lend-lease transfers to that country were negligible in 1941. By 1942, however, the program was well under way. The year 1943 saw a further expansion to double the previous year, and 1944 figures also showed some rise over 1943, although not of such a sensational nature in percentage terms. Lend-lease shipments to Russia fell quickly after the end of the European war in May 1945, being about half the 1944 value for the calendar year as a whole.

The year 1945 brought a great increase in lend-lease exports to continental Europe. Some exports of lend-lease materials to France occurred in 1944, following the invasion of Normandy, but they did not become large until 1945. Transactions, including some private cash exports, also began with the Low Countries, Scandinavia, and some of the countries of southeastern Europe. While the approach to normality was far from being complete, the resumption of trade, even in small amounts, was a significant change from the previous year.

The task of rehabilitating the war-devastated countries was already being undertaken in 1945. Relief was furnished to a number of them under the United States Army "Plan A" for bringing in civilian supplies. Export of capital goods, to meet more long-run requirements for rehabilitation and reconstruction, also commenced in the latter half of the year.

The countries of southern and eastern Europe, it was felt, were not in a position to finance their relief and rehabilitation needs. For their benefit, an international agency—the United Nations Relief and Rehabilitation Administration—was created. UNRRA also carried out programs in Asia, China receiving a substantial part of UNRRA supplies.

The principal European recipients of UNRRA supplies were Yugoslavia, Poland, Greece, Czechoslovakia, and Italy (see table 40).

TABLE 40.—*United States exports under the UNRRA Program, 1945* [1]

[In millions of dollars]

Area and country	UNRRA exports	Area and country	UNRRA exports
Total	355.3	Europe, etc.—Continued.	
		Italy	18.1
Europe, excluding United Kingdom and U. S. S. R.	323.4	Greece	76.8
Czechoslovakia	51.4	U. S. S. R.	16.5
Poland and Danzig	82.9	Asia, total	14.7
Yugoslavia	87.3	China	14.2
Albania	6.9	All other countries	.7

[1] UNRRA exports began in September 1944 but totaled only $609,000 through the end of the year.

Source: U. S. Department of Commerce, Bureau of the Census.

UNRRA goods were classified by that agency into five categories: Food; textiles, clothing, and footwear; medical and sanitation; agricultural rehabilitation; and industrial rehabilitation. Some of these goods were probably in the nature of capital equipment which will be of permanent value in reconstructing war shattered economies.

Investment Income Below Normal

During the war years, both receipts and payments of income on investments were reduced considerably below normal levels. This was particularly true of receipts, since capital invested in the war-ravaged countries, which comprised most of the "all other" group, was hardly profitable at that time, even if transfer of investment income had been legally permissible. The decline in payments was considerably less marked, since profits on investment in this country were running at a relatively high rate. Nevertheless, payments to foreigners did decrease, partly because of the restrictions on the transfer of funds abroad;[39] partly because property in this country belonging to enemy nationals was seized by the Office of the Alien Property Custodian, and with the liquidation of the investment the income therefrom also disappeared; and partly because of increases in United States corporate income taxes.

War Affects Other Private Service Transactions Also

Other private service transactions followed essentially the same course as did merchandise trade, although the fall and the subsequent rise were not altogether so drastic in percentage terms. Total transactions on account of transportation charges are correlated with the value of merchandise trade (the direct connection is with the volume of trade, but since shipping rates are likely to move in sympathy with general price changes, the correlation with value is usually high also). Since most of our exports were on lend-lease account, most of the shipping "receipts" consisted of services provided on lend-lease terms.

The travel account was negligible throughout the war period. Even in 1940, receipts and payments were each running at the relatively low rate of about $10 million, with receipts slightly higher than payments; and in later years the annual figures fell to $2 million or less. In 1945, there was some recovery, particularly on the payments side, the latter being estimated at $25 million for that year.

Receipts on account of miscellaneous services rose by quite large amounts; payments, which are much smaller than receipts, in any case, remained stationary. The increase in receipts was due to the behavior of two items: Foreign government representation in the United States, expenditures for which were greatly augmented during the war on account of the necessity for maintaining purchasing missions and similar organizations in this country; and motion-picture rentals. The large growth in receipts of motion-picture rentals presumably reflected the increased demand for American films, consequent in part upon the presence of large numbers of American troops abroad.

Tremendous Growth of Government Services

United States Government receipts and payments on account of services grew tremendously. Insofar as receipts are concerned, these consisted almost entirely of straight lend-lease services rendered to foreign governments and are thus offset by equivalent unilateral transfers. There were, however, some relatively small cash military receipts, and an even smaller amount of cash receipts by various regular civilian agencies. These two types of cash receipts rose as high as $160 million toward the later years of the war, but services provided under lend-lease arrangements were running at a rate of almost $2 billion at the same time.

To a certain extent, amounts shown on the payments side of the Government miscellaneous services account were also offset by unilateral transfers, i. e., they consisted of services rendered to the United States Government under reverse lend-lease. But the volume of military services for which cash payment was made by the United States was almost as large. A further very substantial item which appears here is "net troop pay." Most of the global net-troop-pay account appeared in connection with transactions with countries in the "all

[39] Assets of enemy, enemy-occupied, and some neutral countries were blocked after our entry into the war. Where investment earnings were paid into these blocked accounts, they are included in the balance-of-payments statement (being offset by the increases in foreign balances); but in some cases, e. g., bearer bonds physically located in the country of ownership, the accrued income does not appear in our data.

other" group, and transactions in special currencies were entirely concentrated in this area.[40]

Remittances Fall and Rise

Private unilateral transfers have always played a comparatively large part in United States transactions with countries in the "all other" group, because they were the countries (other than the British Isles) from which most immigrants to the United States have come. Personal remittances declined through 1941 and 1942, in the latter year amounting to only about one-third of the 1940 estimate of $110 million; the decline was, of course, due to war-created difficulty in transferring funds to most of the European and Asiatic countries included in this group. The large value of remittances to neutral countries, especially Switzerland, indicates that some money did get through.

In 1943 and 1944, remittances increased once more, and in 1945 the pent-up backlog began to move. The relatively high estimate of $151 million for that year was a reflection of the strong desire felt by remitters in this country to aid residents of war-devastated areas. The large figure is especially striking in view of the fact that most of the exchange rates in existence at the end of the war tended seriously to overvalue foreign currencies in terms of dollars.

Institutional remittances began to rise steeply as early as 1942, and by 1943 had reached impressive heights, which were sustained in the following years. A large part of these remittances took the form of goods rather than money. Not only the old and established relief and service agencies such as the American Red Cross but also a host of new ones, organized specifically for war relief, contributed to the large volume of institutional remittances.

Government Unilateral Transfers of Vast Importance

The major item in Government unilateral transfers was the lend-lease program. Up to 1945, almost all lend-lease transfers of both merchandise and services were made without remuneration. Shipments of materials on reimbursable lend-lease terms did occur, but they formed a very small part of the total program. Services, including transportation, were also rendered mostly on a nonreimbursable basis.

Reverse lend-lease, on the other hand, did not play a very significant role. It is true that reverse lend-lease which we received from the western European countries was quite substantial in relation to the amount of aid which we rendered to them—the amount of reverse lend-lease received from Belgium was actually greater than the amount of direct lend-lease given to Belgium—but the size of these programs was small by comparison with that of the program for Russia. And from that country, on the other hand, the amount of reverse lend-lease was insignificant, because of the fact that the territory of the Soviet Union never became a base for United States military operations.

There are some items in the nature of Government nonfinancial unilateral transfers which fall outside the scope of lend-lease. One such item is an offset to the vesting activities of the Alien Property Custodian. Since the value of enemy properties taken over without re-

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[40] See p. 186 for a fuller discussion of special currencies.

muneration has been entered in the long-term capital account (see p. 99), it has been offset by a *per contra* item in the unilateral transfer account.

The status of "Plan A" and other civilian supplies shipped by the War Department is uncertain. At the time these supplies were made available it was contemplated that they would be paid for. However, the liability has already been forgiven or offset against other claims for certain countries and may be for others; consequently it has seemed safest in this report to regard the offset to "Plan A" supplies as unilateral rather than as a capital movement.

Another somewhat difficult problem of classification is involved in the largest of the items to be found under the heading of financial unilateral transfers. This is the $500 million of "financial aid" appropriated by Congress in 1942 for the benefit of the Chinese Government. This sum was drawn on through the succeeding years to such an extent that only a small fraction remained undisbursed at the end of 1945. This so-called aid was not an outright gift, but the questions how or whether repayment would be made were left open, and the possibility that the Chinese obligation would be forgiven appears definitely to have been envisaged. It was decided for this reason to consider the item as unilateral in nature, in the balance-of-payments statement.

The only important Government financial unilateral transfer other than the Chinese financial aid is the offset to the already mentioned net troop pay and other expenditures in special currencies.

Long-Term Capital Movements

Only scattered comments on capital movements are possible. There was some net withdrawal of private United States capital from the "all other" group, and also some net withdrawal of foreign capital from the United States, during the years 1940–43. The latter movement was due to the already-mentioned operations of the Alien Property Custodian, which tended to outweigh purchases of United States securities, which were fairly heavy in 1942 and 1943. The positive balance on movements of United States capital was larger than the negative balance on movements of foreign capital in every year except 1942, however, so that the net balance on all types of capital movements was positive in every year except 1942.

In 1944, the activities of the Alien Property Custodian were small, and at the same time there was a heavy net influx of foreign capital, largely as the result of purchases of outstanding United States securities. Movements of both United States and foreign capital were therefore in the same direction and the net positive balance was large.

United States lending to the "all other" group of countries was renewed in 1945 with the cessation of actual hostilities, and small amounts of foreign capital were also withdrawn; consequently, the direction of movement was reversed from that in 1944 and the total net balance was negative.

Transactions With International Institutions

The international institutions "area," as noted elsewhere (see p. 111) includes both international organizations such as UNRRA and the net gold production (or consumption) item, which appears with offsetting signs under merchandise trade and in the gold and short-

TABLE 41.—*Transactions of the United States with international institutions, 1940–45*

[In millions of dollars]

Item	1940	1941	1942	1943	1944	1945
I. Receipts, total	148	147	92			
A. Goods and services, total	148	147	92			
1. Goods	148	147	92			
2. Income on investments						
3. Other services						
B. Unilateral transfers						
C. Long-term capital, total						
1. Movements of United States capital invested abroad						
2. Movements of foreign capital invested in United States						
II. Payments, total				23	45	177
A. Goods and services, total				23	45	85
1. Goods				23	45	85
2. Income on investments						
3. Other services						
B. Unilateral transfers						92
C. Long-term capital, total						
1. Movements of United States capital invested abroad						
2. Movements of foreign capital invested in United States						
III. Excess of receipts (+) or payments (−), total	+148	+147	+92	−23	−45	−177
A. Goods and services	+148	+147	+92	−23	−45	−85
B. Unilateral transfers						−92
Net goods and services and unilateral transfers	+148	+147	+92	−23	−45	−177
C. Long-term capital						
IV. Net inflow (+) or outflow (−) of funds on gold and short-term capital account, total	−148	−147	−92	+23	+55	+101
A. Net United States gold sales (+) or purchases (−)	−148	−147	−92	+23	+45	+85
B. Net movement of United States short-term capital abroad						
C. Net movement of foreign short-term capital in United States					+10	+16
V. Errors, omissions, and third-country transactions					−10	+76

term capital account. The gold item in the latter account for the other four areas represents in each case transactions with the respective area specifically (i. e., exports, imports, and changes in earmarking); the algebraic sum of the gold item for all five areas consequently equals the change in the United States stock of monetary gold. For the years 1940–43, the items representing net domestic production or consumption of gold are the only entries in the table.

The cash gift of $92 million by the United States Government to UNRRA in 1945 appears as a unilateral transfer to "international institutions," as does the increase of $16 million in short-term liabilities of the United States to UNRRA (i. e., UNRRA balances in United States banks). The difference between these two figures, or $76 million, corresponds either to purchases by UNRRA in third countries or to exports from this country. Only UNRRA exports financed directly by the United States Government are segregated in trade statistics.

Unfortunately, as noted in appendix B, our data on "foreign government representation in the United States" were too scanty to enable us to isolate with any precision that portion—very small in the period covered—attributable to expenditures in this country by international institutions; consequently we have made no estimate for it.

Chapter V

Implications for the Future

There can be little doubt that the most immediate problem at the end of the war was the reconstruction of the devastated areas and the replenishment of exhausted stocks of producer and consumer goods in practically all countries. Insofar as the long-run effects are concerned, it is scarcely to be expected that the events of World War II and the years immediately following it will leave the previously established pattern of world-wide economic relationships and transactions unaffected. History shows, however, that wars usually do not create entirely new situations: they generally intensify and accelerate conditions and trends already in existence. To judge the effects of the war on our future international transactions, it seems most promising, therefore, to look for developments already discernible before the war which, because of the events of recent years, are likely to have been more or less aggravated or accelerated.

Increased Government Controls

One of the factors which had gradually gained in importance before the war, but was greatly strengthened during the conflict, was the direct and indirect role taken on by our own and foreign governments in international transactions.

During the war practically all our international transactions, both on current and on capital account, were either directly conducted or closely regulated by the Government. Although the steps taken during this period exceeded by far the prewar American practice of indirect controls by such means as tariffs, they were considered the most effective way to mobilize our resources for war, and were consistent with controls imposed on domestic economic activities. To what extent and in what form government controls are continued here and abroad constitutes one of the major problems arising out of the war.

Government controls and centralized economic planning, which usually have their origin in national emergencies, have been maintained after this war in many more foreign countries than after World War I. This was due partly to the much bigger task of reconstruction and the much more urgent need for husbanding scarce foreign exchange and gold reserves and partly to growth of ideologies favoring state control of economic affairs. To the extent that government controls were created abroad to meet the specific emergencies arising from the war and the reconstruction, they could be discontinued as soon as the emergency period is passed. However, there can be little doubt that, even in the longer run, government controls and participation will play a greater role in international transactions of foreign countries; and that the United States and other countries whose economies are essentially based upon private enterprise will have to face the problems arising from this situation.

Government participation in foreign trade may make for a large monopoly element, both on the buying and selling sides. By guaranteeing a fixed market for a considerable period of time, an importing country could obtain supplies at favorable prices on a preclusive basis at the original source. This may exclude other countries from the same markets or may force smaller countries or private purchasers who buy in smaller quantities to pay higher prices. The countries relying upon private importers of raw materials, would, therefore, be at a distinct disadvantage.

Given a substantial degree of government control, international transactions may also be more open to influence by political considerations—international or domestic. These may not only determine the choice of the foreign trade partner but also the extent, timing, and terms of trade. Commerce conducted along such lines would increase the uncertainties under which private business would have to be conducted.

The crucial problem which will have to be solved centers around the issue of meeting the effect of economic controls abroad which affect our international transactions, without imposing similar controls on our own domestic economy. A solution which would require us to intensify our controls to match those imposed abroad would obviously be unsatisfactory to the great majority of Americans. Rather, we should exercise a successful leadership in restoring and maintaining a high and stable level of world economic activity, thus eliminating many of the conditions which have led to the imposition of restrictions abroad. This may mean a large measure of aid through grants, loans, or investments during the next few years; in the long run, it means the establishment of a large and stable market for foreign products in this country, by maintaining our economy at a high level of activity and reducing tariffs and other import barriers to the lowest practicable level.

The Shortage of Dollar Exchange

The economic effect of the war which is most obvious—and at the same time of most immediate importance—is the widespread destruction of producer and consumer capital, and physical inroads on the labor force, in the war areas, with the resulting shortages of production that are the main cause of the so-called dollar scarcity. In addition, even in areas which were not exposed to direct destruction, stocks of consumer and producer goods were depleted owing to the inability of their owners to obtain necessary replacements.

Compared with the situation in World War I, the areas exposed to direct destruction were much larger and spread over many more countries, and the actual damage was much more intense. Because of the longer duration and the larger war requirements, the depletion of stocks even in areas removed from active warfare, such as the Western Hemisphere, was much greater. On the positive side—if one can speak in such terms of anything pertaining to the war—has been the increase in productive capacity and improvements in technological processes which can be applied in peacetime. These benefits have accrued principally to countries outside the war zone.

There is no way of estimating reliably the total cost of replacing what was destroyed or used up, but there can be no question that it is many times higher than after World War I, and perhaps even higher than the costs of equipping and maintaining the armed forces during the recent hostilities. Undoubtedly most countries, not only those directly engaged in the war, victors as well as vanquished, but also many which remained on the side lines, emerged physically poorer after the conflict than they were at its start, 6 years earlier. The increased volume of liquid assets (money and government bonds) held by citizens in all countries cannot hide the fact of physical impoverishment, and has in itself raised serious difficulties in the equitable distribution of scarce goods and hampered productive effort.

On balance, of course, economic losses were much heavier in the countries of Europe and Asia directly exposed to warfare than in other countries, including the United States. The standard of living in the former countries, at least during the reconstruction period, is in even greater contrast with that of the United States than was the case before the war. This condition must force the rest of the world to look chiefly to the United States for the supplies, equipment, and production techniques they need to bring their standard of living closer to the level they conceive as their ultimate goal.

Until reconstruction is completed, the war-torn countries cannot approach even their prewar standards of living except through substantial outside aid in the form of loans or grants. Only a few countries in the world are physically able to provide that aid. Chief of these is the United States, with Canada, Argentina, and a few others able to provide assistance in much smaller amounts.

It could be maintained that the stricken countries should adjust their standards of living to the lower levels dictated by their present productive resources, and thus bring their accounts with the United States into balance by cutting imports and seeking to increase exports through reduced internal prices or exchange rates. Aside from moral and humanitarian reasons for not advocating a solution that would mean actual mass starvation in many countries, it would not be to the long-run political or economic advantage of the United States to perpetuate the present inequality.

In any event, for the next several years aggregate foreign ability to produce will be too low to meet requirements for export in addition to those for domestic consumption and reconstruction. Consequently, our imports will remain comparatively small, while foreign demand for our products will continue to be relatively high. The resulting deficit in this interim period can be ameliorated by any one or a combination of the following methods:

Unilateral Transfers

In the first place, we can help war-devastated countries to meet minimum essential needs for subsistence and national security through a system of unilateral transfers, particularly to those countries whose political stability—and, hence, economic welfare—is a prime objective of our foreign policy. This solution has the virtue of recognizing the hard facts of the situation, because, like wartime lend-lease, it would prevent the creation of a burden of "dead weight" international debt of the character that plagued the world economy in the interwar period.

Liquidation of Gold and Dollar Assets

As a second alternative, which, however, is not available to some of the nations in greatest need, foreign countries can draw on their existing long- and short-term dollar assets and sell us gold, either from new production or from stocks. As discussed elsewhere in this volume,[1] foreign countries held about \$23.8 billion in gold and short-term dollar assets at the end of 1945, compared with about \$15.8 billion at the end of 1939. A part of this \$8-billion increase, together with gold currently produced, will undoubtedly be used to purchase goods and services in this country; in fact, \$3.1 billion was so used between January 1, 1946, and March 31, 1947.

How much of the remainder will be used is conjectural, depending on many factors—some of them subjective. The better the economic prospects, for instance, the smaller would be the need for reserves required to meet adverse fluctuations in foreign balances of payments. In any event, the desire to maintain adequate working balances would be weighed against the need for United States goods and services in excess of the amounts which could be financed out of current earnings or United States grants and credits.

An important aspect of this reserve problem is that the need for working balances will be relatively larger if foreign countries practice multilateral rather than bilateral international trade. Since multilateral trade is more likely to raise, at least in the long run, the standard of living of the participating countries and to reduce the danger of the formation of economic and political blocs, we should find it to our advantage to see to it that foreign countries as a whole have a sufficient supply of a generally acceptable medium of exchange. Before World War I, gold, sterling balances held in London, and to a lesser extent French and Swiss francs, Dutch guilders, and other European currencies, served as the principal media of exchange. After World War I the United States dollar was added to the list, as it came to be used not only in trade with the United States itself but also in trade between third countries.

The recent war considerably increased the use of the dollar as an international medium of exchange, mainly because the United States emerged from the war as the only major country whose money was more or less freely exchangeable against commodities and gold. The pound sterling, while still used for international transactions between many countries, has lost some of its former significance.

Because of this development, the removal of restrictions in world trade will depend to a large extent upon the size and distribution of foreign-owned dollar reserves. Our policy of restoring and maintaining multilateral trade carries with it the responsibility, therefore, of making available to foreign countries dollar balances more than just sufficient to meet current obligations here. Short-term credit was one of the principal means by which Great Britain long provided the world with a medium of exchange that had the elasticity to expand with the volume of trade itself. Because of the decline in the lending capacity of Great Britain, the war left a vacuum in that field. To

[1] See p. 108.

implement the policy of promoting multilateral trade, it would be desirable for the United States to form the machinery to fill that vacuum. Pending this development, the more of their present gold and dollar balances foreign countries can preserve, the better the possibilities that multilateral trade can be reestablished.

Loans and Investments

After meeting basic relief requirements through gifts and contributions, the third and probably most desirable solution to the problem lies in the restoration and development of foreign productive facilities through foreign loans and investments. These loans and investments should reduce the gap between American and foreign productivity sufficiently to service the loans and still leave more for internal investment and consumption within foreign countries than they presently have.

At the end of the war total United States investments abroad were roughly $15 billion. Postwar loan commitments during the following 4 or 5 years may add an amount equal to or greater than that. The sum of all foreign investments at the end of the reconstruction period may not be much higher in real terms than the $20- to $25-billion peak of British foreign investments reached before this war at much lower price levels.

Such investments would continue the development of the United States as an international lending country which started long before World War I but which was interrupted during the 1930's. They would also lead to a further increase in the proportion of long-term international capital movements originating from the United States. While this development can be observed for the last half century (again omitting the 1930's), it may be assumed that World War II has greatly accelerated the trend. This reflects the increased economic strength of the United States and the decline of the United Kingdom, the Netherlands, France, and Belgium as major international investors. The rise of Canada, Argentina, and possibly a few others can hardly compensate for the decline of the European countries.

Thus the United States is assuming the major international banking function of the world and with it a large share in the responsibility for orderly development of the international economy. This requires stability in international lending, avoiding sudden interruptions as in the late 1920's and early 1930's. In this task the International Bank can be of major aid, particularly by providing new machinery to appraise the desirability of such investments and by taking over a large part of the risk.

The Problem of Repayment

International loans and investments necessarily influence not only other balance-of-payments items such as international trade, but indirectly also the domestic economies of the countries involved. The transfer problems in connection with the outflow of funds ars usually minor, because of the frequent tie-in of loans with merchandise transfers, or because of the need for additional imports by the borrowing country. Major problems and complications may, however, arise with the return flow of the funds. In analyzing the long-run effect of the war on international economic relations, the ability of the new debtor countries to service their debt—and of the United States and other creditor countries to absorb the payments—must be taken into consideration.

In this connection the developments after World War I may to some extent be looked upon as a historic precedent. In comparing the 20 years between the two World Wars with the last 100 years before World War I, the intensity and extent of major economic frictions during the interwar period represent perhaps the most obvious change. The relatively smooth development of international economic relationships during the nineteenth and early twentieth centuries may be ascribed, in large degree, to a continuous growth of world production and trade in which maladjustments due to the overrapid development of any parts of the world economy were necessarily limited in duration.

This growth was stimulated through capital movements from industrially and commercially advanced countries to relatively new areas with the intent of developing the production and transport of products which the capital-exporting countries required. Shipments of these goods from the debtor to the creditor countries made possible the transfer of profits or the servicing of loans without the need for major adjustments in either group's economy or in other parts of the world.

The growth of primary industries and transport facilities led to the development of processing and manufacturing industries in the "new" areas, reducing the need for imports in relation to their volume of production. At the same time the import requirements of the advanced countries, primarily for raw materials, remained at a relatively constant ratio to their level of production. These two developments may explain the apparently slower rise of world trade in manufactured goods as compared with world production or world trade in primary products.[2]

The relatively faster rise of primary products than of manufactured goods in world trade coincided with acceleration in the payments of interest and other property incomes by the "new" areas to the economically older countries, as compared with the relatively stable rate of new loans and investments by the latter countries to the former. The normal development of trade, therefore, complemented the normal development of capital and capital-income movements, thus obviating major balance-of-payments difficulties.

In several respects World War I interrupted the complementary relation of trade and financial transactions, the principal changes being:

(1) The greatly advanced industrialization of the economically new areas, which reduced world specialization and international division of production and generally speeded up the decline of international trade in manufactured goods in relation to world production.

(2) The emergence of one of the principal "new" areas, the United States, with a large income from foreign investments, and of some of the older industrialized countries with reduced net incomes from their foreign investments. This applies most of all to Germany, which changed from a creditor to a debtor nation, but also because of war debts, to the United Kingdom, France, and Italy.

(3) The large increase of international indebtedness, mostly of the type requiring fixed-service payments, rather than direct investments which usually involve variable payments of profits.

The change of the United States to a creditor nation was, however,

[2] See Industrialization and Foreign Trade, pp. 14 ff., League of Nations, 1945.

not induced, as might have been expected in theory, by a relative decline in the profitability of new investments in this country below the expected profitability of new investments in the debtor countries, primarily Germany and the Allied Nations. In the case of loans by the United States to these countries, the outflow of capital did not lead, therefore, to the development of industries which, because of their higher profitability, could successfully compete with those of the creditor country and thus facilitate the servicing of the loans or investments.

Nevertheless, because the borrowing countries were industrialized nations whose main exports consisted of manufactured products, debt service required a relatively increasing amount of manufactured goods in international trade.

The need for higher exports of manufactured goods by the new debtors, was accompanied by expanded productivity and, consequently, relatively smaller import requirements for such goods by the principal creditor country—the United States. This situation undoubtedly contributed to transfer difficulties and international insolvencies, the collapse of long-established currency relationships, the substitution of barter for international trade, and the general suspension of new international loans and investments during the 1930's.

In many ways the developments during and after World Wars I and II are similar.

(1) Creditor countries again, as after World War I, are primarily the relatively "new" countries, including the United States.

(2) Industrialization of economically new areas has made further and even larger strides than during World War I. It is probable, therefore, that the tendency will be for the divergence between the development of world trade in manufactured goods and the development of world production to continue to grow.

(3) The new borrowers, just as after World War I, are the industrialized countries, the United Kingdom, France, Italy, the Netherlands, and, perhaps at some future time, Germany. These countries can service their debts only through increased exports of manufactured goods.

(4) Total world indebtedness, particularly the part which consists of obligations requiring fixed interest and amortization payments, has greatly increased, thus further exposing the solvency of the debtor countries to the fluctuations of world business activity and prices.

The coincidence of these circumstances engenders, just as after World War I, difficulties in the transfer of debt obligations which would be greatly accentuated if new loans and other aid should suddenly be suspended. It does not seem inevitable, however, that the experience of the interwar period need be repeated. Under the following circumstances, difficulties arising from the trends in the development of world trade and the peculiar economic relationship between debtor and creditor countries could be resolved:

(*a*) Service charges on loans have to be transferred by the new debtors primarily through increased exports of manufactured goods or through the rendering of services, such as shipping or tourist services. Exports of these goods and services direct to the creditor countries, particularly the United States, may not be sufficient to meet all the debt obligations in addition to making payments for current transactions. It is necessary that these debtor countries have an export surplus on current account with the countries producing and exporting primary products, and that the United States and all other creditor countries which supply most of their requirements for manufactured products from domestic production have an equivalent import surplus from the countries producing primary materials. In other words, debt-service charges could hardly be transferred without multilateral trade, which would be facilitated by a world-wide reduction in trade barriers.

(b) Even this principle, however, would not be sufficient unless both the creditor nations and the intermediary countries have a sufficiently high domestic production and income to require imports of a magnitude sufficient to provide foreign exchange to meet both the debtors' current import requirements and their debt-service obligations. It is necessary, therefore, to prevent economic fluctuations not only in this country but also in the major countries producing primary products. The United States, as the outstanding exporter of new capital, is in a key position to help keep economic expansion in these countries steady as well as to exert a prominent influence upon the stabilization of world demand for their principal products. The need for such activities has been recognized and the framework for appropriate action has been provided by the organization of the United Nations, and its specialized agencies.

(c) The productivity of the debtor countries will have to be sufficiently increased to enable them to compete successfully with other countries in world markets. Since a larger part of the loans after this war—as compared with the loans during World War I—was for the reconstruction of the productive plant in foreign countries, it may be assumed that after completion of the reconstruction process a large part of foreign industry will be equipped with modern facilities and will be in a relatively better competitive position than before the war. Furthermore, it may be recognized abroad that the competitive advantages of the debtor countries' industries can be increased if, through the combination of several countries into larger economic units, greater use can be made of mass-production techniques.

(d) A further aid in smoothing the transfer of international debt service and in avoiding restrictions upon international trade and capital movements, such as those that obtained in the early 1930's, would be the more general adoption of deferment provisions for interest payments, such as found in the British loan agreement. The availability of aid in meeting temporary balance-of-payments difficulties through the Monetary Fund, and the generally lower interest and amortization rates, should also be considered as substantial improvements over the situation existing after World War I.

By 1951, when practically all Government postwar loans made up to the end of 1947 will require full service, receipts of interest and amortization on such loans should amount to about $450 million. In addition, if dollar loans through the International Bank rise to $4 billion, interest and amortization on these may require around $200 million. Earnings and amortization on loans and investments existing up to the end of the war are around $1 billion. Further private or Government loans would increase aggregate receipts even above the indicated total of from $1.6 billion to $1.7 billion. This amount is higher than the total dollars received by foreign countries from the sale of goods to the United States in 1932. Obviously, therefore, foreign countries would not be able to meet their debt obligations and even their minimum import requirements from the United States if we and the rest of the world slide into another depression of the 1932 magnitude.

There are, however, several reasons to believe that another depression of this magnitude will be avoided. The experience during the war and the first two postwar years has proved that a high level of production is possible. The people of the United States have learned that severe depressions are not inevitable and that they can be avoided through appropriate and courageous actions on the part of Government and business. Furthermore, since 1933 various means of keeping up income and investment have been developed and appropriately organized. These include, among others, social insurance, insured loans to home owners and farmers, and price supports for agricultural products. In addition, there is the consciousness on the part of all those interested in or responsible for the conduct of political and economic affairs that the maintenance of the democratic form of government here as well as abroad is based upon the success with which our type of economic system operates.

Imports into the United States of goods and services, which constitute the most important source of dollar exchange for foreign countries, have historically followed rather closely the changes in our business activity. It is doubtful that the war, on balance, has left the United States relatively more self-sufficient. True, we have developed many substitutes for products which we formerly imported, or have learned to get along without them. It remains to be seen, however, to what extent we will continue to do without these products when they become readily available.

Moreover, we have considerably reduced the reserves of some of our most important natural resources, and if high levels of industrial production prevail here, some of our domestic supplies may have to be supplemented by imports from abroad. There should also be a larger market here for distinctive consumer goods which are not the products of mass-production industries, and which, therefore, could be produced abroad at lower comparative costs. The longer, however, the rehabilitation of foreign production is delayed, the greater will be the trend toward self-sufficiency in the United States.

Even assuming that the factors which would reduce imports in relation to the level of domestic production are not quite compensated by those which would increase them, our purchases of goods and services might be expected to rise to $10 billion or $11 billion per year at prices prevailing during the first 6 months of 1947—under conditions of prosperity in this country and after productive and service facilities abroad are restored. Even higher levels may be reached if United States trade barriers are substantially reduced. Compared with this level of imports, which could be supplemented by private and public gifts and by continued capital exports, the prospective burden imposed upon foreign countries by their debt obligations does not seem to be intolerably high.

It should not be assumed from the foregoing paragraphs that the dollar problem will automatically be solved by the completion of reconstruction. The existence of rapid communications and the wartime movements of American troops, equipment, and supplies have made the whole world better acquainted with American techniques, and the use of American products will continue to grow. However, a continuous shortage of dollars might indicate a basic disequilibrium in the rate of exchange between the dollar and foreign currencies.

Before the war, dollar scarcities were accompanied by scarcities of other currencies which were freely convertible into dollars or gold. Therefore, if foreign countries imposed import or exchange controls, they were not necessarily discriminatory against the United States. If, in the future, the dollar and only a relatively few other currencies become scarce in the rest of the world, import restrictions will have to be directed specifically against the scarce-currency countries. The exact methods of dealing with the scarce-currency problem will be determined by the Monetary Fund. Even though this international agency may insure an orderly process in adjusting dollar-scarcity problems, it would nevertheless be to the advantage of the United States not to become economically isolated.

This situation can be avoided through greater disbursements of dollars by the United States for imports of goods and services or through foreign investments. A high level of domestic production and consumption, favorable policies in respect to tariffs and export subsidies, conservation of domestic natural resources, stimulation of foreign travel, and foreign investments to increase foreign productivity should in the long run provide a satisfactory answer to the dollar-scarcity problem.

Summary

Viewing all these trends together, it seems that the war has left the United States the opportunity and responsibility of assisting in the reconstruction of the world economy on the basis of principles which provide for the greatest possible freedom of trade and the highest standard of living attainable with the existing natural resources and technology. This responsibility involves the adoption of policies which would successfully minimize economic fluctuations in this country as well as in world trade.

If we fail to meet this opportunity successfully we may be faced with economic isolationism through the creation of economic and political blocs abroad, and with a greatly reduced world trade conducted to an increasing extent on bilateral principles through Government organizations or under Government direction. Adaptation of our own foreign trade to such conditions might create the necessity of extending controls to an increasing extent over our domestic economy.

Appendix A

Concepts and Definitions

General Statement

As will have been noted, the data in this bulletin have been presented in a new form, first adopted by the Department of Commerce in presenting preliminary estimates for 1945.[1] Because the method of presentation and the concepts involved differ to some extent from those previously employed, an explanation and justification of the new procedure would seem to be in order.

In the past the balance of international payments was ordinarily considered as a statistical tool for analyzing the international financial position of a country. From this point of view only transactions that involved present or future payments in a more or less literal monetary sense needed to be included. Unless a particular export of goods, for instance, involved an immediate payment or created a monetary claim on (or extinguished a monetary debt to) a foreign country, it was not included in the statement of foreign transactions. The effects on the domestic economy of international trade were of interest primarily in explaining the working of the adjustment mechanism under which an excess of exports or imports would set in motion certain economic changes (primarily in interest rates and prices) that would tend to reverse the flow of payments and restore equilibrium in the international accounts.

In recent years the development of national accounting—national income and product data—has led to a more thorough consideration of the place of foreign transactions in the domestic economy. In particular, it has seemed advisable to show in the balance-of-payments statement the extent to which domestically produced goods and services have been transferred to foreign countries and vice versa, and how the difference (the export or import surplus) was financed.

If a country exports more than it imports, the excess can be financed in one of three ways.

1. By international gifts or contributions, such as lend-lease, reparations, or personal gifts such as so-called immigrant remittances. It should be noted that this result may be accomplished either by giving the foreign countries the goods and services (e. g., through lend-lease) or giving them the money with which to buy goods and services (e. g., personal or immigrant remittances).
2. By long-term capital movements. The export-surplus country may be making long-term loans and other investments abroad, or the foreign countries may be liquidating their investments in the exporting country.
3. By the use of liquid foreign-exchange reserves, normally gold and short-term foreign-exchange holdings. The exporting country may accept gold, increase its holdings of foreign currency or other short-term claims on foreign countries, or the foreign countries may reduce their short-term claims on the exporting country.

The form of presentation adopted (table 1) discloses all these facts in a relatively succinct manner. Under the general heading of receipts (also commonly called credits) are entered all those transactions that involve payments to the United States from abroad, or which would ordinarily be presumed to involve such payments. First, of course, are merchandise exports—herein referred to simply as goods—and so-called invisible exports, such as the service of capital (income on investments), ocean freight, expenditures of foreign tourists within the country, and similar items. These are classified as goods and services in the table. Exports for which no present or future payment is required, for example,

[1] U. S. International Transactions in 1945, Foreign Commerce Weekly, January 19, 1946.

shipments under the UNRRA program, are included. Similar categories on the payments (debit) side of the account reflect the acquisition of goods and services from foreigners, including visible trade, tourist services, military expenditures abroad, and many others.

The second major group of transactions is designated as unilateral transfers—values transferred to foreigners without any immediate *quid pro quo* or without creating or extinguishing an international debt. The establishment of this account solves the previously embarrassing problem of explaining that an immigrant remittance, for instance, represented the purchase of a service, or that a reparations payment was a movement of capital. The account also includes offsetting entries for goods or services exported or imported on a "free" basis; the payment (debit) entry, for instance, includes the value of merchandise furnished through the UNRRA mechanism or under other circumstances not requiring payment.

The arrangement of the capital accounts follows that first established in the Department of Commerce publication, The United States in the World Economy. Long-term capital movements are considered as generally being autonomous in nature and constituting part of the dollars "supplied" or "used"; for this reason they are shown, along with goods and services and unilateral transfers, under the general headings of receipts and payments.

The net result of these three types of transactions is closely akin to a "balance of international payments" as that term has been employed by economic writers with leanings toward the classical school.[2] Errors and omissions aside, the net balance thus determined is exactly offset by an increase or decrease in a country's net stock of international financial reserves—gold and short-term balances. The latter are then grouped under one heading as the fourth major type of international transactions. It must be recognized, of course, that short-term capital movements may themselves be autonomous in character, particularly when a flight of capital is occurring, while it has been amply demonstrated in the literature of the field that long-term capital movements (especially transactions in outstanding securities) may be equilibrating in nature.

In summary, it may be observed that the statement fulfills the dual purpose of reflecting all international economic transactions of a country while at the same time exhibiting the net effect of these transactions on the nation's international financial position.

Relation to Gross National Product Statistics

The most comprehensive statement of the total economic activity of a country is the table now compiled by many nations of the world and commonly referred to as national product (or income) and expenditure.[3] Actually the various components of this statement—Government purchases of goods and services, domestic and foreign investments, and personal consumption expenditures—represent the outlays (expenditures) of each of the segments of the economy, while the algebraic sum of the three components measures the gross national product. In a closed economy, expenditures by Government, consumers, and for domestic capital formation would obviously have to equal the value of total domestic production.

The international balance is accounted for by including it also as a domestic expenditure—an excess of exports, for instance, is included as an expenditure for the purpose of making foreign investments. In fact, since foreigners take part of the domestic production, gross exports of goods and services might be treated as a special and separate disposition of the national product, while the imported component of each of the four items (Government purchases, domestic investment, exports, and consumer expenditures) could be deducted from each. The table would then show accurately the disposition of total domestic production to four groups of claimants, foreign countries constituting the fourth group.

Since this last procedure would be statistically difficult,[4] the same ultimate result is achieved by entering the net foreign balance (in our table the net balance on goods and services and unilateral transfers) as a component of capital formation—a logical procedure since such balance does measure the net amount of foreign investment, errors and omissions in the data aside. The title "*gross*

[2] Cf. article on International Trade, Encyclopedia of the Social Sciences, vol. 8, p. 200ff.

[3] The estimates for the United States have recently been revised. See National Income and Product Statistics of the United States, 1929–46, Survey of Current Business, Supplement, July 1947, U. S. Department of Commerce.

[4] For a presentation somewhat along this line see National Accounts: Income and Expenditure, 1938–46. Ottawa, 1947. Department of Trade and Commerce, Dominion Bureau of Statistics, National Income Unit.

capital formation," as used in the Department of Commerce series on gross national product, is clearly something of a misnomer in this case, as it is, of course, for the inventory entry, which is also a *net* figure.

Because of the important role of our Government in our international transactions in recent years, an attempt has been made to separate all the accounts into Government and private sectors, as discussed more fully in this appendix in the section, Government and Private Transactions. This break-down, however, is in terms of whether or not the Government is a party to the particular transaction involved, and not whether a change in net Government investment abroad (or liability to foreigners) has occurred.

Either treatment, while significant for some purposes, involves conceptual difficulties. Consider the case of a country with an import surplus financed by Government borrowing abroad. Net foreign investment is obviously negative, and the disinvestment could properly be considered Government rather than private. But the deficit could conceivably be financed by foreigners' net purchases of outstanding Government securities; in this event would the disinvestment be Government or private? The total Government debt is unchanged, but the amount owed to foreigners has increased. Would a different treatment be in order in this second case if the securities were denominated in an external rather than the domestic currency? Suppose the securities purchased were not previously outstanding but were purchased from the Government at the time of issue—the issue being ostensibly only a domestic offering. This in effect happened to the United States during 1943 and 1944, when we had a net "cash" deficit on current account, and foreign countries invested part of their accumulating dollar balances in United States Government securities. In other words, should the fact that the Government is a passive rather than active participant in international investment be considered?

Should the accumulation of foreign exchange by Government-owned central banks be considered a Government investment abroad? If so, should the Federal Reserve Banks be similarly considered in this country? If foreigners increase their holdings of United States paper currency, should this be considered as Government or private disinvestment abroad? Purchase of gold from abroad to finance an export surplus is obviously "net foreign investment" for present purposes. Should this be treated as a Government investment in the United States statistics, to the extent that such gold becomes the property of the Treasury Department? What about Government-guaranteed foreign investment, such as private bank participation in Export-Import Bank loans?

Partly in view of the above questions we have not, either in this volume or the revised gross national product table, attempted to divide, into Government and private, "net foreign investment" as such. The items measuring net foreign investment (gold and capital movements) are segregated in table XXV, appendix C, while the net changes in the international investment position of the Government and private sectors are reflected in table 27, p. 110. Neither of these classifications, however, accurately measures the United States Government contribution to the financing of the current export surplus or deficit.

Government and Private Transactions

The foregoing discussion leads directly into the problem of dividing all transactions in the balance of payments into two categories: (1) Government, and (2) private, or perhaps more accurately nongovernment. The distinction in some cases is more technically than economically significant; during the war most of our foreign transactions were either controlled or actually conducted by the Government. The attempt has been made, however, to classify as Government all transactions to which the United States Government was a party; all other transactions are classified as private.[5] For this purpose the dual nature (debit and credit) of each transaction has been recognized; in some cases the credit entry is classified as Government while the offsetting debit is private, and vice versa.

For instance, if the Commodity Credit Corporation sells wheat abroad and the payment is made out of a foreign bank account in the United States, the credit entry for the export of wheat is a Government transaction while the capital debit for the reduction in foreign balances with American banks is considered private. Conversely, if the Export-Import Bank lends money to a foreign government to buy materials from a private American exporter the export transaction is private and the capital debit is Government. If Export-Import Bank funds were used to buy wheat from the Commodity Credit Corporation, both sides of the

[5] See appendix C, table XXV.

transaction—or rather both transactions—are classified as Government. A similar example is the sale of surplus property on a credit basis; this creates a credit for goods transferred to foreigners and an offsetting debit for loans to foreigners—both being Government transactions.

Only a few special cases need be mentioned. Money spent abroad by the American personnel, military and civilian, of the United States Government has been considered a Government transaction (see p. 86). Changes in foreign holdings of United States Government short-term securities have been classified as Government; it is not known to what extent these issues were purchased direct from the Government at the time of offering or purchased from private American holders. On the other hand, purchases of long-term Government issues have been considered private, as if they were always purchased from previous holders, partly because transactions in Government securities cannot be segregated from transactions in all domestic securities in the Treasury Department capital movements series. Settlements of claims on the Turkish and Mexican Governments for property expropriated from Americans have been entered on the Government account. So have all disbursements and receipts of the American merchant marine beginning with the second quarter of 1942, although a few vessels remained, legally, under private operation. On the other hand, no freight on imports in foreign bottoms has been included as a Government transactions; with our method of estimating, it would have been impracticable to attempt such a segregation.

As noted in the next, most of the commodities procured abroad by the Government were resold to private industry in this country. Although the final expenditure was not, therefore, the Government's, all such purchases were considered Government transactions in the statement.

All goods and services transferred under lend-lease or reciprocal aid were included in the Government sector of the accounts.

Finally, it should be noted that the definition of Government employed herein differs from that used in the national product series, where Government corporations and certain other agencies are treated as businesses.

Geographical Coverage

Transactions between residents of the United States and the rest of the world are measured in the estimates of the balance of payments. The term "United States" includes the continental United States, Alaska, Hawaii, Puerto Rico, the Virgin Islands, the Panama Canal Zone, American Samoa, and certain minor American islands in the Pacific. This does not agree with the territorial coverage for national income and product statistics, which includes only the 48 States and the District of Columbia. Nevertheless, the "net foreign investment" figure in the gross national product table is based on the definition of United States set forth herein, with an adjustment, during the war years, for Government expenditures in the territories.

The term "residents" includes all "persons" ordinarily resident in the United States, including:

1. The Federal Government, and all State, municipal, and territorial governments.
2. All domestic corporations, except that foreign branches of such corporations are considered as foreign and not domestic entities.
3. All United States branches of foreign corporations.
4. All individuals ordinarily domiciled in the United States except aliens working for foreign employers.
5. American citizens more or less permanently residing abroad, if employed by the Federal Government. This includes members of the armed forces and their dependents accompanying them.
6. Aliens temporarily admitted to the United States if employed in the United States by an American employer. This corresponds to the definition adopted for inclusion in the national income statistics. Mexican and West Indian workers imported during the war thus became residents for statistical purposes.

The following are not residents of the United States for balance-of-payments purposes:

1. Embassies, legations, and consulates of foreign governments, international organizations, and the alien employees of such institutions.
2. Aliens admitted to the United States for temporary periods, unless employed in the United States by a resident thereof.
3. American citizens permanently residing abroad, unless employed by the United States Government.
4. Foreign branches (and of course subsidiaries) of American corporations.

Definition of Items Included in the Accounts

Goods

All movable goods, the title to which changes hands internationally, are included under this heading, including as imports goods acquired abroad by an American resident (especially the Federal Government, see appendix B, p. 174) even if not physically imported. Goods given away are included, as well as goods exported to be incorporated in a foreign branch plant by the exporter (the foreign branch to which such goods are "sold" is not a United States resident by our definition). Goods shipped on consignment are theoretically not reflected in the statement until they are actually sold. Silver is included.

The values of both exports and imports are the values at the frontier or port of export in the exporting country; any freight payments involved are handled in the freight and shipping account. Domestic gold production in excess of nonmonetary use of gold is shown as a merchandise export; in years when industrial consumption exceeded domestic production, such excess is treated as an import (see section in this appendix, Note on Treatment of Gold in the Balance of Payments).

Income on Investments

All interest, dividends, and profits effectively paid or credited during the period are shown in this account. Thus, dividends declared and payable are reflected, even though they are merely credited to an intercompany account so that no actual foreign exchange transaction takes place. Earnings of subsidiaries not distributed as dividends are not included, but all branch profits are included whenever they are computed and credited to the home office account. Since some corporations close their books monthly or quarterly and others only semiannually or annually, the quarterly distribution of branch profits is correspondingly affected.

Income from trusts and estates has been arbitrarily classified as "interest" in the account, although it may originally have consisted of dividends, interest, rents, or even capital gains. Payments and receipts by the United States Government are included.

Transportation

This account includes all international payments and receipts arising out of the international movements of goods and persons, specifically: (1) Freight and passenger revenues paid by Americans to foreign air and ocean carriers and similar revenues received by American carriers from foreigners, (2) expenditures of American carriers in foreign ports and foreign carriers in American ports, (3) revenues and expenditures in Canada of American railroads operating in that country, and (4) revenues received by American railroads for hauling foreign goods (but not passengers) in transit through the United States.

All freight revenues on exports and imports are considered to be payments by the importer, since both exports and imports are valued, for all practical purposes, on an f. o. b., port of shipment, basis. Thus even if, say, an export is billed on a c. i. f. basis, with the exporter prepaying the freight, the total payment by the foreign importer is divided between the merchandise and shipping accounts.

Three items which should theoretically have been included have been omitted for lack of adequate data on which to base an estimate. The most important is the personal expenditures of merchant seamen, which, particularly during the war, could easily have amounted to tens of millions of dollars annually. Second, freight on United States imports traveling overland outside the country of origin has not been estimated; an example would be freight to French or Italian railroads for hauling Swiss goods in transit to the United States. Finally, marine cargo insurance has not been included. Premiums on export cargo insurance placed in the United States and on import cargo insurance placed abroad constitute international payments and receipts, respectively, but there are no available data regarding the proportion of either exports or imports insured in the American market.

Travel

All expenditures of American residents within foreign countries are reflected in this account, although some of them obviously represent the purchase of goods instead of services. Payments to international ocean or air carriers or expenditures on board the former are not included; such payments are reflected in the transportation account. Expenditures of United States Government personnel are not included here but in the Government miscellaneous services account. Obviously, however, both consumer-financed and business-financed travel are included.

Miscellaneous Services

This account includes receipts and payments for all other services not already discussed. The principal items included are defined briefly as follows:

Private Transactions

1. *Motion-picture royalties.*—These are the producers' share of rental receipts resulting from the exhibition of American films abroad and foreign films in the United States.

2. *Insurance.*—This includes all international payments resulting from the operation of foreign insurance companies in the United States and American companies abroad, either through branches or subsidiaries, and from either direct writing or reinsurance with nonadmitted companies. In future studies, it is planned to treat insurance branches and subsidiaries in the same manner as other direct investments; it was not possible to complete the necessary revisions in the accounts for this volume.

3. *Communications.*—This category includes payments resulting from international cable, radio, and telephone operations. It includes payments to and from foreign connections, advertising, office expenses, and all other transactions of communications companies, except as they may be included in the investment accounts.

4. *Gas and electricity sales.*—These transactions, all with Canada and Mexico, are included here though they might with equal justification have been included in the merchandise account.

5. *Rents and royalties.*—Only net amounts paid internationally are included.

6. *Home office expenses.*—Amounts charged by parent companies to their foreign branches and subsidiaries as management fees, apportionment of home office expenses, and similar items are included.

7. *Foreign government administrative expenses in the United States.*—All are expenses of foreign governments and international organizations of an administrative character, and the expenditures of their personnel. Obviously this is a receipts item only.

Government Transactions

All expenditures and receipts of Federal agencies and their personnel abroad for the purchase of services. Includes all costs, including materials, of installations abroad, except those installations of an income-producing character, which have been treated as investments. A partial list of specific types of transactions follows:

Payments.—1. Expenditures of troops and other American employees of the United States Government abroad.

2. Wages and salaries to foreign labor.

3. Purchases of transportation and other communications services.

4. All services furnished the armed forces as reciprocal aid. These are, of course, offset by a credit entry in the unilateral transfer account.

5. As indicated above, expenditures for "nonproductive" installations, particularly cantonments, airfields, and other types of military construction.

Receipts.—1. Transportation and communication services furnished to foreigners.

2. Services furnished under lend-lease, except those included in the freight and shipping account.

It should be noted that, in theory at least, all transactions between the armed forces and the members thereof, or between such members and any other domestic entity, have been excluded. American-made goods shipped to post exchanges located abroad, for instance, are not considered exports for balance-of-payments purposes.

Unilateral Transfers

All transfers of value, in the form of goods and services or money and other capital assets, not accompanied by a *quid pro quo* in one of those forms are included in this account. A debit, or payments, entry indicates a transfer

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from the United States to foreign countries. As indicated in the text, the account includes personal and institutional remittances, lend-lease and reciprocal aid, reparations, civilian supplies furnished the occupied areas, and similar items not requiring reimbursement or where the conditions of reimbursement are not sufficiently clear to justify recognition of the creation of a capital asset.

Long-Term Capital Movements

Changes in capital assets of indefinite maturity (e. g., equities) or of an original maturity of longer than 1 year comprise this account. Increases in assets (United States investments abroad) or decreases in liabilities (foreign investments in the United States) are payments, or debit, items. Conversely, decreases in assets or increases in liabilities are receipts, or credit, items. Except for transactions in outstanding securities, the entries are largely on a gross basis. In many cases, for example, lend-lease and surplus property credits, the capital movement is a direct offset to the movement of goods, with no foreign exchange transaction being involved. Some of the principal items are:

1. New foreign issues, including Government and privately placed loans.
2. Amortization of outstanding loans.
3. Purchases and sales of outstanding bonds and stocks.
4. Movements of direct-investment capital, including changes in intercompany accounts.
5. Purchases and sales of real estate and other miscellaneous capital assets.
6. Changes from domestic to foreign ownership of capital assets due to gifts, legacies, reparations, uncompensated legal seizure, and similar cases. In these cases, an offsetting entry would appear in the unilateral account.

Short-Term Capital Movements

The short-term capital account includes all international claims payable within 1 year. Private short-term claims comprise bank deposits, bills, acceptances, commercial paper, short-term State and municipal obligations, brokerage balances, commercial deposits abroad for the direct account of United States firms, advance payments for merchandise, and United States currency and coins held abroad. Foreign short-term claims on the United States Government include holdings of United States Government short-term obligations, deposits with the Treasury, and various claims arising out of the provision of currency for expenditures by our armed forces. United States Government short-term claims on foreigners include holdings of foreign currencies, deposits abroad, and various advances and settlements.

Gold

The gold entries in the balance of payments are in both the current and the "short-term capital and gold" accounts. In the current account, merchandise exports or imports are adjusted by net domestic gold production or consumption. Net production is a receipt and net consumption is a payment. In the short-term capital and gold account is entered the annual change in the monetary gold stock of the United States, including changes in the holdings of the Stabilization Fund (see apppendix B, p. 191), and the following section of this appendix, Note on the Treatment of Gold in the Balance of Payments).

Note on Treatment of Gold in the Balance of Payments

In this volume a method for entering gold transactions has been adopted which differs from that used heretofore in the United States balance-of-payments statements. The Subcommittee on Balance of Payments Statistics of the League of Nations proposed in December 1945 that net current gold production (or consumption) should appear as a credit (debit) in the current account of the balance of payments, while an increase (or decrease) in the monetary gold stock of a nation should appear as a debit (credit) in the gold and short-term capital account. Since the difference between net production and the change in the gold stock is equal to the net international gold movement, the use of the suggested method does not result in any net change in the balance of payments as a whole, aside from possible differences in the "errors and omissions" involved in the alternative methods of estimation (see appendix B, p. 191).

The fundamental criticism of the older method is that, since all gold transactions were lumped into one group irrespectively of whether the gold moved represented a merchandise transaction (such as export of newly mined gold) or a change in gold holdings, a close estimate of the current balance-of-payments position was not provided. This obviously is true of a country which exports its gold production, and is equally true of a country which adds the gold to its gold stock. In the latter case, current net gold production is, under present conditions, a current claim against the goods of other nations whether exported or not. It might be said that when a country chooses not to export its current gold production this is equivalent to an outflow of capital. This is recognized in the method now being used, since the increase in gold stock is entered as a debit just as would be an outflow of capital.

Appendix B

Methodology and Sources of Data

Merchandise Trade

Basic data used are the official United States foreign trade statistics compiled by the Bureau of the Census of the United States Department of Commerce.

Exports

Unadjusted exports as shown in table 4 include goods of both domestic and foreign origin (except shipments to the United States armed forces). Customs regulations require that exports be declared at their value at the port of exportation, if possible at actual selling price, otherwise at cost to the exporter. Because of oversights and lack of complete information on the part of the shippers, however, declared export values sometimes exclude charges, such as inland freight and insurance, which by definition are components of the f. o. b. port of exportation value. On the other hand, certain charges, such as rail freight on United States exports from Canadian border points to final Canadian destinations, sometimes are wrongly included in declared export values. While the exact extent of the discrepancies between declared and statutory export values is unknown, many of the differences presumably tend to offset one another.

Even in cases where export documents are filed in strict conformity with customs regulations, declared values sometimes do not reflect accurately receipts on account of merchandise exports. If goods are exported before being sold, for example, they are valued on the basis of cost to the exporter. In practice, such values may be considerably different than the amounts actually realized through ultimate sales.

While the possible inaccuracies resulting from the use of declared export values for measuring receipts on merchandise account are fully recognized, lack of complete information has thus far made impossible all of the necessary adjustments. Some substantial adjustments have been made, however, for shipments which, for balance-of-payments purposes, should be added to or deducted from recorded export statistics.

Additions include the following (see table 4, p. 15):

1. Shipments of silver ore, base bullion, refined bullion, and foreign coin. (Movements of United States coin are recorded in the capital account.)
2. Net domestic gold production. For a discussion of the reasons underlying the inclusion of net domestic production (or consumption) in the merchandise account, see p. 171 of this appendix.
3. Unrecorded items. These include chiefly the transfer of airplanes in this country and shipments abroad through parcel-post channels.
4. Transfers of merchandise by United States Government agencies.

Deductions include:

1. Exports to the Panama Canal Zone.
2. Noncommercial imports, such as household effects.
3. Merchandise exported by United States Government agencies.

The major adjustments to the recorded export statistics involved the substitution of data on Government transfers for those Government exports known to be included in the recorded export statistics, and the addition of data on Government transfers which were known to be excluded from recorded exports.

Lend-lease transfer data compiled from the regular cumulative reports of the Lend-Lease Administration were prorated on an annual basis according to the annual distribution of the lend-lease export statistics. It will be noted that the value of lend-lease transfers (the amount officially charged to the recipient foreign governments) is substantially in excess of that recorded for lend-lease exports, not only because the latter apparently were undervalued but also because they excluded transfers in the field or directly from other foreign sources and some goods shipped on military transports for which no export declarations were filed. In the same manner, United States transfers of goods to the United Nations Relief and Rehabilitation Administration were used in place of UNRRA exports; such transfers include goods supplied from oversea stocks and from other foreign sources as well as those physically exported from the United States.

Partly because of the difficulties involved in identifying military shipments of civilian supplies to liberated and occupied areas under the "disease and unrest" program from regular War and Navy Department shipments for the use of the armed forces abroad, no export declarations were required for such shipments. The necessary data were obtained from the agencies concerned through the Clearing Office for Foreign Transactions (Department of Commerce). They include field transfers as well as shipments earmarked for this purpose at the time of export from the United States.

Data on both military and nonmilitary sales abroad were likewise furnished by the Clearing Office. For military sales, no deductions from the recorded exports were necessary, since the goods involved were transferred from military stocks in the field. For foreign sales by nonmilitary agencies, the Clearing Office data were substituted for amounts known to be included in the officially recorded statistics. Chief sources of data covering sales of surplus war property were the actual agreements negotiated with the purchasing governments and reports of the disposal agencies.

Imports

Unadjusted imports are "general imports"—including both entries for immediate consumption and those going into bonded warehouses.

While customs regulations provide for the recording of import values, like those for exports, on an f. o. b., frontier of the exporting country, basis,[1] declared import values sometimes do not reflect actual payments made. Indications are that differences between declared values and payments values arise most frequently in the case of commodities for which duties are not levied on the basis of entry values—goods which are either duty-free or subject to specific duties. Importers of such goods presumably have less incentive to eliminate ocean freight, marine insurance, consular fees, and other nondutiable charges than have importers of merchandise subject to ad valorem duties.

Among the practices which sometimes result in differences between recorded import values and actual payments are the assignment of arbitrary values to imports from foreign subsidiaries or branches of American companies, the appraisal of consignment shipments at values which may differ from eventual selling prices, and unintentional inclusions of improper charges or exclusions of legitimate charges. While precise information covering all possible discrepancies between declared values and values which are accurate from a balance-of-payments standpoint is not available, corrections (additions or deductions) have been made for those inaccuracies which were known to exist.

Additions included mainly those to correct undervaluations of banana imports—based upon the level of domestic wholesale prices after allowance for freight, insurance, and other charges incurred in shipping the bananas from the frontier of the exporting country to the point of arrival in the United States—and additions for Canadian inland freight receipts earned on imports from Canada. Other additions to recorded import data include:

1. Imports of silver ore, base bullion, refined bullion, and foreign coin.
2. Net domestic gold consumption.
3. Purchases of goods by United States Government agencies.

The deductions made include:

1. Imports from the Panama Canal Zone.

[1] See U. S. Department of Commerce, Bureau of the Census, Annual Reports of Foreign Commerce and Navigation of the United States, Explanation of Statistics. "In general the value shown is the foreign or export value, whichever is higher as per one of the formulae contained therein. * * * The foreign value of the imported merchandise is the market value or the price at the time of exportation of such merchandise to the United States, at which such or similar merchandise is freely offered for sale for home consumption to all purchasers in the principal market of the country from which exported, in the usual wholesale quantities and in the ordinary course of trade. * * * In addition, the foreign value includes all other costs, charges, and expenses incidental to placing the merchandise in condition, packed ready for shipment to the United States. * * * If an export value, higher than the foreign market value described above, is established by Customs * * * the higher export value is regarded as the value of imported merchandise."

2. Noncommercial imports, such as household effect.
3. Merchandise imported by United States Government agencies.

As in the case of exports, the major adjustments were made in the Government account. These involved the substitution of reverse lend-lease data compiled from reports of the Lend-Lease Administration for the relatively small portion of reverse lend-lease goods included in the recorded import statistics; the substitution of adjusted Clearing Office figures covering nonmilitary procurement abroad and military procurement for import from Canada for recorded Government imports; the addition of Clearing Office data covering military purchases for consumption abroad by the United States armed forces; and the addition of other data covering miscellaneous acquisitions of merchandise abroad by the United States Government which were not included in the official import statistics.

The Transportation Account

The derivation of the freight and shipping estimates may be explained with the aid of a detailed statement of the component parts (see table I).[2]

Ocean freight (Items 1a and 5a).—Estimates of earnings of United States and foreign vessels in the carriage of United States foreign trade during the war were based upon tonnage and rate data supplied by the United States Maritime Commission and the War Shipping Administration, and value data from the Bureau of the Census.[3] Earnings for 1940 and 1944 were computed from detailed data, by applying ocean freight rates to commodity shipping weights,[4] broken down by control of vessel (United States, British, and other), trade area[5] of origin and destination, and, in 1944, by type of transaction, whether lend-lease or commercial.

Earnings for other years of American and foreign vessels (broken down later into American, British, and other) were derived from the multiplication of tonnage data by weighted average freight rates. For 1941, adjusted 1940 over-all average rates were applied to the 1941 export and import tonnage totals. For 1942 and 1943, tonnages were grouped by trade areas, and the rates were based upon the 1940 average trade-area rates corrected for yearly rate trends. Freight earnings for 1941 through 1943 were then adjusted to allow for the changing proportion of value of finished manufactures to total exports and imports, respectively. Earnings for 1945, by control of vessel, were derived by multiplying tonnage totals for each control, based upon 10-month data, by adjusted 1944 average freight rates for each control.

Transportation earnings were divided into lend-lease and commercial transactions. The detailed calculation for 1944 showed lend-lease and non-lend-lease earnings by control of vessel. Lend-lease earnings by American and foreign dry cargo vessels,[6] respectively, for the years 1941 through 1943, were derived from total earnings by applying percentages estimated as follows:

$$\frac{\text{Est. \% lend-lease earnings to total}}{\text{\% value of lend-lease exports to total}} \text{ (in 1941–42–43)} =$$

$$\frac{\text{\% lend-lease earnings to total}}{\text{\% value of lend-lease exports to total}} \text{ (in 1944)}$$

Lend-lease and commercial tonnage data were reported separately for the first 10 months of 1945, broken down by control of vessel (United States, British, and other), and separate earnings data, therefore, could be estimated for the whole year.

Tanker earnings[6] were computed by applying tanker rates (from War Shipping Administration rate orders) to export and import tonnages. While data for 1940, 1944, and 1945, by type of transaction and control of vessel, were adequate, omissions in other years necessitated some arbitrary adjustments.

Global American vessel freight earnings were further broken down into earnings with respect to the sterling area, Canada, the American Republics, and other countries. This was done for 1940 through 1944 by adding freight earnings on

[2] For lack of data, no estimates have been made of receipts and payments arising from motor transport of freight across the Canadian and Mexican borders, or from rail operations across the Mexican border.

[3] Including United States vessel earnings on indirect trade.

[4] See text, p. 52, footnote 7, for application of freight rates quoted by weight or measure.

[5] Trade areas referred to in this discussion are geographic areas, and should not be confused with the four "bilateral" areas with respect to which global transportation earnings were broken down.

[6] Dry cargo and tanker earnings refer to freight earnings on shipments in dry cargo and tanker vessels, respectively.

dry cargo and tanker trade with individual countries; and then, for 1945, by applying to total earnings percentages estimated as follows:

$$\frac{\text{Est. \% area earnings to total}}{\text{\% value of trade with area to total}}\ (\text{in } 1945) =$$

$$\frac{\text{\% area earnings to total}}{\text{\% value of trade with area to total}}\ (\text{in } 1944)$$

Area earnings were further subdivided into lend-lease and cash transactions.

Global estimates of foreign-vessel earnings in the carriage of United States exports and imports were broken down into bilateral area earnings in proportion to the cargo tonnage (estimated for some years) carried in vessels controlled by the countries of the four areas concerned.

For balance-of-payments purposes, only earnings of United States vessels in carrying exports (a receipts item) and of foreign vessels in carrying imports (a payments item) were included. (For water-borne freight earnings included in and excluded from the balance of payments, see table II.) Contrary to the flag-of-carrier method used in peacetime, control of operation was the criterion for distinguishing American from foreign ships from 1942 through 1945. Vessels considered American included: (1) American-owned ships, old and new, remaining under United States control; (2) foreign ships allocated to American control by the Combined Shipping Adjustment Board (January 1942–August 1944) and by the United Maritime Authority (August 1944–March 1946); (3) American vessels bareboated to enemy-occupied countries (so that the services of foreign seamen could be utilized) and time-chartered back by the United States; (4) requisitioned ships, whether American or foreign; and (5) chartered foreign ships. American-owned vessels allocated to foreign control by the international shipping authorities, or lend-leased to foreign countries on a "custody and possession" basis, were counted foreign. All ocean receipts and payments were considered Government transactions after the first quarter of 1942, since control was vested in the War Shipping Administration.

Great Lakes freight (Items 1b and 5b).—The freight on exports and imports via the Great Lakes was estimated from data furnished by the Canadian Dominion Bureau of Statistics, the U. S. Maritime Commission, and the Bureau of the Census. The tonnage distribution by American and Canadian flag was available for all war years except 1943 and 1944, the figures for which were estimated on the basis of statistics on net tonnage of vessels entered and cleared in relation to actual cargo distribution in 1945. Average freight rates on main commodities in the Great Lakes traffic between the United States and Canada, supplied by the Lake Carriers' Association of Cleveland, Ohio, were weighted by commodity shipping weights, and then applied to annual tonnage data.

Air freight (Items 1c and 5c).—Air-freight earnings were computed in detail for 1945 from Census Bureau data on exports to and imports from individual countries, and freight rates filed at the Civil Aeronautics Board and published in Air Transportation. The 1945 over-all weighted average rates were applied to Census poundage data for 1943 and 1944, and to estimated data for 1940 through 1942. Earnings on air exports, 1940–44, were allocated to bilateral areas according to the 1945 distribution pattern of earnings, by areas. Annual mail pay received by United States air lines direct from foreign governments in the American Republics area was included with freight receipts from that area. (Mail-pay receipts and payments by the U. S. Post Office Department were included in the Government miscellaneous services account.)

Passenger fares (Items 2 a, b and 6 a, b).—Fare receipts and payments were estimated in connection with travel expenditures, and included expenditures on board the carrier as well as fare payments proper. The balance-of-payments items consist only of fares paid to United States carriers (a receipts item) by foreign residents and fares paid to foreign carriers (a payments item) by United States residents. The number of passengers in each category, compiled by travel area, was multiplied by average passenger fares (obtained from travel questionnaires) with an adjustment for the annual excess of departures or arrivals in the case of citizens and alien visitors.

Beginning with the second quarter of 1942, receipts by United States carriers from foreign residents were considered Government transportation receipts. Fare payments made by the Government from 1940 through 1945 to foreign carriers were segregated from total fare payments, and included in the miscellaneous services account. Fare payments arising from travel between the United States and Canada and Mexico were included in the travel account.

Port expenditures (Items 3 a, b, c and 7 a, b, c).—Ocean port expenditures of

American and foreign vessels were respectively estimated as fixed percentages of their gross revenues on the carriage of freight and passengers to and from the United States, and also, in the case of American vessels, on their carriage of indirect trade. Services received by American vessels in foreign ports under reverse lend-lease were subtracted from total estimates to give cash port expenditures. The division of expenditures of foreign vessels in United States ports into lend-lease (Government account) and cash items was relatively arbitrary. Bilateral port expenditures were estimated in proportion to bilateral area transportation earnings, and further divided into lend-lease and cash items.

Lake port expenditures of American and Canadian vessels were respectively estimated as fixed percentages of their gross revenues. Airport expenditures of United States scheduled air lines abroad were estimated from Civil Aeronautics Board data.

Rail traffic (Items 4 a, b and 8 a, b).—These estimates were based upon information furnished by American railroads operating in Canada, Moody's Steam Railroads, Canadian Government publications, and Department of Commerce data on Canadian and Mexican exports and imports in transit through the United States. American railroad receipts in Canada included freight on United States exports and intra-Canadian traffic carried within Canada by American railroads.

TABLE I.—*Composition of freight and shipping account, 1940–45*

[In millions of dollars]

Item	1940	1941	1942	1943	1944	1945
RECEIPTS						
1. Freight on water-borne and air cargo:						
a. Ocean	139	280	387	787	979	987
b. Great Lakes	3	3	3	4	5	3
c. Air	2	2	8	13	12	16
Total, freight	144	285	398	804	996	1,006
2. Passenger fares:						
a. Ocean	10	10	3	2	3	14
b. Air	3	4	9	8	14	15
Total, fares	13	14	12	10	17	29
3. Expenses of foreign carriers in United States ports:						
a. Ocean ports	216	229	215	201	215	209
b. Lake ports	4	4	5	5	4	4
c. Airports	(1)	(1)	(1)	(1)	(1)	(1)
Total, port expenditures	220	233	220	206	219	213
4. Rail traffic:						
a. American railroad receipts in Canada	5	6	7	6	7	5
b. In-transit traffic through the United States	21	24	52	84	68	56
Total, rail receipts	26	30	59	90	75	61
Grand total, receipts	403	562	689	1,110	1,307	1,306
PAYMENTS						
5. Freight on water-borne and air cargo:						
a. Ocean	236	197	119	99	106	114
b. Great Lakes	5	4	5	7	6	3
c. Air	(1)	(1)	(1)	(1)	(1)	(1)
Total, freight	241	201	124	106	112	117
6. Passenger fares:						
a. Ocean	13	10	3	3	4	6
b. Air	(1)	(1)	(1)	1	1	2
Total, fares	13	10	3	4	5	8
7. Expenses of American carriers in foreign ports:						
a. Ocean ports	52	99	98	184	226	242
b. Lake ports	1	1	1	2	3	3
c. Airports	4	5	6	10	11	14
Total, port expenditures	57	105	105	196	240	259
8. Rail traffic:						
a. American railroad expenses in Canada	14	16	19	23	25	25
b. In-transit traffic through Canada	9	11	12	14	17	11
Total, rail payments	23	27	31	37	42	36
Grand total, payments	334	343	263	343	399	420

[1] Less than $500,000.

TABLE II.—*Estimated freight earnings by United States and foreign vessels in the carriage of United States imports and exports, 1940–45*

[In millions of dollars]

Year and item	United States imports		United States lend-lease exports		United States commercial exports		Total	
	Earned by United States vessels	Earned by foreign vessels	Earned by United States vessels	Earned by foreign vessels	Earned by United States vessels	Earned by foreign vessels	Earned by United States vessels	Earned by foreign vessels
1940								
Ocean freight:								
Dry cargoes	113	205	-------	-------	122	437	235	642
Tankers	23	31	-------	-------	10	73	33	104
Total, ocean freight	136	236	-------	-------	132	510	268	746
Great Lakes freight	1	5	-------	-------	3	10	4	15
Grand total, freight	137	241	-------	-------	135	520	272	761
1941								
Ocean freight:								
Dry cargoes	205	155	28	65	216	456	449	676
Tankers	42	42	7	47	5	35	54	124
Total, ocean freight	247	197	35	112	221	491	503	800
Great Lakes freight	3	4	-------	-------	3	13	6	17
Grand total, freight	250	201	35	112	224	504	509	817
1942								
Ocean freight:								
Dry cargoes	157	112	167	303	155	243	479	658
Tankers	20	7	37	75	11	19	68	101
Total, ocean freight	177	119	204	378	166	262	547	759
Great Lakes freight	2	5	-------	-------	3	14	5	19
Grand total, freight	179	124	204	378	169	276	552	778
1943								
Ocean freight:								
Dry cargoes	268	92	453	347	219	134	940	573
Tankers	28	7	83	109	6	16	117	132
Total, ocean freight	296	99	536	456	225	150	1,057	705
Great Lakes freight	4	7	-------	-------	4	14	8	21
Grand total, freight	300	106	536	456	229	164	1,065	726
1944								
Ocean freight:								
Dry cargoes	322	95	515	389	254	153	1,091	637
Tankers	36	11	171	96	8	4	215	111
Total, ocean freight	358	106	686	485	262	157	1,306	748
Great Lakes freight	7	6	-------	-------	5	12	12	18
Grand total, freight	365	112	686	485	267	169	1,318	766
1945								
Ocean freight:								
Dry cargoes	360	101	392	263	391	227	[1] 1,218	591
Tankers	47	13	82	89	7	31	136	133
Total, ocean freight	407	114	474	352	398	258	[1] 1,354	724
Great Lakes freight	7	3	-------	-------	3	12	10	15
Grand total, freight	414	117	474	352	401	270	[1] 1,364	739

[1] Includes UNRRA freight, $75 million.

Travel Account

Oversea Account

Payments.—The outbreak of the war in Europe and the subsequent entry by the United States changed completely existing travel patterns, and necessitated a revision in the methodology underlying the computation of payments and receipts arising from international travel.

In 1941 and prior years, questionnaires were mailed to a group of United States citizens selected at random from lists of passport applicants. In order to cover the travel in foreign countries of alien residents of the United States, who cannot obtain American passports, similiar questionnaires were distributed to holders of reentry permits, documents required of alien residents leaving the United States for temporary trips abroad if they wish to be assured of reentry. For each year, average per capita expenditures were computed for citizens and for alien residents of the United States, by class of steamship accommodation utilized and by geographic area visited.

Since nearly all countries in the West Indies and Central America admit United States citizens on temporary visits without the necessity of obtaining passports, in order to compute average per capita expenditures for citizens traveling to nonpassport oversea areas it was necessary to assume that fare payments and shipboard expenditures by this group constituted approximately 41 percent of their total gross travel expenditures. Fare payments and total expenditures on board ship were derived from fare schedules and other data as applied to departures by cabin class for the West Indies and Central America from various ports of departure to specified destinations. Average gross expenditures in nonpassport areas were thus placed at approximately $300 in 1935 by inflating the estimated fare payments ($123) on the theory that the latter amounted to 41 percent of gross expenditures. If per capita expenditures for each cabin class in passport areas in 1935 were weighted by the percentage of departures in each class for nearby oversea areas, the per capita average for all citizens visiting passport countries in that year would have amounted to $1,019 (as compared with an actual average for passport areas of $722). The estimated average for nonpassport areas in that year was, however, only $300, or approximately 29 percent of $1,019. This ratio of 29 percent was applied in other years to the estimated average for passport areas weighted by percentage of departures to nonpassport areas for the relevant year, in a manner analogous to the computation shown below for 1935:

Class	Average gross expenditures in passport areas	Weight (percent of departures to nonpassport areas)	Weighted amount
First	$1,285	62.1	$798
Cabin	863	4.0	35
Mono [1]	541	28.7	155
Second	819	1.3	11
Tourist	612	2.1	13
Third	406	1.8	7
Total			1,019

[1] Equivalent to cabin class in nonpassport areas.

NOTE.—Ratio of $300 to $1,019 is 29.25 percent.

Questionnaire averages for 1940 were employed in computing estimates for that year. Since no questionnaires were sent out after 1941 and since the replies received in 1941 were rather sparse, a combination of 1940–41 averages was used for 1941 and subsequent war years.

Basic volume data supplied by Immigration and Naturalization Service were adjusted to exclude travel between the United States and Mexico and Canada, and to include arrivals from oversea countries at Canadian seaports en route to the United States and departures from oversea areas via Canadian seaports. In addition, alien resident travel data were further adjusted in order to equalize the number of alien residents departing for and returning from temporary trips abroad within a given year. This adjustment is necessitated by the fact that the distinction between alien residents departing for temporary trips abroad and emigrant aliens is based upon the declared intention of such an alien at the time of his departure from the United States. Actually, it was discovered that many so-called emigrant aliens returned to the United States after temporary trips abroad, and many alien residents who obtained reentry permits at the time of departure on the basis of their declared intention to return to this country within a year actually remained abroad for extended periods or permanently.

In the case where departures of alien residents (by definition, on temporary visits abroad of less than 1 year) exceeded the arrivals of alien residents during a given year, the excess of such departures over arrivals was considered as representing de facto emigration. In years when an excess of arrivals of alien residents over departures existed, the excess of such arrivals over departures was deducted from reported emigrant departures.

Estimates of travel expenditures in oversea areas were computed by applying the appropriate averages to the respective volume figures for each class of travel and for each geographic area, with an adjustment in the total for the annual excess of departures or arrivals in the case of citizens and alien visitors. The resulting figures were then revised downward to exclude the expenditures of Government officials traveling overseas, on the basis of reducing the estimates originally computed by the ratio of diplomatic and special passports issued to total passports issued. In order to exclude expenditures by contract workers on Caribbean defense bases from the travel account (since these expenditures are included in the Government services account), information was obtained from the War Department and the Canal Zone Commission concerning the countries where workers were sent. Trends were derived from plotting departures by month during late prewar years to each of these countries, and any excess of departures during the period covered over the established trends was deducted.

Receipts.—Alien visitors to the United States comprise temporary visitors for pleasure, temporary visitors for business, students, persons in transit through the United States and government officials and their families, attendants, and servants. During the war years travel from outside the Western Hemisphere was limited to foreign missions, government officials, and war refugees. Numbers of foreign government officials departing from the United States were not available; however, data were obtained covering total alien government officials arriving in the United States, and ratios were computed of alien visitors arriving *excluding* government officials to alien visitors arriving *including* government officials, on the assumption that the same ratio would hold for alien visitors departing. These ratios were then used to adjust the estimates of receipts from alien visitors obtained by applying averages, identical with those established for citizen travelers, to the numbers of visitors from the principal oversea areas, in the absence of empirical data bearing upon the expenditures of foreign visitors to the United States.

Approximately 40 percent of the total expenditures of oversea travelers consisted in the interwar period of fares and shipboard expenditures and these outlays are the same for any given class of accommodation for citizens and aliens alike. Agricultural workers imported from the British West Indies and included in volume data furnished by Immigration and Naturalization Service were excluded in the computation of expenditures. A further adjustment was made in the Immigration volume data to exclude travel between the United States and Canada and Mexico, and to include arrivals and departures via Canadian seaports.

Canadian Account

Payments.—The United States Department of Commerce collaborates with the Dominion Bureau of Statistics at Ottawa in estimating payments arising from travel by United States residents in Canada. Questionnaires are distributed by United States Customs officers on a random basis to approximately one United States resident out of every seven who return to the United States over the Canadian border by rail, boat, plane, or long-distance bus. Canadian authorities sample the travel of United States residents who enter Canada by automobile by means of questionnaires printed on the reverse of the Vehicle Permits, one of which is issued to a member of each party of foreign residents who enters Canada by automobile for a period of more than 48 hours or who plans to depart from Canada by a port other than the port of entry. Travelers who enter Canada by car and who do not require a Vehicle Permit are handed a questionnaire by Canadian authorities which the traveler is requested to fill in and leave with the Canadian officials upon his departure from Canada. Dominion authorities likewise derive average expenditures for persons who cross the border by local bus or on foot for brief visits of a purely local character.

The results from these sampling operations are pooled, separate averages being computed for travelers by each means of transportation and by the Canadian province of ingress. Payments to carriers for fares are included in the estimates of over-all travel expenditures. The questionnaires distributed to travelers by boat, train, bus, or plane request that the traveler furnish data showing the amount paid for fares purchased in Canada and for through transportation purchased in the United States to any point in Canada.

In the case of travel by train and bus, the amount of through transportation is prorated between the two countries on the basis of the mileage covered in each country, and included with the estimate for other travel expenditures. In the case of plane and boat travel, fare payments are included with other travel expenditures only if the carrier is owned by the foreign country; otherwise no estimate for fares is included. The numbers of passengers in direct transit through Canada from one point in the United States to another are deducted from totals reported by the Department of Mines and Resources of entries of United States travelers into Canada, by means of transportation and by port and province of entry. The resultant volume figures are applied to the appropriate expenditure averages computed for each class of traveler. In recent years, the same final estimates have been used by both countries.

Receipts.—The Dominion of Canada samples travel of Canadians abroad by means of questionnaires distributed by Canadian Immigration officers to returning Canadians. Average expenditures are computed therefrom, by means of transportation and by province of reentry into Canada, to which are applied volume data supplied by the Department of Mines and Resources, which are stratified as specified above as in the case of computing estimates for payments. The methodology underlying the computation of passenger fares and the exclusion of in-transit passengers is the same as that discussed under Payments.

Mexican Account

Payments.—1. *Travel to the interior of Mexico.*—The Bank of Mexico and the United States Department of Commerce collaborate in their findings in connection with receipts and payments arising from travel between the two countries. In 1944 the Bank of Mexico conducted a survey by means of questionnaires handed to United States tourists visiting Mexico City who stayed in hotels and lodging houses and to students who pursued courses of study in that city. From these questionnaires separate averages were computed for expenditures per diem per capita, for food, lodging, side trips, and miscellaneous purposes. The item for transportation was computed separately on the basis of published fares for plane, bus, auto, and train travel to principal cities within each Mexican State; these averages were weighted by the numbers of travelers to such State, using the various means of transportation as reported to the Direccion de Estadistica of Mexico. In the case of automobile travel, it was assumed that the per mile average which applied on trips to Mexico City as shown in the questionnaires likewise applied on trips to other Mexican cities.

By making use of a break-down of travelers to the interior of Mexico by their length of stay, which had been compiled for 1943 by official Mexican sources, the volume data reported for travelers to the interior of Mexico were classified according to the length of stay and applied to the per diem per capita averages referred to above, except that transportation was computed on a per trip basis. The items for side trips, for food, and for lodging were adjusted downward for a stay of more than 1 month, on the theory that during a prolonged stay these expenses would decrease somewhat.

2. *Border travel.*—In 1945, the Bank of Mexico and the United States Department of Commerce conducted a joint investigation along the United States-Mexican border to determine a method for estimating expenditures made along the border zone in each country by residents of the other country. A representative of each country interviewed banks, exchange dealers, businessmen, customs officials, merchants, and chambers of commerce in border towns. As a result of this investigation, it was determined that the most practicable solution of the problem was to obtain periodically direct from banks in border cities information regarding their receipts, from across the border, of their national currency. For example, United States banks in towns close to the border are requested to report monthly receipts of United States currency from their Mexican correspondents and depositors. Since all the funds thus reported presumably are spent originally on the Mexican side, these reports can be used as the basis for making estimates of United States funds spent in Mexican border areas by United States residents.

It is recognized that all moneys expended on the Mexican side by United States residents do not find their way to banks, but may be brought back to the United States in the pockets of Mexicans and spent on this side of the border, without having passed through regular banking channels. This is particularly true since United States currency circulates freely along both sides of the international border. The investigation indicated that an additional amount equal to approximately 20 percent of funds passing through banks is returned to the United States through nonbanking channels. An estimate was also derived during the investigation to cover expenditures in pesos of

United States residents along the Mexican border. In the absence of additional data, it seems logical to assume that peso expenditures bear a direct relationship to dollar expenditures. An adjustment was made in the total estimate to cover these peso expenditures, based on their relationship to dollar expenditures during the period covered by the investigation.

Receipts.—1. *Travel to the interior of the United States.*—In the absence of other empirical data upon which estimates for the period 1940–45 might be based, information supplied by United States consuls, customs, and immigration officials along the Mexican border was accepted as a basis for estimating numbers of Mexicans traveling to the interior of the United States, as well as average expenditures of such travelers. On July 1, 1946, a program of questionnaire sampling was initiated, whereby each Mexican resident entering the United States for more than 24 hours or destined to a point beyond the border area is handed a questionnaire by the United States immigration inspector. This questionnaire is to be filled in shortly before the Mexican resident leaves this country and deposited with the immigration inspector or mailed prior to departure from the United States. Preliminary results from this survey tend to confirm the 1940–45 estimates.

2. *Border travel.*—Estimates for travel expenditures along the United States border by Mexican residents were derived in much the same manner as were estimates for travel expenditures along the Mexican border by United States residents, as outlined above, except that they were estimated to include the United States dollar currency spent on the Mexican side but not returned through banking channels.

Income on Investments

In general, receipts and payments of income were entered in the balance of payments after taxes were deducted. These taxes included not only income taxes paid by American direct-investment enterprises abroad and foreign enterprises operating in the United States but also income taxes withheld at the source on dividends or other income payments between the United States and foreign countries.

Income Receipts

Estimates of receipts of income from direct investments during the war years were based essentially on income data supplied to the Treasury Department for the year 1942 in connection with its Census of (American) Property in Foreign Countries (TFR 500). As a result of this survey fairly complete data were available for the first time regarding direct-investment income receipts for a given year, by country, industry, and type of income. Income estimates for previous and subsequent years were based on samples, comprising a large number of companies, which were used to extrapolate from 1942 as a base year. Annual income receipts for about 200 large companies were obtained by means of questionnaires. Data for roughly 500 more companies were obtained from information filed annually on Form 10–K with the Securities and Exchange Commission. Corporate income-tax returns (Form 1120) and the published annual reports of companies furnished additional income information.

Receipts of interest and dividends from subsidiaries and the net income (or loss) of branches were included in the total of direct-investment income receipts. The data presented in this volume are not quite comparable with figures prior to 1940 inasmuch as domestically incorporated enterprises operating solely or mainly abroad have been treated as branches since 1939 and the net income of such companies has therefore been regarded as an income receipt (and the portion of net income not transmitted to the United States—reinvested earnings—has been treated as an outflow of United States capital). Previously, only the dividend and interest payments by the head offices in the United States of companies of this type were incorporated in income receipts just as similar payments by foreign subsidiaries of American companies have been carried in all years.

Dividends declared by a foreign subsidiary but not remitted because of exchange controls or for any other reason were included in calculated receipts of income. However, the fact that the payment was blocked gave rise to an offsetting item—either an increase in American balances in foreign banks, if the dividend was placed in a foreign bank for the account of the American parent, or an increase in the intercompany indebtedness of the subsidiary to its parent, if the subsidiary merely credited the parent company with the dividend on its own books.

During 1945 a quarterly survey of direct-investment transactions was inaugurated in which several hundred large companies have been cooperating with the Department of Commerce. Copies of the initial forms appear on pages 183 and 226. Collateral data are obtained from these forms and from other sources regarding receipts of royalties, management fees, service charges, compensation for officers in the United States, and other home office expenses allocable to foreign operations; these amounts are carried under miscellaneous services rather than under income on investments.

Estimated receipts of interest on American holdings of foreign dollar bonds were based on (a) data regarding the amount of such securities held in the United States, supplied to the Treasury Department in connection with the census of American-owned property abroad; (b) annual questionnaires (see p. 227) to fiscal and paying agents of all foreign dollar bonds requesting, for each issue, information regarding total interest payments to all holders, American and foreign, the amount outstanding, amortizations, and the agent's estimate of the portion of each issue owned outside of the United States (Canadian bonds were treated somewhat differently because of the very large number payable in United States dollars); and (c) occasional consular reports. The absence of statistics of transactions in dollar bonds, as distinct from foreign currency obligations (see, under Capital Movements in this appendix, note on amortizations), provided a definite handicap in estimating with reasonable accuracy dollar-bond interest receipts by Americans; however, such receipts if not included in this category were presumably included under receipts of miscellaneous income.

Receipts of miscellaneous investment income from abroad were based on compilations published in Canadian balance-of-payments statements and on the value of miscellaneous investments abroad as compiled by the United States Treasury Department in its survey (TFR 500). Canada's payments to the United States accounted for most of the total and were derived by deducting from the Canadian estimate for total income payments to the United States the United States estimates for receipts of direct-investment income and dollar bond interest from Canada. A rate of return was calculated for Canada by applying the estimate of income receipts thus derived to the value of such investments as compiled by the Treasury. This rate of return was then applied to the value of similar investments in other areas not under Axis control.

Statistics of United States Government receipts of interest on its long-term loans were obtained from the Clearing Office for Foreign Transactions of the Department of Commerce.

Income Payments

The basic material for estimating interest, dividends, and other income paid to nonresident aliens was provided by withholding-tax returns (Forms 1042, 1012, and 1013) filed with the Bureau of Internal Revenue. Income reported on Form 1042 on which tax is paid at the source includes interest, dividends, rents, royalties, annuities, salaries, and distributable income of estates and trusts, paid to nonresident alien individuals, or to foreign partnerships and foreign corporations not engaged in trade or business in the United States. Net profits of United States branches of foreign companies were also estimated on the basis of income-tax returns filed with the Bureau of Internal Revenue (Form 1120). A separate estimate was necessary for income paid on securities held by the British Treasury on which no United States tax was withheld. Most of these were pledged as collateral for the loan by the RFC. A separate estimate was also made for interest payments on United States Federal, State, and municipal bonds. Annual values of foreign holdings on these bonds were based on the Treasury's Census of Foreign Owned Assets in the United States, which established a value for the middle of 1941. Adjustments were made, however, to take account of several large transactions in subsequent years. A rate of 2½ percent was applied to holdings of Federal bonds and 4 percent to State and municipal bonds. Income payments on Government short-term paper were calculated on the basis of current interest rates paid on such paper.

Data on interest payments by the United States Treasury Department on Philippine deposits with the Treasury were obtained from that agency. Payments to individual countries, except Canada, are decided mainly on the basis of the addresses of the recipients as reported to the Bureau of Internal Revenue by payor corporations and withholding agents. Reported payments to Canada were reduced by the amount of known payments to Canada for the account of residents of other foreign countries.

Form 578

DEPARTMENT OF COMMERCE

BUREAU OF FOREIGN AND DOMESTIC COMMERCE

WASHINGTON 25

Budget Bureau No. 41-R621
Approval Expires 10-31-46

QUARTERLY REPORT ON OPERATIONS OF FOREIGN BRANCHES OR OTHER UNINCORPORATED FOREIGN BUSINESS OF U. S. CORPORATIONS

Quarter ended___________

Name of U. S. company ______________________________

Country of foreign operations ______________________________

CHANGES IN INVESTMENT (Amounts in dollars)

1.	Book value of foreign properties at beginning of quarter		_______
	Additions (charges):		
2.	Home office charges for cash remitted or merchandise, machinery, etc., shipped to branch	_______	
3.	Other home office charges (royalties, service fees, U. S. expenses chargeable to branch operations, etc.)	_______	
4.	Net earnings of foreign properties (Period_______________)	_______	
	Total additions		_______
	Deductions (credits):		
5.	Cash remittances of income to home office	_______	
6.	All other cash remittances to home office	_______	
7.	Shipments of merchandise, etc., to home office	_______	
	Total deductions		_______
8.	Book value of foreign properties at end of quarter		_______

Instructions

A. Report on this form unincorporated foreign branches and other direct foreign operations of American corporations, as reflected on the books of the head office in the United States. Separate reports should be filed for each foreign branch. The report should be based on quarters ending March 31, June 30, September 30, and December 31, and should be submitted within 30 days after the close of the quarter.

B. The following instructions apply to the correspondingly numbered items above:

1 and 8. Book value of foreign properties should comprise all assets of the branch, including those carried only on the home office books.

3. Do not include United States income taxes in this item.

4. Report the "net earnings of foreign properties" when taken up on the books of the home office and after deduction for any expenses incurred in the United States by or on behalf of the foreign branch, other than United States income taxes. (It is assumed that such expenses would be reflected in item 2 or 3).

6. If remittances are not segregated as to purpose, report all cash remittances in this item.

C. If this is the first report for this branch, please indicate the type of business in which the branch will engage.

Private Miscellaneous Services

The private miscellaneous services account consists of nine items, as follows: (1) insurance and (2) reinsurance; (3) royalties, home office expenses, and related items; (4) motion-picture rentals; sales and purchases of (5) gas and (6) electric power; (7) international communications; (8) advertising; and (9) foreign government representation in the United States. The sources and methods of estimation of these components are discussed briefly below:

(1) *Insurance and* (2) *reinsurance.*—Annual data regarding transactions between foreign-controlled insurance companies operating in the United States and their parent companies were obtained primarily from the Insurance Department of the State of New York, which obtained the information from published financial statements filed with it. Data for the relatively small number of companies not doing business in the State of New York were obtained direct from the companies. Information regarding the operations of American-controlled companies doing business abroad was obtained mainly from the companies themselves. Gross receipts and payments included the operations of both American and foreign companies and also included data prepared by the Department of Commerce regarding the premiums received from Americans and claims paid to Americans by foreign reinsurers located outside the United States.

(3) *Royalties, home office expenses, and related items.*—See the section of this appendix dealing with income on investments, p. 182.

(4) *Motion-picture rentals.*—Receipts from foreigners for the rental of American motion pictures were carried on a remittance basis and therefore excluded earnings frozen in the United Kingdom and in other countries, until actually "received." As in the case of income receipts from direct investments, the Treasury Department's survey of American investments in foreign countries (TFR 500) provided the basic data for 1942 and data for other years were derived by means of sample data obtained direct from American film producers and supplemented by consular reports and income-tax returns filed with the Bureau of Internal Revenue.

(5) *Gas and* (6) *electric power.*—Exports and imports of gas and electric power are not included in the official United States trade statistics, nor is there any other official United States source for these data. Consequently, the figures used in this bulletin are taken from official publications of Canada and Mexico—the two foreign countries with which such transactions take place. In the case of Canada, the data were obtained from Trade of Canada, an annual publication of the Dominion Bureau of Statistics. For Mexico, they were taken from the Anuario Estadístico for 1941 and from various issues of the Revista de Estadística, a monthly periodical; both of these are published by the Dirección General de Estadística de los Estados Unidos de Méjico.

(7) *International communications and* (8) *advertising.*—Data on receipts and payments on account of communications services involving transactions between United States and foreign communications companies, as well as the expenditures of United States businesses for advertising abroad, are obtained direct by circularization of the companies engaged in these businesses. These data are adjusted to allow for incomplete coverage.

(9) *Foreign government representation in the United States.*—This account includes administrative expenditures in the United States by foreign governments for diplomatic representation, purchasing missions, and other activities. Direct information on this subject was scanty and it was possible to make only a very rough estimate of the amounts involved in the account.

Government Miscellaneous Services

As in other Government accounts, the source of data on United States Government service transactions was with few exceptions—transportation being the most important—the appropriate Government agency, either direct or through the Clearing Office for Foreign Transactions. In some cases, however, certain adjustments or refinements of the data as originally transmitted to us had to be made to bring them into conformity with balance-of-payments requirements. Comments on the estimation and content of the Government services accounts follow:

The figures presented under the heading of Government miscellaneous services include all service transactions to which the United States Government was a party,[7] except for transportation services, which are shown separately but are discussed below to some extent, for reasons which will be apparent. The data include both lend-lease and reverse lend-lease transactions on the one hand and cash receipts and payments on the other.

Lend-Lease Services

The figures used in this bulletin for services rendered to foreign governments under lend-lease arrangements are based on those shown in the lend-lease fiscal statistics, but an independent estimate of the cost of lend-lease shipping services (i. e., freight on lend-lease exports) has been subtracted from the figures as given in that source. The resulting figure for Government lend-lease services is, consequently, a residual item.

The estimate for lend-lease shipping services was derived in a way entirely analogous to the method used in estimating other shipping services. It forms an appreciably smaller proportion of total lend-lease services than the "approximately one-half" of total services which, according to the textual discussion accompanying the lend-lease reports, was devoted to shipping items. Since our procedure is different from that which was employed in the lend-lease reports, there is no reason why the two estimates should agree exactly; in addition, however, the lend-lease reports treat as transportation costs certain sizable items which are not customarily so regarded for balance-of-payments purposes.

The largest item of this sort is the value of vessels transferred to foreign governments. The technique employed for effecting these transfers was to charter the vessels to foreign governments for 1 dollar a year; but under the lend-lease accounting system, their full value was entered in the books as a cost of lend-lease operations, despite the fact that it was definitely understood, under the terms of the Lend-Lease Agreements, that the vessels would be returned to the United States at the end of the war. From the balance-of-payments standpoint, the most desirable procedure would be to take out the full value of the vessels and substitute some appropriately estimated figure for rental or charter value of the vessels over the period during which they were actually under charter to foreign governments. But since it is impossible under the circumstances to make such an estimate, it would seem that the next best thing is to include the item under Government miscellaneous services, which at least makes it possible to treat the lend-lease and non-lend-lease portions of the transportation account in a uniform way.[8]

The present allocation of lend-lease services by years also differs from the time distribution obtainable from the lend-lease reports. Large and variable lags in reporting make the temporal distribution of lend-lease transfers as shown in the lend-lease statistics unreliable from a balance-of-payments point of view. This problem was attacked in the case of lend-lease merchandise by distributing the transfer data over time in proportion to the corresponding temporal distribution of lend-lease exports as shown in the United States trade statistics.[9] In the absence of a more plausible method of dealing with the analogous problem for lend-lease services, these have also been phased with the lend-lease export statistics.

Other Cash Military Payments

United States military cash expenditures were made largely in connection with the construction and operation of various types of installations. It has already been noted that most of these were furnished to the United States Government as reverse lend-lease. In addition, a large proportion of such payments as were made for installations abroad went to domestic firms and thus are not considered foreign transactions. For these reasons, military cash expenditures for services other than net troop pay were not as large as might have been expected.

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[7] Net troop pay might be regarded as an exception to this statement, since the United States parties to this type of transactions were individual members of the armed forces. However, the local currency with which the troops were paid was received by the Government, and it seems more realistic, as well as more convenient, to regard the offset, i. e., the subsequent expenditure of the money, as being also a Government transaction. This is tantamount to regarding the expenditures as having been made by the troops in their official capacity.

[8] For a more detailed description of the methodology involved in estimating ocean shipping services, see the section of this appendix dealing with the transportation account, p. 174.

[9] See p. 172 of the section on merchandise trade.

Nonmilitary Cash Payments

United States civilian agencies continued in wartime, as they had in peacetime, to make cash expenditures abroad. These expenditures went for diplomatic representation, the maintenance of various missions, and similar items. The foreign disbursements of the Public Roads Administration (a part of the Federal Works Agency) are also included in this category. These disbursements represent sums expended abroad by firms under contract to the Public Roads Administration for construction work in Latin America (the Pan-American Highway).

Special-Currency Transactions

In many countries, for example, the sterling area, troops were paid in local currency which had been purchased in the ordinary manner through concurrent payments in dollars. In a few cases—for example, China, Italy, and North Africa in the early stages of the invasion—troop pay was effected in actual dollar currency, which the recipients were free to dispose of to local residents under any mutually agreeable arrangement. But in a number of countries this system was not considered necessary or desirable, and special arrangements were made whereby the country concerned would advance its currency to the United States Army without receiving concurrent payment in dollars.

These so-called "special currency" arrangements were of two kinds:

1. In Allied countries—including at various times Belgium, Czechoslovakia, Denmark, France, Greece, the Netherlands and its possessions, Norway, and eventually Italy—the United States did recognize a dollar liability for expenditures by members of the armed forces as well as for other military services received from these countries but not eligible to be classified as reverse lend-lease. Toward the end of 1945 or in 1946, settlements of special-currency obligations were reached with most of these countries. In general, the principle followed in making these settlements was to reimburse the country concerned for "net troop pay" (including in this concept certain other service items, as already mentioned) as certified by the War Department; these net troop pay figures were not necessarily the same as those used in compiling our balance-of-payments statistics, since certain adjustments were made in the data before the figures certified to by the Army were finally arrived at.

The "special currency" arrangements with these Allied countries have now (June 1947) been terminated and settlements of the obligations under them reached, except in the cases of Czechoslovakia and the Netherlands.

2. In the enemy countries, Austria, Germany, Japan (and the Ryukyus), Korea, and, according to the original plan, Italy, which was later placed on the same basis as the Allied countries, the War Department assumed no obligation to reimburse the country concerned for its local-currency expenditures. In this second type of arrangement, the marks, schillings, or yen were in effect a gift to the United States Government and as such have been offset in the unilateral transfer account.

It should be kept in mind that the special-currency transaction which affects the Government miscellaneous services account is (net) expenditures in special currencies by the Government, and not their original acquisition. The net expenditures are offset by credit entries in the unilateral or short-term capital (liabilities) accounts, depending on whether the currency was nonredeemable or redeemable.

Personal Remittances

Payments

Estimates of total contributions of individuals in the United States to foreign countries were composed of separate estimates of contributions forwarded through various agencies such as banks, steamship and travel companies, and communications companies, and by postal money orders. In addition, there were special deductions from the wages of imported alien workers which were made by the Department of Agriculture and the Department of Labor under their work programs.

Banks and similar institutions handling personal remittances had been circularized annually for data on the subject. In 1944 information obtained from the Foreign Funds Control, concerning banks reporting personal remittances to blocked nationals on forms GL32 and GL33 in 1942 and 1943 indicated that our sample for previous years had covered about 50 percent of the personal-remittance business being transacted through banking channels. As a result of this information, we were enabled to increase our sample to cover banks doing about 95 percent of the total business.

Data have also been obtained through reports received from other agencies—steamship and travel companies, and others. During the war, the number of these handling personal remittances decreased. Reports from these miscellaneous remitters were edited and tabulated on the assumption that we had full coverage and that no estimation on a sample basis was necessary.

An estimate was also made for the value of gift parcels, chiefly food and clothing, which began to go abroad in large volume after the war ended. Such parcels are not included in the regular export statistics and it was necessary to estimate their value, which was done by applying an average rate of 60 cents per pound. Data regarding the number of pounds of parcel-post shipments, by country of destination, were received from the Post Office Department.

Data regarding deductions from the wages of imported alien workers were obtained from the Department of Agriculture and the Department of Labor covering the forced savings of these workers. Voluntary remittances outside of the deduction plan were included elsewhere.

Postal money order data for fiscal years 1940–44 were obtained from the Annual Report of the Postmaster General. These data were tabulated geographically just as were those for the banks—with adjustments being made to eliminate orders payable in the Canal Zone and Virgin Islands. Beginning with June 1944, quarterly data were furnished by the Post Office Department to the Clearing Office for Foreign Transactions. As in past years, it was assumed that all postal money orders consisted of personal remittances. This assumption obviously is not entirely sound; however, it is likely that, in general, postal money orders do cover transactions not elsewhere entered in the balance-of-payments statement.

Receipts

Data for postal money order receipts were obtained in the manner described for payments figures.

Because of the inability of banks to furnish information on personal remittances received from abroad, we have estimated such receipts by assuming that postal money orders represented the same proportion of the total on both sides of the account. The resulting figures, shown in appendix C, do not seem unreasonable considering the number of Americans known to be residing abroad.

Institutional Remittances

Estimates of remittances to and expenditures in foreign countries by institutions for religious, scientific and philanthropic purposes (including war relief) were based on two principal sources of data:

1. Replies to an annual letter from the Department of Commerce, the text of which follows:

"In connection with its annual study of the balance of international payments of the United States, this Unit receives each year from religious, charitable, educational and scientific organizations reports showing the amount of funds and the value of goods sent to foreign countries. A statement of remittances and shipments by your organization during 1945 will be appreciated. The following instructions are given for your convenience:

"(1) It is desired to obtain a distribution of remittances by individual countries insofar as possible; amount of funds remitted and value of goods shipped should be shown separately.

"(2) Precise amounts are not essential; estimates in rounded thousands of dollars will suffice. For this reason, it is not necessary that returns be withheld until all accounts for the year are closed.

"(3) Data for the calendar year are preferred, but figures covering the last completed fiscal period are acceptable.

"(4) Sums spent in this country for administrative expenses, sums collected during the year but not transferred abroad, or sums collected in other countries should not be included in reported amounts. Remittances or shipments to Alaska, Hawaii, Puerto Rico, Canal Zone, or the Virgin Islands should not be included, since these are parts of the balance-of-payments area of the United States.

"(5) If remittance or shipments by your organization are likely to be duplicated in the return from any other organization, the fact should be noted in your reply.

"If there is nothing to report on behalf of your organization, a statement to that effect will be appreciated. A franked return envelope is enclosed for your reply."

2. Reports to the President's War Relief Control Board (now the Advisory Committee on Voluntary Foreign Aid of the United States Government) by war relief agencies registered with that organization.

The data were compiled by country and by sectarian groups, and a small omissions estimate was made for each group to allow for agencies not reporting.

Private Capital Movements

Direct Investments

The basic statistics regarding movements of American direct-investment capital abroad were obtained from the questionnaires referred to in the appendix section dealing with income on investments. These provided information covering advances by parent companies to subsidiaries, advances by subsidiaries in foreign countries to American parent companies, changes in American equity in foreign branches, and, beginning with the last half of 1945, data for purchases and sales of securities of subsidiary companies. Additional data were obtained from Forms 8K and 10K filed by corporations with the Securities and Exchange Commission, income-tax returns filed with the Bureau of Internal Revenue (Form 1120), annual reports of companies, reports of financial services, consular reports, the press, and correspondence with American companies.

Capital movements data relating to foreign direct investments in the United States were not generally available except in a few instances when such transactions were publicized. Such data as were available were, of course, utilized.

New Issues

The annual volume of new issues of foreign securities in the United States comprised both public and private offerings as compiled primarily from information obtained from underwriters and financial services.[10] The amount included for each issue was the portion of the issue taken in the United States less discounts and commissions. In this volume, refunding issues were included as new issues, while the issues refunded were included in amortizations. This procedure differs from that used in earlier compilations in which refunding issues were not included as new issues (nor the refunded issues carried in amortizations). Securities issued in the United States by American direct-investment companies operating abroad were not included in the capital-movement figures for new issues but were included in movements of direct investments.[11] New issues of territories or possessions of the United States were not included.

In some cases it was not possible to differentiate between new issues and transactions in outstanding issues. This was true of purchases for United States account of Canadian securities in Canada (see section on Transactions in Canadian Securities) since the data used classified issues as outstanding even when the American purchaser bought (from a Canadian broker) a new security that was still in the distribution stage.

Amortizations

Information regarding partial and complete amortizations of foreign dollar bonds was obtained from questionnaires distributed to the American paying agents of such issues (see appendix discussion of interest receipts from dollar bonds). Receipts by Americans cannot be precisely measured inasmuch as the security-transaction data reported by dealers in securities cover all foreign bonds and do not distinguish between foreign bonds payable in United States dollars and those payable in foreign currencies. However, any overestimate or underestimate of dollar bond amortization receipts was compensated by an underestimate or overestimate of transactions in outstanding securities, since the combined net movement of both series was adjusted to equal the movement reported by security dealers.

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[10] New issues of United States securities are rarely floated abroad and such offerings as do occur are for small amounts, so that there is no appreciable receipts item for this particular account.

[11] However, table XX, appendix C, has been prepared primarily for those interested in a list of all new issues sold in the United States regardless of classification, and hence includes issues of direct-investment companies.

Retirements of United States corporate bonds through sinking-fund and redemption payments to foreigners were estimated on the basis of known payments in 1935, adjusted to reflect the inability of foreign holders (particularly continental European holders) of these bonds to present them for retirement during the war.

Transactions in Outstanding Foreign and Domestic Securities

The basic data used for this series were compiled monthly for the Treasury Department by the Federal Reserve Banks from reports of banks, brokers, and dealers located in the United States, and were published in the Federal Reserve Bulletin [12] in summary form and in the Treasury Bulletin [13] in more detail. Publication of these data in detail was suspended from the end of 1941 until November 1945.

The data as compiled include all foreign-security transactions including new issues and amortizations. The estimates of the Department of Commerce for new issues and amortizations were deducted from these data, the remaining amounts being considered transactions in outstanding securities. An additional adjustment was necessary in some cases when a transaction was not included in the data reported to the Federal Reserve Banks or when issues of United States direct investments abroad were included in the compilation (see section on Transactions in Canadian Securities).

Transactions in Canadian Securities

It became evident during the war, as a result of the data collected by the Canadian Foreign Exchange Control Board, that there was a considerable volume of United States transactions in Canadian securities (primarily purchases in the 1940–45 period) which was not being recorded in the data on security transactions regularly reported to the Federal Reserve Banks. The principal omission appeared to have been the large net purchases of Canadian securities through dealers located in Canada by United States insurance companies and other institutional investors. In view of this situation, it was decided to substitute the Canadian data for the data compiled by the Federal Reserve Banks, or by this Division of the Commerce Department from various additional sources. The comparative series and the differences between them are shown below.

TABLE III.—*United States and Canadian data on United States net purchases of Canadian securities*

[In millions of United States dollars; net United States purchase (−) or sale (+)]

Item	1940	1941	1942	1943	1944	1945
Net transactions with Canada in foreign securities:						
United States data	+36.1	+10.4	−42.9	+28.2	+26.4	−70.8
Canadian Foreign Exchange Control Board data[1]	+13.0	−12.0	−97.0	−84.0	−99.0	−201.0
Net purchases not recorded in United States statistics	−23.1	−22.4	−54.1	−112.2	−125.4	−130.2

[1] Report of the Foreign Exchange Control Board to the Minister of Finance, Ottawa, Canada, March 1946, p. 21.

Assets and Liabilities Maturing in More Than One Year

Data on medium-term advances to and from foreigners were collected by the Federal Reserve Banks throughout the 1940–45 period from reporting banks and bankers. These data were not included in any previously published series although such loans were of growing importance beginning with 1945 (see table XXII).

Short-Term Capital Movements

Detailed statistics of foreign claims on the United States and of United States claims on foreigners are compiled monthly for the Treasury Department by the Federal Reserve Banks. Although the data were not published during the war, the September 1945 isue of the Federal Reserve Bulletin contained tables covering the war years. The series on banking funds is currently published in the Federal Re-

[12] Board of Governors of the Federal Reserve System, Washington, D. C., monthly.
[13] United States Treasury Department, Washington, D. C., monthly.

serve Bulletin and the Treasury Bulletin, and the latter also includes information on brokerage balances. The types of funds included are deposits, bills, United States Government short-term securities and other short-term accounts and commercial paper. Minor adjustments have been made in the published data on the basis of additional information on United States short-term funds in Canada.

Additional data on commercial balances not reported through banks and brokers were collected in this period by the Federal Reserve Banks from exporters, importers, and other concerns. However, only data covering deposits with foreign banks were used since most of the accounts reported were already entered in the balance of payments under movements of direct investments, as intercompany accounts.

For the years 1940 and 1941 the annual net movements of United States currency were based on data reported by the Federal Reserve Banks of New York and Atlanta and estimates of unrecorded net exports. After 1941, only reported movements of currency were included in the balance of payments, except for movements between the United States and Canada (see final paragraph of this discussion).

In addition to the data recorded by the Federal Reserve Banks, data were obtained from the following sources: Census Bureau statistics of the export and import of United States silver coins (until 1940 carried as a current account item), special Treasury Department reports which included data regarding sales of United States currency to foreign countries and receipts from and shipments to Cuba for account of the Treasury, occasional consular reports, and Clearing Office reports of estimates of "net troop pay" made in United States currency to American troops stationed in China and elsewhere. Data were not available for movements of foreign currency, but the sums involved are believed to be small. After 1941 no estimate was made of unrecorded movements of United States currency. These may have occurred in the following ways, among others: (*a*) By smuggling; (*b*) by soldiers engaged in unauthorized or black-market operations abroad; (*c*) by members of the armed forces abroad; and (*d*) by United States travelers abroad.

In general, American soldiers in foreign countries were paid in local currency. It has not been possible to measure the net troop pay which was paid in American gold seal dollars to United States troops in the North African and Italian campaigns.

Since there is good reason to believe that currency movements between the United States and Canada are offsetting, an adjustment was made in recorded exports of currency to Canada and imports from Canada so as to eliminate the indicated net movement. This was done by setting both exports and imports equal to the higher of the two recorded figures for the year concerned.

Government Capital Account

Long-Term Capital Account

Only Government assets were included here; foreign purchases and sales of long-term Government securities (i. e., liabilities) were shown in the private account, on the ground that they presumably were bought from or sold to nongovernment entities. All loan and credit transactions of the Federal Government with foreign countries were included, except short-term balances, advance payments, and other items maturing in 1 year or less, which were entered in the Government short-term capital account.

In general, the sources of information for all items in this account were the Government agencies responsible for the transactions. Information came either (1) direct to the International Economics Division, (2) through the published statements of the agency concerned, or (3) to the Clearing Office for Foreign Transactions.

Special notes about individual items follow:

1. Reconstruction Finance Corporation loan to the United Kingdom: Credits (repayments) on this loan included funds paid into a suspense account with the Reconstruction Finance Corporation but not formally credited against the loan by that agency as of the last day of the period specified.

2. Export-Import Bank loans: Only direct disbursements and receipts of the Bank's own funds were included in the Government account; the so-called indirect, or guaranteed, loans were considered private capital movements in this study.

3. Lend-lease silver: The value of lend-lease silver transferred under a specific agreement to repay in kind has been entered as an outflow of Government long-term capital. The silver was valued at the official United States Treasury buying price (approximately 70.5 cents per troy ounce during the period during which these transactions took place).

4. Other lend-lease credits: Debit entries in the capital account offset exports of lend-lease goods for which repayment was to be made over a period of years. These were chiefly goods transferred after VJ-day. The amounts involved were estimated on the basis of goods transferred as shown by the fiscal records of the lend-lease programs, and may differ somewhat from the amounts finally determined to be payable after all accounting adjustments have been made.

5. Surplus property credits: As with lend-lease, the value of surplus property, including ships, sold on a long-term credit basis, has been entered in this account. As explained in the merchandise trade account, these transactions were entered in the balance-of-payments statement as of the time of sale as reported by the Office of Foreign Liquidation Commissioner. In particular, it should be noted that the so-called bulk sales have been included in the periods in which the respective agreements were signed.

6. Productive facilities: The account also includes direct investments of Government funds, chiefly by the Defense Plants Corporation, in productive facilities abroad.

7. Payments by foreign governments to the United States Government in settlement for expropriated property of United States nationals were also included, since the funds in the first instance are received by the United States Department of State.

Short-Term Capital Account

Foreign short-term assets of the United States Government.—Data regarding the following items were obtained from records of the agencies involved:

1. Foreign currency and deposits of United States Government agencies: Treasury deposits are reported in the Daily Treasury Statement. Balances of other agencies were not generally obtainable and only certain isolated movements have been included, such as the repatriation of unexpended funds in Great Britain and Australia after the withdrawal of our troops in those countries.

2. Advance payments: The procurement agencies frequently made advance payments in connection with purchase contracts; these have been included as investments of short-term funds abroad.

Short-term liabilities of the United States Government to foreign countries.—These include the following categories:

1. Philippine deposits with the Treasury Department: Beginning with July 1946, the short-term liability data appearing in the Federal Reserve Bulletins and covering the years from 1939 to date were revised to include the balances for each of these years.

2. Special Italian deposits with the Treasury Department: The first settlements with Italy for net troop pay were credited to a special account in the Treasury instead of being made freely available by issuing a dollar check to the Italian Government. In effect, the liability was shifted from a special-currency liability (see item 3) to this account.

3. Special-currency liability: The estimated amount of special-currency expenditures for which the United States Government was obligated to reimburse the respective foreign governments in dollars was considered as a Government short-term liability in these accounts. The dollar settlements which followed were thus entered as debits in this account, rather than in the current account.

4. Holdings of short-term United States Government securities: Changes in foreign holdings of United States Government securities with original maturities of less than 1 year, as reported to the Treasury Department on Foreign Exchange Form B–1, were considered as Government capital movements in the accounts.

5. Deposits with the Commodity Credit Corporation: After the termination of lend-lease, foreign purchasing missions placed most of their orders for foodstuffs in the United States with the Commodity Credit Corporation. Working balances were deposited with the Commodity Credit Corporation in connection with these purchases, and such balances were treated as short-term Government liabilities.

Gold Movements

Under the method now adopted for the treatment of gold movements, new gold production (less domestic consumption), is entered as a receipt under goods, and the net change in the gold stock is entered as "Net inflow or outflow of funds on gold and short-term capital account" (see appendix A, Note on Treatment of Gold in the Balance of Payments).

The annual net movement as computed from exports, imports, and earmarking was determined to be the best available, since there are unavoidable lags between the data on current production and changes in the gold stock. The former series must be used, of course, to construct a balance of payments with a specified country or area, while net production is entered as a transaction with international institutions.

The basic data on exports and imports are collected by the Bureau of the Census. They have been adjusted, insofar as is possible, to reflect the actual country of origin where gold is known to have entered through a third country. Data on earmarking transactions are provided by the Federal Reserve Bank of New York and appear in the Federal Reserve Bulletin; minor adjustments have been made to eliminate transactions which are included in the series shown in the Bulletin but are not considered to affect foreign gold holdings in this country for balance-of-payments purposes.

Changes in the gold stock of the United States are published regularly in the Treasury Bulletin and to this series have been added changes in the gold held by the Exchange Stabilization Fund (Special Account Number 1), which are not included in the published gold-stock figure. The holdings of the Exchange Stabilization Fund are published periodically in the Treasury Bulletin. Statistics on gold production and consumption in the United States are collected by the Bureau of the Mint and reported in the Annual Report of the Director of the Mint.[14] However, as stated above, the annual movement as derived from the export, import, and earmark series is considered to be the more accurate for this purpose, and to conform to this annual movement a minor adjustment has been made in each year in the gold consumption series.

Transactions With Major Areas

In general, the methods of estimating transactions with individual countries or areas are the same as the methods followed in compiling the global balance of payments. Specific problems connected with the sources and methodology of compiling "bilateral" balances of payments are discussed in the appropriate sections of this appendix. It remains to point out here that there is an important conceptual difference between a global and a bilateral balance of payments in that the latter does not have to "balance," i. e., there is no necessity that the sum of all receipts should equal the sum of all payments (including gold movements and changes in short-term assets and liabilities among receipts and payments).

In the form of presentation employed in a global balance of payments only two parties to the transactions covered appear—the country under consideration and all the rest of the world—and thus the multilaterality of trade is concealed. In a bilateral statement, on the other hand, only two of the three or more parties to a multilateral transaction are accounted for and, consequently, the necessity that receipts and payments should be equal no longer holds. The offset to a transaction between country A and country B may be a transaction between country A and country C, or between country B and country C. For example, if a given country has a deficit with the United States, it may be able to settle the deficit with dollars earned from other countries; in this case, the transfer of dollars from foreign to American ownership will not appear as a transaction between the United States and the first country but as one between the United States and the other country or countries.

It would be formally possible to split up every multilateral transaction into a series of bilateral transactions and by this means to bring into balance the statement for each area individually. This would, indeed, be a highly desirable project, since it would serve in effect to trace all the steps of which multilateral transactions are composed and thus to explain completely the supply and use of the currency of a given country, as well as the same country's supply and use of all other currencies in which it has dealings; but unfortunately such a project is impracticable at the present time.

[14] U. S. Treasury Department, Washington, D. C., annual.

Appendix C

Supplementary Information

TABLE IV.—*Citizen and alien[1] departures from and arrivals into the United States, by sea and air, via seaports, 1940–45*

Type of travel and region	Citizens[2]		Aliens[2]	
	Departures	Arrivals	Departures	Arrivals
SEA		1940		
Europe and Mediterranean:				
Algeria, Morocco, and Tunisia	13	35	6	36
Belgium		47	28	1,484
Denmark	2	17	6	29
Egypt	64	237	37	126
Eire	2	2,790		447
Finland	1	91	73	484
France	18	730	505	2,656
Gibraltar and Malta	3	22	6	333
Greece	62	691	495	942
Iceland	17	10	75	77
Italy	1,983	7,352	4,315	14,475
Netherlands	3	67	319	1,429
Norway	72	432	953	981
Palestine	55	389	85	146
Portugal	417	3,339	1,801	6,971
Rumania		26	1	3
Spain	57	194	687	861
Sweden	55	314	741	774
Syria	58	81	32	40
Turkey	4	32	10	4
United Kingdom	183	288	3,653	20,757
Yugoslavia	1	44	4	166
Total, Europe and Mediterranean	3,070	17,228	13,832	53,221
Far East:				
Australia	646	1,028	1,480	785
China	2,042	5,321	2,465	2,477
India	351	764	105	241
Japan	6,175	6,302	7,504	6,696
New Zealand	208	274	557	233
Philippines	2,600	3,260	2,411	1,023
Other non-Mediterranean Africa	450	613	322	404
Other non-Mediterranean Asia	163	423	167	204
Other Pacific islands	590	499	334	276
Total, Far East	13,225	18,484	15,345	12,339
Caribbean:				
Bermuda	6,824	6,627	1,499	1,325
British Guiana	36	20	71	72
British Honduras	54	78	59	148
British West Indies	9,690	10,403	3,022	2,809
Canal Zone and Panama	12,891	10,249	1,362	2,227
Colombia	916	897	1,346	1,057
Costa Rica	744	392	433	380
Cuba	46,934	48,664	13,340	14,946
Dominican Republic	1,472	1,668	1,859	1,776
French West Indies	13	7	37	22
Guatemala	2,258	2,727	575	649
Haiti	555	852	335	322
Honduras	1,438	935	534	567
Netherlands Guiana	70		17	1
Netherlands West Indies	1,715	1,850	1,108	981
Nicaragua	145	147	80	69
El Salvador	31	13	88	51
Venezuela	2,103	1,878	2,504	2,164
Total, Caribbean	87,889	87,407	28,269	29,566

See footnotes at end of table.

TABLE IV.—*Citizen and alien*[1] *departures from and arrivals into the United States, by sea and air, via seaports, 1940–45*—Continued

Type of travel and region	Citizens[2]		Aliens[2]	
	Departures	Arrivals	Departures	Arrivals
SEA—continued	1940			
Southern South America (non-Caribbean):				
Argentina	1,871	1,972	1,077	1,432
Brazil	2,121	1,811	1,454	1,620
Chile	1,160	819	1,125	893
Ecuador	262	190	357	281
Peru	781	676	757	579
Uruguay	107	7	114	9
Total, southern South America	6,302	5,475	4,884	4,814
Total, sea	110,486	128,594	62,330	99,940
AIR				
Europe and Mediterranean:				
Eire		1		2
Portugal	422	510	501	678
United Kingdom		1	2	1
Total, Europe and Mediterranean	422	512	503	681
Far East:				
Australia				5
China	112	104	80	97
New Zealand	70	66	35	43
Philippines	193	320	80	120
Other Pacific Islands	14	5	2	1
Total, Far East	389	495	197	266
Caribbean:				
Bermuda	1,301	1,603	224	263
British Guiana	2	2		2
British West Indies	6,084	7,466	999	1,334
Canal Zone and Panama	195	988	58	476
Colombia	103	864	54	555
Cuba	23,771	22,412	4,743	4,185
Dominican Republic	225	361	100	198
French West Indies	24	29	26	26
Guatemala		2		2
Haiti	667	649	152	105
Netherlands Guiana	3	14		1
Venezuela	2	480		205
Total, Caribbean	32,377	34,870	6,356	7,352
Southern South America:				
Argentina		2	8	1
Brazil	38	376	26	223
Ecuador				2
Peru			1	
Total, southern South America	38	378	35	226
Total, air	33,226	36,255	7,091	8,525
Grand total, sea and air	143,712	164,849	69,421	108,465
SEA	1941			
Europe and Mediterranean:				
Algeria, Morocco, and Tunisia		11		650
Denmark				4
Egypt	7	239	9	289
Eire	7			25
Finland	3	6	48	124
France			1	
Greece				10
Iceland	37	28	41	142
Norway		13		8
Portugal	674	4,074	1,105	13,386
Spain	38	126	1,537	3,410
Sweden	2	1	30	40
United Kingdom	828	297	1,572	2,670
U. S. S. R.		6	10	105
Total, Europe and Mediterranean	1,596	4,801	4,353	20,863

See footnotes at end of table.

TABLE IV.—*Citizen and alien*[1] *departures from and arrivals into the United States, by sea and air, via seaports, 1940–45*—Continued

Type of travel and region	Citizens[2]		Aliens[2]	
	Departures	Arrivals	Departures	Arrivals
	1941			
SEA—continued				
Far East:				
Australia	335	617	1,000	1,904
China	548	4,421	1,265	2,468
India	365	884	207	656
Japan	3,053	4,079	6,815	4,581
New Zealand	76	110	260	969
Philippines	1,133	2,945	1,819	1,419
Other non-Mediterranean Africa	1,265	880	590	624
Other non-Mediterranean Asia	608	235	581	563
Other Pacific islands	124	106	149	245
Total, Far East	7,507	14,277	12,686	13,429
Caribbean:				
Bermuda	9,188	4,967	1,214	1,068
British Guiana	104	73	179	54
British Honduras	56	63	50	97
British West Indies	17,756	12,747	2,785	3,131
Canal Zone and Panama	18,351	16,300	1,252	1,633
Colombia	1,008	783	1,606	1,337
Costa Rica	490	493	437	396
Cuba	45,537	45,852	10,046	12,677
Dominican Republic	1,411	1,698	1,622	1,471
French West Indies	9	19	66	478
Guatemala	2,492	2,830	618	616
Haiti	458	542	285	269
Honduras	922	797	489	542
Netherlands Guiana	64	7	41	3
Netherlands West Indies	1,184	1,069	1,103	752
Nicaragua	119	137	44	80
El Salvador	2	14	9	18
Venezuela	2,017	1,395	2,397	2,055
Total, Caribbean	101,168	89,786	24,243	26,677
Southern South America:				
Argentina	1,650	1,424	1,317	1,536
Brazil	2,042	1,883	1,413	2,391
Chile	1,251	885	1,263	1,210
Ecuador	347	227	490	394
Peru	885	779	867	673
Uruguay	156	8	106	28
Total, southern South America	6,331	5,206	5,456	6,232
Total, sea	116,602	114,070	46,738	67,201
AIR				
Europe and Mediterranean:				
Egypt	-----	1	-----	2
Eire	43	21	122	43
Portugal	695	856	820	1,244
United Kingdom	-----	-----	4	4
Total, Europe and Mediterranean	738	878	946	1,293
Far East:				
Australia	1	-----	4	-----
China	132	51	64	83
Japan	-----	-----	-----	7
New Zealand	167	93	200	285
Philippines	328	512	103	166
Other non-Mediterranean Africa	205	92	7	9
Other non-Mediterranean Asia	159	47	64	49
Other Pacific islands	27	11	11	23
Total, Far East	1,019	806	453	622
Caribbean:				
Bermuda	2,205	2,532	-----	641
British Guiana	7	3	4	3
British West Indies	7,670	8,789	603	1,646
Canal Zone and Panama	1,471	1,710	402	766
Colombia	-----	1,157	8	673
Cuba	30,584	26,758	1,211	4,266
Dominican Republic	223	472	4,627	240
French Guiana	-----	1	-----	-----
French West Indies	35	31	111	66
Guatemala	-----	6	-----	-----
Haiti	497	727	17	110

See footnotes at end of table.

TABLE IV.—*Citizen and alien[1] departures from and arrivals into the United States, by sea and air, via seaports, 1940–45*—Continued

Type of travel and region	Citizens[2]		Aliens[2]	
	Departures	Arrivals	Departures	Arrivals
AIR—continued	1941			
Caribbean—Continued				
Netherlands Guiana	1			
Netherlands West Indies			114	11
Venezuela	46	527	29	261
Total, Caribbean	42,739	42,713	7,126	8,683
Southern South America:				
Argentina	5		65	
Bolivia	117			
Brazil		981	108	502
Chile			1	1
Uruguay			3	
Total, southern South America	122	981	177	503
Total, air	44,618	45,378	8,702	11,101
Grand total, sea and air	161,220	159,448	55,440	78,302
	1942			
SEA				
Europe and Mediterranean:				
Egypt	95		12	
France				1
Greece				4
Iceland	100	515	51	200
Italy				4
Portugal	812	1,438	385	2,694
Spain	1	9	29	237
Sweden		257	4	2
United Kingdom	1,075	3,680	2,561	17,112
U. S. S. R.		218	18	282
Total, Europe and Mediterranean	2,083	6,117	3,060	20,536
Far East:				
Australia	39			
China	51		5	
India	28		23	
Japan		1,615		617
New Zealand	1	2,789	298	4,047
Other Africa	1,003	2,794	197	2,287
Other non-Mediterranean Asia	198		25	
Other Pacific islands	4			
Total, Far East	1,324	7,198	548	6,951
Caribbean:				
Bermuda	2,973	2,916	175	226
British Guiana	395	11	21	4
British Honduras	5	21	6	381
British West Indies	4,627	7,098	1,601	4,644
Canal Zone and Panama	3,057	7,981	158	442
Colombia	22	50	83	150
Costa Rica	1	68	24	35
Cuba	4,347	2,435	1,682	890
Dominican Republic	90	141	145	116
French West Indies		14	2	32
Guatemala	42	115	28	102
Haiti	12	37	8	68
Honduras	69	125	38	75
Netherlands Guiana	5	25	28	7
Netherlands West Indies	190	193	108	262
Nicaragua	21	30	8	18
El Salvador				2
Venezuela	84	38	80	95
Total, Caribbean	15,940	21,298	4,195	7,549
Southern South America:				
Argentina	73	118	185	306
Bolivia	4		9	
Brazil	140	169	111	307
Chile	223	184	671	397
Ecuador	66	35	111	58

See footnotes at end of table.

TABLE IV.—*Citizen and alien*[1] *departures from and arrivals into the United States, by sea and air, via seaports, 1940–45*—Continued

Type of travel and region	Citizens [2]		Aliens [2]	
	Departures	Arrivals	Departures	Arrivals
SEA—continued	1942			
Southern South America—Continued				
Peru	62	114	278	157
Uruguay	12	13	4	14
Total, southern South America	580	633	1,369	1,239
Total, sea	19,927	35,246	9,172	36,275
AIR				
Europe and Mediterranean:				
Eire	1,948	611	609	745
Gibraltar	----	7	----	5
Iceland	----	23	----	7
Portugal	510	338	168	461
United Kingdom	428	104	102	51
U. S. S. R.	3	----	7	----
Total, Europe and Mediterranean	2,889	1,083	886	1,269
Far East:				
Australia	53	----	----	71
New Zealand	----	59	----	----
Other non-Mediterranean Africa	2,255	582	127	297
Other non-Mediterranean Asia	9	33	2	10
Total, Far East	2,317	674	129	378
Caribbean:				
Bermuda	3,221	3,962	776	1,211
British Guiana	55	675	5	264
British Honduras	14	----	----	----
British West Indies	5,981	12,119	1,892	3,463
Canal Zone and Panama	4,968	4,960	1,543	1,354
Colombia	2,643	1,530	1,724	1,023
Costa Rica	122	----	102	----
Cuba	17,923	15,591	7,033	7,576
Dominican Republic	306	610	166	474
French Guiana	3	2	----	----
French West Indies	13	8	73	10
Haiti	168	557	58	212
Honduras	1	235	1	196
Netherlands Guiana	16	65	----	107
Netherlands West Indies	224	27	2	8
Nicaragua	----	3	----	3
Venezuela	1,522	1,264	1,067	800
Total, Caribbean	37,180	41,608	14,442	16,701
Southern South America:				
Argentina	3	----	23	6
Brazil	5,745	6,426	580	2,461
Chile	----	8	----	----
Total, southern South America	5,748	6,434	603	2,467
Total, air	48,134	49,799	16,060	20,815
Grand total, sea and air	68,061	85,045	25,232	57,090
SEA	1943			
Europe and Mediterranean:				
Eire	----	----	----	4
Gibraltar	----	202	----	44
Iceland	25	559	45	209
Italy	----	14	----	31
Portugal	465	412	1,585	890
Spain	19	27	33	185
Sweden	----	----	33	6
United Kingdom	1,491	3,927	4,145	13,195
U. S. S. R.	1	57	165	2,096
Total, Europe and Mediterranean	2,001	5,198	6,006	16,660

See footnotes at end of table.

TABLE IV.—*Citizen and alien*[1] *departures from and arrivals into the United States, by sea and air, via seaports, 1940–45*—Continued

Type of travel and region	Citizens[2]		Aliens[2]	
	Departures	Arrivals	Departures	Arrivals
	1943			
SEA—continued				
Far East:				
Africa[3]	348	4,427	91	1,315
Asia[4]	531	2,209	159	2,125
Oceania	257	6,422	311	2,722
Total, Far East	1,136	13,058	561	6,162
Caribbean:				
Bermuda	46	2,427	357	97
British Guiana	1	----	----	----
British Honduras	----	26	1	156
British West Indies	505	3,470	9,091	13,854
Canal Zone and Panama	498	4,511	22	680
Colombia	116	8	98	152
Costa Rica	14	28	7	25
Cuba	4	122	7	123
Dominican Republic	----	4	----	3
French Guiana	----	540	----	----
French West Indies	2	11	14	130
Guatemala	1	----	----	----
Haiti	----	2	1	6
Honduras	20	72	5	96
Netherlands Guiana	1	3	10	21
Netherlands West Indies	440	266	109	286
Nicaragua	1	296	1	1
El Salvador	8	----	1	1
Venezuela	1	26	2	3
Total, Caribbean	1,658	11,812	9,726	15,634
Southern South America:				
Argentina	46	113	130	407
Brazil	1	178	16	201
Chile	113	148	121	266
Ecuador	17	23	13	35
Peru	68	34	34	185
Uruguay	1	1	----	35
Total, southern South America	246	497	314	1,129
Total, sea	5,041	30,565	16,607	39,585
AIR				
Europe and Mediterranean:				
Eire	1,475	786	370	704
Gibraltar	----	----	----	3
Iceland	----	135	----	8
Italy	----	5	----	----
Portugal	204	146	48	139
United Kingdom	1,274	4,809	174	355
U. S. S. R.	----	3	39	----
Total, Europe and Mediterranean	2,953	5,884	631	1,209
Far East:				
Africa[3]	1,304	1,531	60	540
Asia[4]	564	16	13	20
Oceania	----	265	----	147
Total, Far East	1,868	1,812	73	707
Caribbean:				
Bermuda	2,059	2,784	1,104	1,454
British Guiana	949	1,207	162	246
British Honduras	16	----	----	----
British West Indies	4,860	10,240	7,325	9,068
Canal Zone and Panama	8,314	8,325	2,024	2,488
Colombia	2,450	241	2,163	143
Costa Rica	356	26	143	4
Cuba	11,390	17,300	5,681	13,632
Dominican Republic	837	1,030	437	442
French Guiana	7	----	3	----
French West Indies	17	32	53	78
Guatemala	603	511	224	318
Haiti	457	299	267	237
Honduras	23	670	15	341
Netherlands Guiana	250	41	61	31
Netherlands West Indies	751	27	319	90

See footnotes at end of table.

TABLE IV.—*Citizen and alien*[1] *departures from and arrivals into the United States, by sea and air, via seaports, 1940–45*—Continued

Type of travel and region	Citizens [2]		Aliens [2]	
	Departures	Arrivals	Departures	Arrivals
AIR—continued	1943			
Carribbean—Continued				
Nicaragua	1	48		33
El Salvador	1	77		94
Venezuela	1,283	170	709	109
Total, Caribbean	34,624	43,028	20,690	28,808
Southern South America:				
Argentina	2	7	1	19
Brazil	10,246	10,377	1,327	4,576
Paraguay				7
Total, southern South America	10,248	10,384	1,328	4,602
Total, air	49,693	61,108	22,722	35,326
Grand total, sea and air	54,734	91,673	39,329	74,911
SEA	1944			
Europe and Mediterranean:				
France	22	87		51
Gibraltar		30		6
Iceland	6	15	74	250
Italy	67	863	1	57
Portugal	787	1,310	981	1,590
Spain	82	32	135	175
Sweden	9	2	107	114
United Kingdom	843	8,407	5,593	13,855
U. S. S. R.	1	25	9	64
Unknown	847	171	5,600	
Total, Europe and Mediterranean	2,664	10,942	12,500	16,162
Far East:				
Africa [3]	908	2,776	273	1,191
Asia [4]	829	1,289	964	4,824
Oceania	400	5,424	696	3,232
Total, Far East	2,137	9,489	1,933	9,247
Caribbean:				
Bermuda	8	42	135	485
British Guiana			3	46
British Honduras	1	22	8	1,307
British West Indies	449	1,469	13,042	28,867
Canal Zone and Panama	60	1,395	24	378
Colombia	10	2	5	11
Costa Rica	14	9	21	18
Cuba	104	96	79	138
Dominican Republic		3		22
French West Indies	11	15	670	813
Guatemala	1	16	1	5
Haiti	2	19	2	6
Honduras	24	63	44	113
Netherlands Guiana	3		31	36
Netherlands West Indies	53	197	78	611
Nicaragua				2
El Salvador			4	
Venezuela	4	32	10	68
Total, Caribbean	744	3,380	14,157	32,926
Southern South America:				
Argentina	130	243	146	370
Brazil	52	87	21	104
Chile	27	105	55	110
Ecuador	2	9	15	93
Peru	102	48	95	40
Uruguay	1	18	5	9
Total, southern South America	314	510	337	726
Total, sea	5,859	24,321	28,927	59,061

See footnotes at end of table.

TABLE IV.—*Citizen and alien*[1] *departures from and arrivals into the United States, by sea and air, via seaports, 1940–45*—Continued

Type of travel and region	Citizens[2]		Aliens[2]	
	Departures	Arrivals	Departures	Arrivals
AIR	1944			
Europe and Mediterranean:				
Eire	1,533	660	311	1,086
France	360	405	54	67
Iceland	246	1,110	20	79
Italy	10	25	----	----
Portugal	1,016	1,285	105	229
United Kingdom	6,573	29,742	1,050	1,137
U. S. S. R.	----	1	----	----
Unknown	6,342	935	197	103
Total, Europe and Mediterranean	16,080	34,163	1,737	2,701
Far East:				
Africa[3]	9,974	20,541	209	2,887
Asia[4]	137	158	11	511
Oceania	476	770	228	298
Total, Far East	10,587	21,469	448	3,696
Caribbean:				
Bermuda	3,253	6,165	1,819	2,139
British Guiana	319	246	555	233
British Honduras	----	227	----	156
British West Indies	3,139	4,513	10,282	8,084
Canal Zone and Panama	7,585	9,622	2,303	3,720
Colombia	1,835	27	2,142	46
Costa Rica	777	2	524	27
Cuba	9,754	22,824	6,877	22,225
Dominican Republic	1,525	1,738	885	510
French Guiana	2	----	----	----
French West Indies	30	12	49	83
Guatemala	2,357	1,130	832	1,020
Haiti	771	137	529	99
Honduras	7	272	3	450
Netherlands Guiana	144	7	74	31
Netherlands West Indies	695	75	482	118
Nicaragua	60	197	21	345
El Salvador	20	33	6	33
Venezuela	2,416	14	1,606	67
Total, Caribbean	34,689	47,241	28,989	39,386
Southern South America:				
Argentina	18	6	3	40
Bolivia	----	----	----	1
Brazil	4,238	2,499	2,356	2,601
Chile	----	1	----	1
Ecuador	----	4	----	21
Paraguay	1	----	----	----
Peru	----	1	----	2
Uruguay	----	----	1	----
Total, southern South America	4,257	2,511	2,360	2,666
Total, air	65,613	105,384	33,534	48,449
Grand total, sea and air	71,472	129,705	62,461	107,510
SEA	1945			
Europe and Mediterranean:				
Albania	1	----	----	----
Belgium	126	420	246	380
Denmark	24	46	81	204
France	1,870	5,516	2,501	4,185
Germany	1	9	4	34
Gibraltar and Malta	4	26	----	2
Greece	154	1,216	100	361
Iceland	7	62	66	206
Italy	257	2,846	175	755
Mediterranean Africa	1,195	1,676	358	742
Mediterranean Asia	158	99	76	263
Netherlands	37	51	168	502
Norway	251	215	2,139	2,148
Poland-Danzig	5	2	94	10

See footnotes at end of table.

TABLE IV.—*Citizen and alien[1] departures from and arrivals into the United States, by sea and air, via seaports, 1940–45*—Continued

Type of travel and region	Citizens[2]		Aliens[2]	
	Departures	Arrivals	Departures	Arrivals
SEA—continued	1945			
Europe and Mediterranean—Continued				
Portugal	897	1,253	1,077	988
Rumania	4	31	108	75
Spain	260	175	1,273	921
Sweden	277	337	653	476
Turkey	16	16	32	86
United Kingdom	4,696	5,939	9,367	8,439
U. S. S. R.	7	7	184	84
Yugoslavia	3	-----------	20	-----------
Unknown	837	-----------	5,040	30
Total, Europe and Mediterranean	11,087	19,942	23,762	20,891
Far East:				
Non-Mediterranean Africa	623	2,001	456	1,187
Non-Mediterranean Asia	1,239	3,657	1,648	8,069
Oceania	1,794	16,020	1,729	6,143
Total, Far East	3,656	21,678	3,833	15,399
Caribbean:				
Bermuda	493	320	398	608
British Guiana	5	1	36	179
British Honduras	1	8	1,003	37
British West Indies	690	970	39,628	35,419
Canal Zone and Panama	1,107	3,963	89	527
Colombia	41	34	95	91
Costa Rica	-----------	9	11	26
Cuba	94	182	79	210
Dominican Republic	12	23	7	15
French West Indies	5	19	1,198	526
Guatemala	12	26	4	27
Haiti	6	26	1	4
Honduras	124	150	117	230
Netherlands Guiana	3	4	96	51
Netherlands West Indies	200	145	379	796
Nicaragua	2	3	1	7
El Salvador	5	-----------	30	3
Venezuela	189	103	455	164
Total, Caribbean	2,989	5,986	43,627	38,920
Southern South America:				
Argentina	420	385	515	998
Bolivia	-----------	-----------	1	-----------
Brazil	562	507	463	542
Chile	99	96	96	261
Ecuador	14	10	48	91
Peru	67	45	69	90
Uruguay	15	34	25	52
Total, southern South America	1,177	1,077	1,217	2,034
Total, sea	18,909	48,683	72,439	77,244
AIR				
Europe and Mediterranean:				
Austria	1	-----------	-----------	-----------
Belgium	1	-----------	-----------	-----------
Czechoslovakia	2	-----------	-----------	-----------
Denmark	2	1	-----------	1
Eire	2,219	2,169	695	919
France	5,012	13,131	149	963
Germany	124	16	3	2
Greece	3	-----------	-----------	-----------
Iceland	1,583	1,685	204	199
Italy	82	8	-----------	4
Mediterranean Africa	333	555	30	28
Mediterranean Asia	48	43	5	5
Netherlands	-----------	-----------	1	-----------
Norway	-----------	-----------	5	-----------
Portugal	2,272	11,979	244	546
Sweden	130	228	237	311
Switzerland	1	-----------	-----------	-----------
United Kingdom	4,319	9,944	2,052	2,930
Unknown	10,096	174	654	-----------
Total, Europe and Mediterranean	26,228	39,933	4,279	5,908

See footnotes at end of table.

TABLE IV.—*Citizen and alien[1] departures from and arrivals into the United States, by sea and air, via seaports, 1940–45*—Continued

Type of travel and region	Citizens [2]		Aliens [2]	
	Departures	Arrivals	Departures	Arrivals
	1945			
AIR—continued				
Far East:				
Non-Mediterranean Africa	11, 299	11, 573	644	1, 670
Non-Mediterranean Asia	105	79	94	100
Oceania	2, 197	2, 384	689	570
Total, Far East	13, 601	14, 036	1, 427	2, 340
Caribbean:				
Bermuda	4, 970	7, 876	1, 829	2, 756
British Guiana	137	231	169	181
British Honduras			42	4
British West Indies	3, 891	4, 031	6, 791	8, 305
Canal Zone and Panama	7, 879	6, 228	2, 353	4, 095
Colombia	2, 613	2	3, 006	51
Costa Rica	718	12	827	464
Cuba	20, 205	32, 994	12, 130	32, 483
Dominican Republic	2, 161	1, 568	1, 426	848
French Guiana	10	1		
French West Indies	42	9	40	50
Guatemala	392	106	176	956
Haiti	904	682	671	285
Honduras		11		277
Netherlands Guiana	93	56	106	2
Netherlands West Indies	1, 714	575	1, 296	1, 189
Nicaragua		36		477
El Salvador		4		299
Venezuela	2, 736	7	2, 286	64
Total, Caribbean	48, 465	54, 429	33, 148	52, 786
Southern South America:				
Argentina	29	3	15	50
Bolivia				11
Brazil	3, 771	542	2, 707	1, 046
Chile	144			48
Ecuador				25
Paraguay				10
Peru	2	2	5	61
Uruguay			1	8
Total, southern South America	3, 946	547	2, 728	1, 259
Total, air	92, 240	108, 945	41, 582	62, 293
Grand total, sea and air	111, 149	157, 628	114, 021	139, 537

[1] It should be noted that the break-down into citizens and aliens is not equivalent to that into residents and nonresidents used for balance-of-payments purposes.
[2] By country of immediate destination or embarkation.
[3] Includes Mediterranean Africa.
[4] Includes Mediterranean Asia.

Source: Immigration and Naturalization Service, U. S. Department of Justice.

TABLE V.—*Residents of the United States departing for oversea destinations, by geographic area and by class of traveler, 1940–45*[1]

Class of traveler	1940	1941	1942	1943	1944	1945
	Europe and Mediterranean					
United States citizens (excluding cruise)	3, 492	2, 334	4, 972	4, 954	18, 744	37, 315
Alien residents of the United States:						
Temporary visitors abroad	7, 347	4, 454	1, 424	1, 130	1, 556	2, 974
Emigrants	2, 257	2, 334		622	1, 441	6, 726
Cruise passengers	1					
Total	13, 097	9, 122	6, 396	6, 706	21, 741	47, 015
	Oceania and non-Mediterranean Asia and Africa					
United States citizens (excluding cruise)	13, 614	8, 526	3, 641	3, 004	12, 724	17, 257
Alien residents of the United States:						
Temporary visitors abroad	3, 209	2, 496	207	147	219	286
Emigrants	3, 693	3, 321		31	189	742
Cruise passengers	20					
Total	20, 536	14, 343	3, 848	3, 182	13, 132	18, 285

See footnotes at end of table.

TABLE V.—*Residents of the United States departing for oversea destinations, by geographic area and by class of traveler, 1940–45*[1]—Continued

Class of traveler	1940	1941	1942	1943	1944	1945
	Caribbean[2]					
United States citizens (excluding cruise)	120, 266	143, 907	53, 120	36, 282	35, 433	51, 454
Alien residents of the United States:						
Temporary visitors abroad	1, 831	1, 852	1, 125	1, 150	1, 456	2, 328
Emigrants	1, 864	2, 187	----------	64	191	494
Cruise passengers	33, 414	32, 465	20	----------	----------	----------
Total	157, 375	180, 411	54, 265	37, 496	37, 080	54, 276
	Southern South America[3]					
United States citizens (excluding cruise)	6, 340	6, 453	6, 328	10, 494	4, 571	5, 123
Alien residents of the United States:						
Temporary visitors abroad	150	143	85	67	86	131
Emigrants	544	686	----------	39	108	423
Cruise passengers	1, 316	2, 083	----------	----------	----------	----------
Total	8, 350	9, 365	6, 413	10, 600	4, 765	5, 677
	Total					
United States citizens (excluding cruise)	143, 712	161, 220	68, 061	54, 734	71, 472	111, 149
Alien residents of the United States:						
Temporary visitors abroad	12, 537	8, 945	2, 841	2, 494	3, 317	5, 719
Emigrants	8, 358	8, 528	----------	756	1, 929	8, 385
Cruise passengers	[4] 34, 753	34, 548	20	----------	----------	----------
Total	199, 360	213, 241	70, 922	57, 984	76, 718	125, 253

[1] Travel between the United States and Canada and Mexico is excluded; travel via Canadian seaports, travel via aircraft, and travel between insular possessions of the United States and foreign countries are included. Totals shown for alien residents of the United States will differ from the totals in table VI owing to certain adjustments in total alien figures to exclude agricultural workers from the Caribbean.
[2] Includes Colombia; Venezuela, and the Guianas.
[3] Excludes Colombia, Venezuela, and the Guianas.
[4] Includes two passengers on world cruises.

Source: Based upon records of Immigration and Naturalization Service, U. S. Department of Justice.

TABLE VI.—*Total passenger traffic (excluding cruises) between the United States and oversea countries, by class of traveler, 1940–45*[1]

Class of traveler	1940	1941	1942	1943	1944	1945
	Outbound					
United States citizens	143, 712	161, 220	68, 061	54, 734	71, 472	111, 149
Alien residents of the United States:						
Temporary visitors abroad	12, 537	8, 945	2, 841	2, 529	3, 392	5, 797
Emigrants	8, 358	8, 528	----------	740	1, 883	8, 395
Alien visitors to the United States	48, 526	37, 953	22, 391	36, 060	57, 186	98, 800
Total	213, 133	216, 646	93, 293	94, 063	133, 933	224, 141
	Inbound					
United States citizens	165, 425	159, 732	85, 792	92, 121	129, 839	158, 311
Alien residents of the United States:						
Temporary visitors abroad	12, 537	8, 945	2, 841	2, 529	3, 392	5, 797
Immigrants	42, 068	24, 436	6, 585	6, 065	8, 954	15, 631
Alien visitors to the United States	54, 543	45, 523	48, 542	65, 503	94, 001	119, 626
Total	274, 573	238, 636	143, 760	166, 218	236, 186	299, 365

[1] Travel between the United States and Canada and Mexico is excluded; travel via Canadian seaports, travel via aircraft, travel between insular possessions of the United States and foreign countries, and travel by agricultural workers from Jamaica, Barbados, and the Bahamas are included.

Source: Based upon records of Immigration and Naturalization Service, U. S. Department of Justice.

TABLE VII.—*Arrivals and departures of residents of oversea countries admitted to the United States as temporary visitors, 1940–45*

Country	1940		1941		1942		1943		1944		1945	
	Arrivals	Departures	Arrivals	Departures	Arrivals	Departures	Arrivals	Departures	Arrivals	Departures	Arrivals	Departures
Europe and Mediterranean:												
Belgium and Luxemburg	846	131	350	38	116	10	56	6	52	11	559	233
Bulgaria	26	9	15	9	----------	----------	----------	----------	2	----------	5	----------
Czechoslovakia	56	6	15	3	10	----------	27	----------	26	3	56	27
Denmark	274	401	71	41	288	5	52	1	137	1	384	284
Egypt	55	59	43	7	82	19	61	114	136	21	233	42
Eire	88	106	129	25	135	29	165	36	164	28	124	72
Estonia	13	8	7	1	33	----------	23	----------	14	----------	9	----------
Finland	117	310	71	19	16	----------	13	1	22	4	56	14
France	3,603	1,459	1,939	287	588	40	275	27	1,045	72	4,703	1,101
Germany	245	975	151	116	149	1	12	----------	147	1	101	6
Greece	399	540	91	10	181	25	44	2	59	----------	620	38
Hungary	185	115	86	39	3	----------	1	----------	18	----------	9	----------
Iceland	68	62	112	34	129	44	139	30	271	44	289	30
Italy	1,096	666	190	78	250	1	24	7	55	7	249	64
Latvia	43	9	26	50	24	----------	9	----------	13	----------	4	----------
Lithuania	89	11	150	3	1	----------	3	----------	2	----------	2	----------
Monaco	35	9	10	1	2	----------	5	----------	----------	----------	7	2
Morocco	70	5	95	10	27	1	66	2	462	2	244	17
Netherlands	699	506	208	63	349	27	205	69	170	33	1,053	230
Norway	698	633	425	116	907	25	508	24	375	18	2,246	1,510
Palestine	141	131	72	21	9	1	17	1	31	10	136	65
Poland	181	35	206	7	49	6	1,503	5	215	16	268	21
Portugal	408	296	532	221	102	48	155	82	473	55	262	172
Rumania	88	51	78	56	4	----------	----------	----------	24	----------	8	5
San Marino	----------	53	----------	2	----------	----------	----------	----------	----------	----------	----------	----------
Spain	936	457	466	298	108	21	136	28	464	77	428	1,073
Sweden	387	395	227	103	168	15	129	37	275	65	916	258
Switzerland	895	281	516	170	95	32	40	6	98	9	325	229
Syria	14	9	6	1	9	1	5	----------	17	1	89	6
Turkey	121	32	95	4	72	2	44	1	280	18	306	72
U. S. S. R.	288	234	281	242	540	56	1,999	158	2,719	326	1,714	753
United Kingdom	11,085	3,503	7,729	2,631	21,346	2,776	17,293	3,888	17,945	10,107	11,047	7,143
Yugoslavia	93	84	71	6	140	1	19	3	54	3	68	24
Other Europe	20	17	8	----------	13	1	10	2	5	8	18	5
Total	23,362	11,598	14,471	4,712	25,945	3,187	23,038	4,530	25,770	10,940	26,538	13,496
Oceania, non-Mediterranean Asia and Africa:												
Australia	707	1,264	2,045	861	2,067	175	1,923	257	1,574	725	1,673	1,527
China	2,613	1,633	2,925	1,045	723	56	742	100	1,307	82	4,209	358
Ethiopia	----------	----------	----------	----------	----------	----------	5	1	1	6	8	7
India	413	331	338	344	479	20	353	42	2,140	165	2,918	770

Iran	22	11	n. s. s.	n. s. s.	2	2	20	5	75	13	148	11
Iraq	36	25	n. s. s.	n. s. s.	13	3	3	2	43	1	54	8
Japan	1,388	1,207	931	941	91	----	53	----	----	----	99	7
Liberia	5	5	n. s. s.	n. s. s.	6	4	26	10	39	1	40	5
New Zealand	220	427	1,143	221	1,333	95	789	41	1,364	127	472	361
Philippines	485	391	517	308	86	----	83	----	42	----	2,407	150
Union of South Africa	176	117	n. s. s.	n. s. s.	164	90	75	4	168	27	490	52
Siam	53	70	n. s. s.	n. s. s.	8	----	3	----	4	----	17	----
Other non-Mediterranean Africa	291	301	387	507	303	105	386	242	628	232	517	318
Other non-Mediterranean Asia	156	116	220	151	135	10	50	8	196	15	109	93
Other Oceania	358	337	479	261	1,164	14	237	41	139	30	141	196
Total	6,923	6,235	8,985	4,639	6,574	574	4,748	753	7,720	1,426	13,302	3,863
Caribbean:												
British Guiana	75	82	76	102	158	69	131	13	366	18	314	67
British Honduras	82	63	88	55	418	5	93	10	1,330	7	193	270
British West Indies [1]	2,882	3,407	2,957	2,985	4,384	2,162	22,298	9,467	35,623	11,825	46,134	16,742
Canal Zone and Panama	868	766	721	692	455	76	664	67	992	54	1,213	255
Colombia	1,474	1,448	1,550	1,756	848	188	1,109	24	1,862	26	3,028	201
Costa Rica	416	366	404	340	279	19	439	38	611	84	904	39
Cuba	10,761	11,048	10,185	9,768	5,018	2,524	4,959	52	7,134	186	12,522	329
Dominican Republic	1,326	1,590	1,048	1,380	378	256	649	170	1,114	276	1,470	454
French Guiana	1	3	----	1	----	3	1	----	6	142	8	----
French West Indies	28	38	29	72	46	5	277	26	463	569	397	1,255
Guatemala	440	307	466	304	262	14	360	68	669	80	1,084	16
Haiti	276	296	286	264	201	15	192	8	323	23	604	26
Honduras	379	407	420	407	227	36	246	35	325	31	498	79
Netherlands Guiana	25	12	24	35	56	30	149	9	361	16	216	60
Netherlands West Indies	669	686	567	723	283	100	551	30	1,442	82	1,870	253
Nicaragua	94	98	143	112	177	7	229	16	377	29	499	22
El Salvador	218	192	272	171	238	4	350	34	560	50	795	63
Venezuela	2,434	2,490	2,322	2,442	929	198	1,032	22	2,039	36	2,990	429
Caribbean, n. s.	----	----	----	----	----	12,076	----	20,431	----	33,456	1,682	66,838
Total	22,448	23,299	21,558	21,609	14,357	17,787	33,729	30,521	55,597	46,990	76,421	87,398
Southern South America (non-Caribbean):												
Argentina	1,136	1,048	1,255	1,104	610	299	672	115	633	83	1,604	303
Bolivia	115	182	128	134	172	55	150	8	197	13	210	20
Brazil	1,282	1,052	1,686	1,170	1,274	192	2,148	13	2,437	26	3,346	328
Chile	775	820	1,204	1,031	551	311	640	91	797	52	1,048	111
Ecuador	273	376	397	485	299	88	347	19	522	31	673	59
Paraguay	16	17	29	21	45	8	75	4	41	4	61	----
Peru	652	681	724	815	512	250	685	42	939	59	1,162	77
Uruguay	94	118	185	104	150	73	161	8	294	9	392	53
Total	4,343	4,294	5,608	4,864	3,613	1,276	4,878	300	5,860	277	8,496	951
Grand total	57,076	45,426	50,622	35,824	50,489	22,824	66,393	36,104	94,947	59,633	124,757	105,708

[1] Includes Bermuda.
n. s. s. Not separately shown.

n. s. Not specified.
Source: Immigration and Naturalization Service, U. S. Department of Justice.

TABLE VIII.—*Estimated receipts from Canadian travelers to the United States, 1940–45*

[In millions of United States dollars]

Means of travel	1940	1941	1942	1943	1944	1945
Automobile	9.5	3.5	2.4	1.7	3.5	7.3
Train	18.3	7.6	12.1	20.3	30.1	38.7
Boat	1.1	.6	.5	.6	1.0	1.7
Bus [1]	2.9	1.3	2.4	2.9	7.9	14.3
Airplane	.5	1.1	1.0	1.1	2.2	3.5
Other [2]	4.1	2.3	3.4	4.3	7.2	10.0
Total	36.4	16.4	21.8	30.9	51.9	75.5

[1] Exclusive of local bus.
[2] Includes pedestrian, local bus, etc.

Sources: U. S. Department of Commerce, Office of Business Economics, International Economics Division; Canada's Department of Trade and Commerce, Dominion Bureau of Statistics, International Payments Branch.

TABLE IX.—*Estimated payments by United States travelers to Canada, 1940–45*

[In millions of United States dollars]

Means of travel	1940	1941	1942	1943	1944	1945
Automobile	45.0	49.1	23.6	15.5	22.2	49.7
Rail	24.0	25.4	29.1	44.5	61.1	59.3
Boat	5.5	6.4	3.6	5.5	7.2	11.7
Bus [1]	5.2	6.4	5.5	4.5	5.7	11.9
Airplane	1.2	2.7	2.7	2.7	2.9	5.9
Other [2]	8.2	7.3	7.3	6.4	6.8	11.0
Total	89.1	97.3	71.8	79.1	105.9	149.5

[1] Exclusive of local bus.
[2] Includes pedestrian, local bus, etc.

Sources: U. S. Department of Commerce, Office of Business Economics, International Economics Division; Canada's Department of Trade and Commerce, Dominion Bureau of Statistics, International Payments Branch.

TABLE X.—*Departures from Mexico of foreign tourists residing in foreign countries, by month, 1940–45*

[In hundreds]

Month	1940	1941	1942	1943	1944	1945
January	117	98	78	43	85	74
February	150	126	66	54	97	84
March	154	127	66	71	104	91
First quarter	421	351	210	168	286	249
April	104	100	58	77	94	87
May	79	93	65	95	81	82
June	95	117	81	103	83	93
Second quarter	278	310	204	275	258	262
July	93	218	86	103	105	119
August	133	266	105	164	134	164
September	81	151	88	123	98	154
Third quarter	307	635	279	390	337	437
October	56	95	54	91	79	116
November	53	85	57	77	62	138
December	74	72	42	78	64	154
Fourth quarter	183	252	153	246	205	408
Annual total	1,189	1,548	846	1,079	1,086	1,356

Source: Revista de Estadística, May 1944 and January 1947.

TABLE XI.—*Personal remittance receipts, 1940–45*

[In millions of dollars]

	Amount		Amount
1940	59.4	1943	45.3
1941	42.6	1944	44.9
1942	40.4	1945	46.6

TABLE XII.—*Personal remittance payments, by country, 1940–45*

[In millions of dollars]

Area and country	1940	1941	1942	1943	1944	1945
Total, all areas	188.1	139.6	98.6	179.7	221.3	286.3
Western Hemisphere	25.2	32.1	40.0	85.5	140.0	93.5
British dependencies in the Caribbean	2.5	4.1	6.1	14.9	21.6	11.9
Canada	15.0	17.3	17.4	21.9	18.6	15.3
Mexico	4.5	5.5	9.7	41.8	92.1	59.8
Other Western Hemisphere	3.2	5.2	6.8	6.9	7.7	6.5
Europe	90.9	60.3	31.6	36.8	42.7	155.1
Czechoslovakia	.1	(1)	---	---	---	.9
Eire	8.7	7.5	7.4	8.8	7.8	7.5
France	2.0	2.2	1.0	---	(1)	10.5
Greece	8.4	4.2	---	---	---	22.7
Italy	34.5	19.9	---	---	12.4	50.3
Poland	1.1	.1	---	---	---	1.0
Spain	.8	.6	.5	.8	1.6	4.4
Sweden	3.9	3.5	2.7	3.4	2.9	4.3
Switzerland	1.8	3.9	3.5	4.9	2.3	5.2
United Kingdom	14.4	12.6	12.5	14.9	12.8	28.2
Other Europe	15.2	5.8	4.0	4.0	2.9	20.1
Asia	71.5	46.5	25.7	56.3	37.1	33.7
China	24.9	15.8	21.5	52.9	32.7	24.0
Hong Kong	25.7	17.1	(1)	---	---	(1)
Palestine	2.6	1.7	2.0	2.6	2.6	3.9
Other Asia	18.3	11.9	2.2	.8	1.8	5.7
Other	.5	.7	1.3	1.1	1.5	4.0
Africa	.2	.3	.8	.4	.4	1.8
Oceania	.3	.4	.5	.7	1.1	2.2

[1] Less than $50,000.

NOTE.—Detail will not necessarily add to totals because of rounding.

TABLE XIII.—*Institutional contributions to foreign countries, by class of institution and by geographic area, 1940–45*

[In millions of dollars]

Year	Total	Europe	Asia	Africa	Latin America	Other areas
			Protestant			
1940	16.5	1.4	10.2	2.3	2.4	0.2
1941	17.8	3.0	10.4	1.7	2.6	.1
1942	15.9	3.1	7.5	2.1	3.2	(1)
1943	19.6	3.7	9.2	2.6	4.0	.1
1944	23.2	6.1	9.5	2.5	4.9	.2
1945	32.3	9.9	12.6	3.0	6.2	.6
			Catholic			
1940	3.0	1.0	1.6	0.3	(1)	0.1
1941	3.3	1.4	1.4	.4	(1)	.1
1942	2.3	.9	.8	.5	(1)	(1)
1943	3.5	1.0	1.9	.5	(1)	(1)
1944	7.1	4.1	2.0	.7	0.2	(1)
1945	7.9	4.3	2.7	.5	.1	.3
			Jewish			
1940	10.1	3.2	6.1	(1)	0.07	0.1
1941	12.1	4.3	7.1	(1)	.6	(1)
1942	11.6	4.2	6.8	(1)	.6	(1)
1943	14.7	3.1	10.7	0.2	.6	(1)
1944	27.2	10.9	15.3	.4	.6	(1)
1945	37.2	20.0	15.9	.3	1.0	(1)
			Nonsectarian			
1940	19.2	16.3	1.9	0.2	0.4	0.4
1941	49.4	44.1	3.5	.9	.5	.4
1942	35.0	24.9	7.3	.8	.8	1.2
1943	76.8	51.0	13.0	4.2	1.3	7.3
1944	123.5	89.8	18.2	4.6	1.9	9.0
1945	156.4	118.8	26.2	1.0	1.7	8.7
			Total			
1940	48.8	21.9	19.8	2.8	3.5	0.8
1941	82.6	52.8	22.4	3.0	3.7	.7
1942	64.8	33.1	22.4	3.4	4.6	1.3
1943	114.6	58.8	34.8	7.5	6.0	7.5
1944	181.0	110.9	45.0	8.2	7.6	9.3
1945	233.8	153.0	57.4	4.8	9.0	9.6

[1] Less than $50,000.

NOTE.—Detail will not necessarily add to totals because of rounding.

TABLE XIV.—*Income on investments, by area and type, 1940–45*

[In millions of dollars]

Area and type	1940	1941	1942	1943	1944	1945
	Receipts					
Total	564.0	544.3	514.2	508.3	572.4	555.3
Long-term	554.9	530.4	491.9	492.9	551.8	534.5
Portfolio	142.4	130.0	133.6	125.1	133.8	142.4
Direct	412.5	400.4	358.3	367.8	418.0	392.1
Short-term	6.0	5.0	4.0	4.0	4.0	5.0
U. S. Government	3.1	8.9	18.3	11.4	16.6	15.8
Sterling area	76.7	65.6	80.7	78.4	79.7	75.5
Long-term	75.7	61.9	67.9	72.5	68.9	66.5
Portfolio	14.6	14.6	14.5	14.4	14.4	14.4
Direct	61.1	47.3	53.4	58.1	54.5	52.1
Short-term	1.0	1.0	1.0	1.0	1.0	1.0
U. S. Government	----------	2.7	11.8	4.9	9.8	8.0
Canada	231.5	215.5	215.8	204.6	205.5	205.3
Long-term	230.5	213.4	214.7	203.0	204.0	203.5
Portfolio	102.9	92.8	100.7	93.5	103.0	110.5
Direct	127.6	120.6	114.0	109.5	101.0	93.0
Short-term	1.0	1.0	1.0	1.0	1.0	1.0
U. S. Government	----------	1.1	.1	.6	.5	.8
American Republics	170.7	198.1	195.6	200.3	259.9	238.4
Long-term	167.7	194.8	191.4	194.6	255.3	233.6
Portfolio	14.7	15.5	14.8	13.7	13.6	13.5
Direct	152.9	179.2	176.6	180.9	241.7	220.1
Short-term	2.0	2.0	2.0	2.0	2.0	2.0
U. S. Government	1.0	1.3	2.2	3.7	2.6	2.8
Other	85.1	65.1	22.1	25.0	27.3	36.0
Long-term	81.0	60.3	17.9	22.8	23.6	30.8
Portfolio	10.2	7.1	3.6	3.5	2.8	4.0
Direct	70.8	53.3	14.3	19.3	20.8	26.8
Short-term	2.0	1.0	----------	----------	----------	1.0
U. S. Government	2.1	3.8	4.2	2.2	3.7	4.2
	Payments					
Total	210.1	186.9	158.7	155.2	161.5	167.6
Long-term	204.1	180.6	151.2	146.0	149.3	153.4
Short-term	----------	----------	----------	----------	----------	----------
U. S. Government	6.0	6.3	7.5	9.2	12.2	14.2
Sterling area	73.8	59.6	49.0	43.4	46.3	47.1
Long-term	73.3	59.1	48.5	42.9	45.8	46.6
Short-term	----------	----------	----------	----------	----------	----------
U. S. Government	0.5	.5	.5	.5	.5	.5
Canada	36.2	33.7	36.8	33.5	32.3	34.9
Long-term	35.7	33.2	35.5	31.4	28.2	30.7
Short-term	----------	----------	----------	----------	----------	----------
U. S. Government	.5	.5	1.3	2.1	4.1	4.2
American Republics	10.4	9.1	8.0	8.4	8.1	8.3
Long-term	10.4	9.1	8.0	8.4	8.1	8.3
Short-term	----------	----------	----------	----------	----------	----------
U. S. Government	----------	----------	----------	----------	----------	----------
Other	89.7	84.5	64.9	69.9	74.8	77.3
Long-term	84.7	79.2	59.2	63.3	67.2	67.8
Short-term	----------	----------	----------	----------	----------	----------
U. S. Government	5.0	5.3	5.7	6.6	7.6	9.5

NOTE.—Detail will not necessarily add to totals, because of rounding.

TABLE XV.—*Income received from American direct investments in selected countries, 1940–44*

[In millions of dollars]

Country	1940	1941	1942	1943	1944
Sterling area:					
Australia	4.8	4.5	7.0	7.8	9.5
British West Indies	1.2	.7	.8	.7	.6
Egypt	.8	1.4	2.2	1.9	2.1
India	3.6	2.3	5.3	6.5	5.1
South Africa	9.0	8.2	5.4	5.5	7.0
United Kingdom	35.8	26.2	28.1	32.1	26.8
Canada	127.6	120.6	114.0	109.5	101.0
American Republics:					
Argentina	18.2	20.0	20.6	15.8	19.7
Brazil	11.0	13.9	15.4	23.5	18.7
Chile	39.0	41.7	35.6	34.6	31.1
Cuba	16.1	27.0	26.4	19.9	27.5
Dominican Republic	1.9	1.3	4.7	5.7	6.7
Guatemala	2.6	2.2	3.6	4.4	3.7
Honduras	2.4	2.2	1.6	1.8	3.6
Mexico	12.0	12.2	14.6	16.9	15.9
Panama	3.0	4.0	3.7	6.0	4.1
Peru	13.8	9.7	10.3	8.0	8.1
Uruguay	1.8	.9	.9	.6	1.2
Venezuela	33.1	43.2	32.2	38.1	81.4
Other:					
China	5.1	1.0	.9	.2	.2
Portugal	.3	1.0	.3	1.3	1.1
Spain	.3	(1)	.3	.7	3.3
Sweden	1.2	1.2	2.0	1.0	.9
Switzerland	2.0	1.0	1.0	1.3	1.2

1 Less than $50,000.

TABLE XVI.—*Income received from American direct investments: Value of investments and yield, in 1943, by areas and selected countries*

[In millions of dollars]

Area and country	Income	Value [1]	Yield
			Percent
Sterling area	58.1	862.8	6.7
Australia	7.8	114.5	6.8
British West Indies	.7	33.0	2.1
Egypt	1.9	16.7	11.4
India	6.5	41.0	15.9
South Africa	5.5	53.4	10.3
United Kingdom	32.1	526.3	6.1
All other countries	3.6	77.9	4.6
Canada	109.5	2,289.5	4.8
American Republics	180.9	2,728.3	6.6
Argentina	15.8	393.3	4.0
Brazil	23.5	232.0	10.1
Chile	34.6	336.2	10.3
Cuba	19.9	527.8	3.8
Dominican Republic	5.7	70.5	8.1
Guatemala	4.4	86.9	5.1
Honduras	1.8	37.0	4.9

See footnote at end of table.

TABLE XVI.—*Income received from American direct investments: Value of investments and yield, in 1943, by areas and selected countries*—Continued

Area and country	Income	Value [1]	Yield
American Republics—Continued			*Percent*
Mexico	16.9	286.2	5.9
Panama	6.0	112.9	5.3
Peru	8.0	70.8	11.3
Uruguay	.6	5.5	10.9
Venezuela	38.1	370.5	10.3
All other countries	5.6	198.7	2.8
Other	19.3	1,884.9	1.0
China	.2	40.0	.5
Portugal	1.3	14.1	9.2
Spain	.7	123.5	.6
Sweden	1.0	32.8	3.0
Switzerland	1.3	43.6	3.0
All other countries	14.8	1,630.9	.9

[1] Value figures are as of May 31, 1943, and include capital of United States citizens residing abroad, amounting to roughly $50 million, for which a geographic distribution is not available. Income on this investment is not included in this table. Figures also exclude investments in insurance companies.

TABLE XVII.—*Average yield*[1] *on American direct investments abroad, by industry and area, 1943*

[Value of investment and income in millions of dollars; yield in percent]

Item	Manufacturing	Distribution	Agriculture	Mining and smelting	Petroleum	Public utilities	Miscellaneous	Total
ALL AREAS								
Value of investment	2,295	648	427	899	1,393	1,415	688	7,765
Income	104.1	29.8	18.5	78.4	77.7	43.5	15.8	367.8
Yield	4.5	4.6	4.3	8.7	5.6	3.1	2.3	4.7
STERLING AREA								
Value of investment	382	126	19	58	204	[2] 5	79	863
Income	24.3	12.0	0.2	1.8	15.1	0.1	4.6	58.1
Yield	6.4	9.5	1.0	3.1	7.4	(3)	5.8	6.7
CANADA								
Value of investment	[4] 957	128	34	435	161	381	194	2,290
Income	[4] 51.7	3.8	0.1	28.1	6.2	18.2	1.4	109.5
Yield	[4] 5.4	3.0	0.3	6.5	3.8	4.8	0.7	4.8
AMERICAN REPUBLICS								
Value of investment	333	139	373	407	569	872	35	2,728
Income	22.1	11.7	18.2	48.5	51.1	24.8	4.5	180.9
Yield	6.6	8.4	4.9	11.9	9.0	2.8	12.9	6.6
OTHER								
Value of investment	623	255	(5)	(5)	458	167	381	1,885
Income	6.0	2.3	(5)	(5)	5.3	0.4	5.3	19.3
Yield	1.0	0.9	(5)	(5)	1.2	0.2	1.4	1.0

[1] Yield is the ratio of income received in the United States in 1943 to value of investment in May 1943 and does not include investment in insurance companies.
[2] Liabilities exceed assets.
[3] Yield not computed.
[4] Includes paper and pulp.
[5] Included in miscellaneous.

NOTE.—For purposes of this table undistributable income receipts from each area, shown in table 16, have been arbitrarily distributed among the industries shown above.
Detail will not necessarily add to totals because of rounding.

TABLE XVIII.—*Income received from American direct investments, by area, industry, and type of income, 1944*

[In millions of dollars]

Area and industry	Income from subsidiaries				Branch income	Total income
	Interest	Preferred dividends	Common dividends	Total		
All areas, total [1]	34.5	6.1	181.6	222.2	195.7	418.0
Manufacturing	3.5	1.9	69.4	74.8	10.7	85.4
Distribution	.3	.1	16.3	16.6	14.4	31.0
Agriculture	2.3	.2	7.5	10.0	18.4	28.4
Paper and pulp	2.6	1.2	1.5	5.3		5.4
Mining and smelting	.8	.8	30.6	32.2	32.6	64.8
Petroleum	.4	.2	32.5	33.1	106.8	140.0
Public utilities	24.2	1.3	13.1	38.6	3.9	42.5
Miscellaneous	.4	.3	10.8	11.5	9.0	20.6
Sterling area [2]	.5	.2	40.8	41.5	13.0	54.5
Manufacturing	.1	.2	17.7	18.0	3.3	21.3
Distribution		(2)	10.1	10.1	1.3	11.3
Mining and smelting			1.2	1.2		1.2
Petroleum	.3		9.6	9.9	7.6	17.5
Miscellaneous	.1	(2)	2.3	2.4	.8	3.2
Canada [2]	12.8	4.7	80.2	97.7	3.3	101.0
Manufacturing	1.7	1.7	35.5	38.9	2.2	41.1
Distribution	.2	(2)	2.4	2.6	1.1	3.8
Paper and pulp	2.6	1.2	1.5	5.3		5.4
Mining and smelting	.1	.8	23.7	24.6		24.7
Petroleum	(2)	.1	4.6	4.7		4.7
Public utilities	7.9	.6	6.2	14.7		14.7
Miscellaneous	.2	.2	6.2	6.6		6.6
American Republics	21.3	1.2	54.0	76.4	165.2	241.7
Manufacturing	1.7	(2)	15.5	17.2	4.6	21.7
Distribution	.1	(2)	3.5	3.6	11.3	14.9
Agriculture	2.3	.2	7.5	10.0	18.4	28.4
Mining and smelting	.7		5.7	6.4	32.6	38.9
Petroleum	.1	.1	16.5	16.7	90.4	107.2
Public utilities	16.3	.7	4.3	21.3	3.9	25.1
Miscellaneous	.1	.1	1.1	1.3	4.1	5.4
Other [2]	(2)	(2)	6.6	6.6	14.2	20.8
Manufacturing	(2)	(2)	.7	.7	.6	1.3
Distribution	(2)		.3	.3	.7	1.1
Petroleum			1.8	1.8	8.8	10.5
Public utilities			2.6	2.6		2.6
Miscellaneous			1.2	1.2	4.1	5.3

[1] Industry totals include only the income shown by industries in each area. Industries not shown separately in each area are included in Miscellaneous for that area and in the total of all areas, i. e., Agriculture income from "Other" is included in Miscellaneous for that area and in total Miscellaneous.
[2] Less than $50,000.

NOTE.—Detail will not necessarily add to totals because of rounding.

TABLE XIX.—*Income*[1] *paid on foreign investments in the United States, by countries, 1942–45.*

[In millions of dollars]

Area and country	1942	1943	1944	1945
All areas, total	158.6	155.2	161.6	167.6
Sterling area	49.0	43.4	46.3	47.1
Australia	.2	.2	.2	.2
British dependencies in America	.7	.6	.6	.6
Eire	.6	.8	.6	.6
Union of South Africa	2.9	.3	1.7	1.6
United Kingdom	43.2	39.8	42.1	42.5
Other sterling area	1.3	1.6	1.0	1.5
Canada	36.8	33.5	32.3	34.9
American Republics	8.0	8.5	8.1	8.3
Argentina	2.0	2.2	1.8	1.9
Brazil	.3	.4	.4	.4
Chile	.4	.4	.4	.4
Cuba	.9	.9	.9	.9
Mexico	.7	.8	.8	.8
Panama, Republic of	1.8	1.9	2.2	2.2
Venezuela	.6	.6	.2	.2
Other American Republics	1.3	1.3	1.4	1.6
Other	64.8	69.9	74.9	77.3
Belgium	1.0	1.2	.7	.7
China	1.8	2.5	2.8	5.6
France	4.3	5.0	5.9	5.9
Netherlands	20.1	19.9	19.1	19.2
Netherlands dependencies in America	6.2	7.9	9.5	9.4
Philippines	1.8	1.9	1.9	1.7
Sweden	2.4	1.7	1.4	1.5
Switzerland	16.9	17.9	19.3	19.4
All other	6.6	7.6	7.0	6.2
Unknown [2]	3.8	4.2	7.1	7.8

[1] Net income after payment of withholding taxes and corporate income taxes on branch earnings.
[2] Payments entered under "Unknown" and included in the total for "Other" cannot be identified and may include payments to countries in each of the other areas.

NOTE.—Detail will not necessarily add to totals because of rounding.

TABLE XX.—*United States purchases of foreign capital issues offered in the United States in 1940–45*

[Values in thousands of dollars]

Year	Issue and class of security	Purpose[1]		Rate	Term	Offering price[2]
		New capital	Refunding			
				Percent	*Years*	
1940	None					
1941	Publicly offered:					
	Government:					
	Panama: Republic of, Secured Refunding Series B, Bonds		4,000	3½	26	103.00
	Corporate:					
	Panama: Panama Coca-Cola Bottling Co., Common Stock	422				12.50
1942	Publicly offered:					
	Corporate:					
	Canada: Camilla Canadian Mining Corp., Common Stock	125				.25
	Privately offered:					
	Government:					
	Canada:					
	Province of Ontario, Debentures		15,000	2½	3	99.28
	Province of Ontario, Bonds	5,800		5	n. a.	n. a.
	Hydro-Electric Power Commission of Ontario, Bonds	4,500		2½–3	1–5	n. a.
1943	Publicly offered:					
	Government:					
	Canada:					
	Dominion of Canada, Bonds		27,600	2½	5	100.00
	Do		29,000	3	10	100.50
	Do		29,000	3	15	98.50
	Corporate:					
	Canada: Steep Rock Iron Mines, Limited, Debentures[3 4]	2,250		5½	15	100.00
	Privately offered:					
	Government:					
	Canada:					
	Hydro-Electric Power Commission of Ontario, Bonds		2,000	2½	5	n. a.
	Do		5,000	3	10	n. a.
	Do		4,500	2¼	5	n. a.
	Do		3,000	2¾	10	n. a.
	Province of Manitoba, Debentures		1,185	2¾	5	n. a.
	Corporate:					
	Canada: Canadian Pacific Railway Co., Equipment Trust Certificates, Series F		18,000	3	½–10	n. a.
1944	Publicly offered:					
	Government:					
	Canada:					
	Province of New Brunswick, Debentures		5,500	2¼	4	99.38
	City of Edmonton, Debentures		9,150	3–3¾	4–20	98.71
	Privately offered:					
	Government:					
	Canada:					
	Province of British Columbia, Bonds		3,000	2½	3	100.00
	City of Montreal, Serial Bonds		6,453	3¼	6–9	100.00
	Province of Manitoba, Debentures		3,334	2¾	4	99.50
	Province of British Columbia, Debentures		4,000	2	3	n. a.
	Province of Ontario, Bonds		8,000	1½	1½–3	100.00
	Hydro-Electric Power Commission of Ontario, Bonds		1,000	1½	1	n. a.
	Do		2,000	1½	2	n. a.
	Do		2,000	1½	3	n. a.
	Corporate:					
	Canada:					
	Canadian Pacific Railway Co., Equipment Trust Certificates, Series G		26,000	2½	⅔–10	n. a.
	Aluminum Company of Canada, First Mortgage Sinking Fund Bonds, Series B[4]		26,250	3½	30	101.87
	Fraser Companies, Ltd., First Mortgage and Collateral Trust Bonds		7,000	3½	20	n. a.
	United Fuel Investments Ltd., Series B Bonds[4]		1,200	3¾	7–12	n. a.
	Canadian Pacific Railway Co., Collateral Bonds		7,125	3½	5–30	n. a

See footnotes at end of table.

TABLE XX.—*United States purchases of foreign capital issues offered in the United States in 1940–45*—Continued

[Values in thousands of dollars]

Year	Issue and class of security	Purpose[1] New capital	Purpose[1] Refunding	Rate	Term	Offering price[2]
1945	Publicly offered:					
	Government:					
	Canada:			*Percent*	*Years*	
	Province of Quebec, Debentures		15,000	2	5	100.00
	Province of Alberta, Debentures		26,093	2¾–3¼	6–15	98.59
	Province of New Brunswick, Debentures		4,500	2¼	5½	99.75
	Province of Ontario, Bonds		15,000	1¼	1–3	100.00
	Corporate:					
	Mexico:					
	La Consolidada, S. A., 6-percent Cumulative Preferred Stock[4]	2,700				16.00
	Industria Electrica de Mexico, S. A., Common Stock[4]	4,500				23.00
	Cuba: Expreso Aereo Inter-Americano, S. A., Common Stock[4]	800				2.50
	Privately offered:					
	Government:					
	Canada:					
	Province of Manitoba, Debentures		2,386	2	4	99.525
	City of Edmonton, Debentures		2,039	2¾–3½	3–5	n. a.
	Spain: National Government Bonds		50,000	4	16	n. a.
	Corporate:					
	Canada:					
	Shawinigan Water and Power Co., First Mortgage and Collateral Trust Bonds, Series K		25,000	3½	25	101.00
	Canadian Pacific Railway Co., Equipment Trust Certificates, Series H		20,000	2	1–10	100.00
	Cuba: Cuban Telephone Co., Debentures[4]	300	3,700	4	20	101.50

[1] Bonds shown at par values, shares at offered values. Before underwriter's commissions.
[2] Bonds in percent of par value, shares at price per share.
[3] A bonus of common stock of unknown amount was tied in with the sale of debentures.
[4] Direct investment.
n. a. Not available.

NOTE.—Only publicly announced private placements are included. Securities of direct-investment companies taken by the parent company are not included.

TABLE XXI.—*Market value of American investments in foreign dollar bonds, 1940–1945, and par value, 1945*

[Year-end data; in millions of dollars]

Area and country	Market value 1940	1941	1942	1943	1944	1945	Par value, 1945
Total	1,445.0	1,446.2	1,510.0	1,561.9	1,591.1	1,650.6	2,019.6
Canada	1,161.2	1,173.6	1,220.4	1,238.0	1,262.8	1,250.0	1,165.6
American Republics	151.4	158.7	200.0	227.9	221.0	236.1	469.7
West Indies	17.4	19.9	20.9	21.0	17.4	15.2	15.9
Cuba	13.7	16.2	16.6	15.9	11.9	9.7	10.4
Dominican Republic	2.1	2.3	2.6	3.1	3.1	3.3	3.2
Haiti	1.6	1.4	1.7	2.0	2.4	2.2	2.3
Central America and Mexico	9.2	11.6	14.8	18.6	18.5	20.9	50.1
Costa Rica	.6	.3	.5	.6	.9	1.0	2.9
El Salvador	.5	.5	.9	2.0	1.5	2.1	4.6
Guatemala	.7	.7	.8	.8	.1	.4	.8
Panama	6.6	8.0	8.8	9.1	9.5	9.7	9.7
Mexico	.8	2.1	3.8	6.1	6.5	7.7	32.1
South America	124.8	127.2	164.3	188.3	185.1	200.0	403.7
Argentina	46.0	46.8	48.9	49.7	49.2	50.3	51.4
Bolivia	1.6	2.5	4.4	5.1	4.0	5.7	38.4
Brazil	35.7	34.8	46.9	64.1	61.4	65.1	111.6
Chile	18.8	16.2	28.6	28.8	24.6	24.8	86.2
Colombia	13.5	15.6	20.8	22.7	27.8	31.1	63.1
Ecuador	.03	.02	.03	.03	.1	.1	.9
Peru	3.0	3.0	4.9	7.6	7.4	10.9	38.4
Uruguay	6.2	8.3	9.8	10.3	10.6	12.0	13.7

See footnotes at end of table.

TABLE XXI.—*Market value of American investments in foreign dollar bonds, 1940–1945, and par value, 1945*—Continued

Area and country	Market value						Par value, 1945
	1940	1941	1942	1943	1944	1945	
Europe	68.0	49.2	36.7	37.3	46.1	101.1	278.6
Austria	.3	.2	------	------	------	------	2.5
Belgium	2.6	3.6	5.0	5.2	5.5	6.1	5.6
Bulgaria	.2	.2	------	------	------	------	2.6
Czechoslovakia	.1	.2	.3	.7	.8	1.2	1.3
Danzig	.02	.02	------	.07	.08	.08	.4
Denmark	8.2	10.9	12.0	12.8	21.4	26.4	27.8
Eire	.3	.3	.3	.3	.3	.3	.3
Estonia	.2	.06	------	------	.3	.4	.8
Finland	.9	.7	.9	.9	.7	.8	.8
France	2.3	.4	.4	.4	.4	.6	.6
Germany	31.5	12.4	------	------	------	------	104.3
Greece	.4	.8	.7	.8	.8	.9	6.1
Hungary	1.0	1.4	------	------	------	------	14.3
Italy	8.2	5.5	------	------	------	------	23.4
Norway	6.8	6.8	12.1	12.4	11.4	11.9	11.4
Poland	.5	1.6	1.4	2.4	3.1	2.6	16.8
Rumania	.2	.2	------	------	------	------	3.0
Spain [1]	------	------	------	------	------	48.0	48.0
U. S. S. R. [2]	3.6	3.3	2.8	------	------	------	------
Yugoslavia	.7	.6	.8	1.3	1.3	1.8	8.6
Africa (Liberia)	1.5	1.4	1.2	1.2	1.0	.6	.7
Asia	34.3	31.7	12.0	12.4	12.9	13.1	57.3
China	.5	.5	.5	.5	.5	.5	5.1
Japan	22.7	21.1	------	------	------	------	41.4
Philippines	11.1	10.1	11.5	11.9	12.4	12.6	10.8
Oceania (Australia)	28.6	31.6	39.7	45.1	47.3	49.7	47.7

[1] Bonds issued in 1945.
[2] Bonds retired in 1943.

NOTE.—The market value of bonds of former enemy countries in the years 1942–45 is considered to have been zero.

TABLE XXII.—*Reconciliation of estimates of United States long-term investments abroad, 1940–45*

[In millions of dollars]

Item	1940	1941	1942	1943	1944	1945
United States investments abroad, beginning of year	11,420	11,390	12,110	12,665	13,195	13,700
Private, beginning of year	11,385	11,310	11,635	12,175	12,575	12,930
Direct investments (book value), beginning of year	7,280	7,340	7,525	7,740	7,845	7,960
Additions, total	+184	+291	+296	+244	+306	+449
Reinvested earnings	+42	+182	+183	+178	+172	+156
Capital outflow on intercompany account	+85	+47	+53	+24	+82	+229
New investments	+7	+12	+10	+17	+38	+54
Investments of foreign residents migrating to the United States	+50	+50	+50	+25	+14	+10
Deductions, total	−124	−106	−81	−139	−191	−289
Capital inflow on intercompany account	−91	−78	−67	−121	−105	−168
Liquidations (cash receipts)	−33	−28	−14	−18	−86	−112
Known losses on liquidations	n. a.	n. a.	n. a.	n. a.	−12	−9
Direct investments (book value), end of year	7,340	7,525	7,740	7,845	7,960	8,120
Portfolio investments (market value), beginning of year	4,105	3,970	4,110	4,435	4,730	4,970
United States holdings of foreign dollar bonds, beginning of year	1,685	1,445	1,445	1,510	1,560	1,590
Additions, total [1]	------	+59	+124	+242	+164	+243
New issues [2]	------	+4	+25	+118	+84	+159
Net increase due to rise in market price	------	+55	+99	+124	+80	+84
Deductions, total [1]	−240	−59	−59	−192	−134	−183
Amortization [2]	−42	−59	−59	−192	−134	−183
Net decrease due to decline in market price	−198	------	------	------	------	------
United States holdings of foreign dollar bonds, end of year	1,445	1,445	1,510	1,560	1,590	1,650

See footnotes at end of table.

TABLE XXII.—*Reconciliation of estimates of United States long-term investments abroad, 1940–45*—Continued

Item	1940	1941	1942	1943	1944	1945
United States investments abroad, beginning of year—Continued						
Private, beginning of year—Continued						
Portfolio investments (market value), beginning of year—Continued						
Other portfolio investments, beginning of year	2, 420	2, 525	2, 665	2, 925	3, 170	3, 380
Additions, total	+156	+140	+260	+245	+214	+525
Net United States purchases of foreign securities [1]		+25	+99	+125	+119	+263
Net increase due to rise in market price	+21	+25	+53	+73	+80	+139
Net increase in bank loans	+25	+10	+18	+7		+108
Investment of foreign residents migrating to the United States	+110	+80	+90	+40	+15	+15
Deductions, total	−51				−4	
Net United States sales of foreign securities [1]	−19					
Net reduction due to decline in market price	−32					
Net decrease in bank loans					−4	
Other portfolio investments, end of year	2, 525	2, 665	2, 925	3, 170	3, 380	3, 905
Portfolio investments (market value), end of year	3, 970	4, 110	4, 435	4, 730	4, 970	5, 555
Private, end of year	11, 310	11, 635	12, 175	12, 575	12, 930	13, 675
U. S. Government, beginning of year	35	80	475	490	620	770
Net balance of payments movement	+51	+381	+10	+124	+163	+898
Other changes	−6	+14	+5	+6	−13	−83
U. S. Government, end of year	80	475	490	620	770	1, 585
United States investments abroad, end of year	11, 390	12, 110	12, 665	13, 195	13, 700	15, 260

[1] Trading in outstanding issues is included in "Other portfolio investments." Such transactions as reported cannot be segregated between bonds payable in dollars and securities payable in foreign currencies.
[2] Exclusive of issues of direct investment companies.

n. a. Not available.

TABLE XXIII.—*Reconciliation of estimates of foreign long-term investments in the United States, 1940–45*

[In millions of dollars]

Item	1940	1941	1942	1943	1944	1945
Foreign investments in the United States, beginning of year	8, 845	8, 250	7, 350	7, 425	7, 770	8, 290
Private obligations, beginning of year	8, 695	8, 100	7, 200	7, 275	7, 570	7, 865
Direct investments (book value), beginning of year	2, 900	2, 875	2, 700	2, 615	2, 605	2, 630
Additions, total	+54	+21	+36	+62	+55	+62
Reinvested earnings	+11	+21	+31	+42	+43	+42
Increase in equity in insurance companies	+43		+5	+20	+12	+20
Deductions, total	−79	−196	−121	−72	−30	−17
Liquidations	−4	−138			−11	
Vesting by Alien Property Custodian			−96	−52	−4	−2
Investments of foreign residents migrating to the United States	−75	−50	−25	−20	−15	−15
Other		−8				
Direct investments (book value), end of year	2, 875	2, 700	2, 615	2, 605	2, 630	2, 675
Portfolio investments (market value), beginning of year	5, 795	5, 225	4, 500	4, 660	4, 965	5, 235
Additions, total	+658	+344	+466	+798	+832	+1, 346
Purchases of United States securities [1]	+506	+320	+260	+343	+426	+490
Net increase due to rise in market price			+205	+453	+406	+856
Other changes and adjustments	+152	+24	+1	+2		

See footnotes at end of table.

TABLE XXIII.—*Reconciliation of estimates of foreign long-term investments in the United States, 1940–45*—Continued

Item	1940	1941	1942	1943	1944	1945
Foreign investments in the United States, beginning of year—Continued						
Private obligations, beginning of year—Con.						
Portfolio investments (market value), beginning of year—Continued						
Deductions, total	−1,228	−1,069	−306	−493	−562	−754
Sales of United States securities [1] [2]	−747	−582	−214	−366	−440	−671
Net decrease due to decline in market price	−286	−401				
Vesting by Alien Property Custodian			−8	−23	−12	−9
Investments of foreign residents migrating to the United States	−195	−80	−55	−55	−60	−32
Other changes and adjustments		−6	−29	−49	−50	−42
Portfolio investments (market value), end of year	5,225	4,500	4,660	4,965	5,235	5,827
Private obligations, end of year	8,100	7,200	7,275	7,570	7,865	8,502
U. S. Government obligations, beginning of year	150	150	150	150	200	425
Net foreign purchases (+) or sales (−)[1]	n. a.	n. a.	n. a.	+50	+225	+68
U. S. Government obligations, end of year	150	150	150	200	425	493
Foreign investments in the United States, end of year	8,250	7,350	7,425	7,770	8,290	8,995

[1] Foreign purchases and sales of U. S. Government long-term securities are estimated beginning with 1943; purchases and sales of both Government and private obligations are included in the balance of payments as private transactions.

[2] Includes amortizations estimated at $10 million annually.

n. a. Not available.

TABLE XXIV.—*Gifts and other unilateral transfers, 1940–45*

[In millions of dollars]

Item	1940	1941	1942	1943	1944	1945				
						Total	First quarter	Second quarter	Third quarter	Fourth quarter
To foreign countries, total	269	1,179	7,338	15,044	16,549	9,628	3,137	3,617	1,746	1,128
Lend-lease		932	6,954	14,690	15,911	7,348	2,819	2,921	1,016	592
UNRRA					1	560	12	90	167	291
Aid to China			200	40	20	225		120	104	1
Civilian supplies distributed by armed forces					185	866	179	343	310	34
Other Government transfers	32	25	21	20	30	109	4	5	30	70
Personal and institutional remittances	237	222	163	294	402	520	123	138	119	140
From foreign countries, total	59	43	1,002	2,137	2,407	2,591	1,039	995	493	64
Reverse lend-lease			640	1,997	2,287	2,444	1,010	960	456	18
Other Government receipts			322	95	75	100	19	24	25	32
Personal remittances	59	43	40	45	45	47	10	11	12	14

TABLE XXV.—*International transactions of the United States, private and Government, 1940–45*

[In millions of dollars]

Item	1940		1941		1942		1943		1944		1945									
											Total		First quarter		Second quarter		Third quarter		Fourth quarter	
	Private	Government	Private	Government	Private	Government	Private	Government	Private	Government	Private	Government	Private	Government	Private	Government	Private	Government	Private	Government
I. Receipts, total	5,733	47	6,187	1,023	4,824	8,253	3,956	17,760	4,614	19,871	5,214	14,035	1,114	4,403	1,283	4,952	1,254	2,776	1,563	1,904
A. Goods and services, total	5,310	45	5,901	995	4,542	7,227	3,537	15,597	3,997	17,441	4,675	11,398	1,034	3,348	1,047	3,950	1,169	2,281	1,425	1,819
1. Goods	4,102	22	4,559	784	3,363	5,824	2,401	12,714	2,776	14,193	3,412	8,810	732	2,723	720	3,186	873	1,670	1,087	1,231
2. Income on investments	561	3	535	9	496	18	497	11	556	16	539	16	122	7	145	2	124	5	148	2
3. Other services	647	20	807	202	683	1,385	639	2,872	665	3,232	724	2,572	180	618	182	762	172	606	190	586
B. Unilateral transfers	59	-------	43	-------	40	962	45	2,092	45	2,362	47	2,544	10	1,029	11	984	12	481	14	50
C. Long-term capital, total	364	2	243	28	242	64	374	71	572	68	492	93	70	26	225	18	73	14	124	35
1. Movements of United States capital invested abroad	207	2	165	28	155	64	331	71	338	68	462	93	70	26	195	18	73	14	124	35
2. Movements of foreign capital invested in United States	157	-------	78	-------	87	-------	43	-------	234	-------	30	-------	-------	-------	30	-------	-------	-------	-------	-------
II. Payments, total	4,104	240	4,547	2,031	2,928	10,231	3,410	20,322	4,190	21,964	5,403	15,606	1,209	4,901	1,378	5,435	1,360	3,179	1,456	2,091
A. Goods and services, total	3,481	155	3,821	665	2,374	2,982	2,719	5,377	3,400	5,586	3,916	5,508	838	1,851	1,004	1,921	1,031	1,051	1,043	685
1. Goods	2,658	55	2,994	492	1,764	2,201	2,106	3,321	2,707	2,882	3,118	2,711	676	843	816	865	797	617	829	386
2. Income on investments	204	6	181	6	152	7	146	9	149	12	154	14	32	3	35	4	36	3	51	4
3. Other services	619	94	646	167	458	774	467	2,047	544	2,692	644	2,783	130	1,005	153	1,052	198	431	163	295
B. Unilateral transfers	237	32	222	957	163	7,175	294	14,750	402	16,147	520	9,108	123	3,014	138	3,479	119	1,627	140	988
C. Long-term capital, total	386	53	504	409	391	74	397	195	388	231	967	990	248	36	236	35	210	501	273	418
1. Movements of United States capital invested abroad	139	53	99	409	220	74	291	195	329	231	813	990	154	36	230	35	178	501	251	418
2. Movements of foreign capital invested in United States	247	-------	405	-------	171	-------	106	-------	59	-------	154	-------	94	-------	6	-------	32	-------	22	-------

TABLE XXV.—*International transactions of the United States, private and Government, 1940–45*—Continued

[In millions of dollars]

Item	1940		1941		1942		1943		1944		1945									
											Total		First quarter		Second quarter		Third quarter		Fourth quarter	
	Private	Government	Private	Government	Private	Government	Private	Government	Private	Government	Private	Government	Private	Government	Private	Government	Private	Government	Private	Government
III. Excess of receipts (+) or payments, total	+1,629	−193	+1,640	−1,008	+1,896	−1,978	+546	−2,562	+424	−2,093	−189	−1,571	−95	−498	−95	−483	−106	−403	+107	−187
A. Goods and services	+1,829	−110	+2,080	+330	+2,168	+4,245	+818	+10,220	+597	+11,855	+759	+5,890	+196	+1,497	+43	+2,029	+138	+1,230	+382	+1,134
B. Unilateral transfers	−178	−32	−179	−957	−123	−6,213	−249	−12,658	−357	−13,785	−473	−6,564	−113	−1,985	−127	−2,495	−107	−1,146	−126	−938
Net goods and services and unilateral transfers	+1,651	−142	+1,901	−627	+2,045	−1,968	+569	−2,438	+240	−1,930	+286	−674	+83	−488	−84	−466	+31	+84	+256	+196
C. Long-term capital	−22	−51	−261	−381	−149	−10	−23	−124	+184	−163	−475	−897	−178	−10	−11	−17	−137	−487	−149	−383
IV. Net inflow (+) or outflow (−) of funds on gold and short-term capital account, total	+1,541	−4,254	−601	−507	−150	+240	+612	+1,370	+162	+1,544	+442	+1,446	+183	+437	+160	+471	+148	+434	−49	+104
A. Net increase (—) or decrease (+) in United States gold stock	------	−4,243	------	−719	------	+23	------	+757	------	+1,350	------	+548	------	+180	------	+157	------	+201	------	+10
B. Net movements of United States short-term capital abroad	+177	------	+21	−10	+96	−211	−12	+15	−85	−68	−86	−227	+40	−49	−106	−14	+116	−95	−136	−69
C. Net movements of foreign short-term capital in United States	+1,364	−11	−622	+222	−246	+428	+624	+598	+247	+262	+528	+1,125	+143	+306	+266	+328	+32	+328	+87	+163
V. Errors and omissions	+1,277		+476		−8		+34		−37		−128		−27		−53		−73		+25	

TABLE XXVI.—*International transactions of the United States, 1919–39*

[Millions of dollars]

Item	1919	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929
I. Receipts, total	11, 464	10, 983	5, 920	5, 219	6, 090	6, 344	6, 964	7, 038	7, 058	7, 815	7, 929
A. Goods and services, total	10, 784	10, 272	5, 512	4, 961	5, 494	5, 919	6, 348	6, 381	6, 464	6, 850	7, 042
1. Goods	8, 891	8, 481	4, 586	3, 929	4, 259	4, 741	5, 011	4, 922	4, 982	5, 249	5, 347
2. Income on investments	719	596	445	670	840	762	912	953	981	1, 080	1, 139
3. Other services	1, 174	1, 195	481	362	395	416	425	506	501	521	556
B. Unilateral transfers	276	66	60	65	65	72	47	61	70	72	78
C. Long-term capital, total	404	645	348	193	531	353	569	596	524	893	809
1. Movements of United States capital invested abroad	404	645	332	166	173	148	248	481	524	410	431
2. Movements of foreign capital invested in United States	-------	-------	16	27	358	205	321	115	-------	483	378
II. Payments, total	10, 352	9, 146	4, 869	5, 358	5, 567	6, 029	6, 823	7, 289	7, 333	7, 601	7, 398
A. Goods and services, total	5, 917	6, 750	3, 391	3, 972	4, 668	4, 577	5, 272	5, 564	5, 400	5, 483	5, 904
1. Goods	3, 995	5, 384	2, 572	3, 184	3, 866	3, 684	4, 291	4, 500	4, 240	4, 159	4, 463
2. Income on investments	130	120	105	105	130	140	170	200	240	275	330
3. Other services	1, 792	1, 246	714	683	672	753	811	864	920	1, 049	1, 111
B. Unilateral transfers	1, 319	744	568	409	414	427	439	433	418	427	445
C. Long-term capital, total	3, 116	1, 652	910	977	485	1, 025	1, 112	1, 292	1, 515	1, 691	1, 049
1. Movements of United States capital invested abroad	2, 901	1, 374	890	957	465	1, 005	1, 092	1, 272	1, 465	1, 671	1, 029
2. Movements of foreign capital invested in United States	215	278	20	20	20	20	20	20	50	20	20
III. Excess of receipts (+) or payments (−), total	+1, 112	+1, 837	+1, 051	−139	+523	+315	+141	−251	−275	+214	+531
A. Goods and services	+4, 867	+3, 522	+2, 121	+989	+826	+1, 342	+1, 076	+817	+1, 064	+1, 367	+1, 138
B. Unilateral transfers	−1, 043	−678	−508	−344	−349	−355	−392	−372	−348	−355	−367
Net goods and services and unilateral transfers	+3, 824	+2, 844	+1, 613	+645	+477	+987	+684	+445	+716	+1, 012	+771
C. Long-term capital	−2, 712	−1, 007	−562	−784	+46	−672	−543	−696	−991	−798	−240
IV. Net inflow (+) or outflow (−) of funds on gold and short-term capital account, total	+166	+68	−735	−269	−348	−137	−6	+326	+698	−110	−147
A. Net increase (−) or decrease (+) in United States gold stock	+166	+68	−735	−269	−315	−256	+100	−93	+113	+238	−143
B. Net movement of United States short-term capital abroad	-------	-------	-------	-------	−82	−109	−46	−36	−349	−231	−200
C. Net movement of foreign short-term capital in United States	-------	-------	-------	-------	+49	+228	−60	+455	+934	−117	+196
V. Errors and omissions	−1, 278	−1, 905	−316	+408	−175	−178	−135	−75	−423	−104	−384

TABLE XXVI.—*International transactions of the United States, 1919–39*—Continued

[Millions of dollars]

Item	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
I. Receipts, total	6,376	4,324	2,841	2,754	3,214	3,840	4,412	5,131	4,551	4,636
A. Goods and services, total	5,450	3,641	2,474	2,402	2,975	3,265	3,539	4,553	4,336	4,432
1. Goods	3,929	2,494	1,667	1,736	2,238	2,404	2,590	3,451	3,243	3,347
2. Income on investments	1,040	766	527	437	437	521	569	577	585	541
3. Other services	481	381	280	229	300	340	380	525	508	544
B. Unilateral transfers	58	36	17	17	20	21	22	29	40	38
C. Long-term capital, total	868	647	350	335	219	554	851	549	175	166
1. Movements of United States capital invested abroad	782	561	350	155	219	219	236	289	103	166
2. Movements of foreign capital invested in United States	86	86	---	180	---	335	615	260	72	---
II. Payments, total	5,907	3,912	2,415	2,487	2,615	3,458	3,728	4,548	3,345	3,721
A. Goods and services, total	4,428	3,137	2,079	2,056	2,384	3,157	3,455	4,268	3,056	3.377
1. Goods	3,104	2,120	1,343	1,510	1,763	2,462	2,546	3,181	2,173	2,409
2. Income on investments	295	220	135	115	135	155	270	295	200	230
3. Other services	1,029	797	601	431	486	540	639	792	683	738
B. Unilateral transfers	390	343	243	213	182	183	199	252	211	205
C. Long-term capital, total	1,089	432	93	218	49	118	74	28	78	139
1. Movements of United States capital invested abroad	1,069	412	67	203	34	103	59	13	63	53
2. Movements of foreign capital invested in United States	20	20	26	15	15	15	15	15	15	86
III. Excess of receipts (+) or payments (−), total	+469	+412	+426	+227	+629	+382	+684	+583	+1,206	+915
A. Goods and services	+1,022	+504	+395	+346	+591	+108	+84	+285	+1,280	+1,055
B. Unilateral transfers	−332	−307	−226	−196	−162	−162	−177	−223	−171	−167
Net goods and services and unilateral transfers	+690	+197	+169	+150	+429	−54	−93	+62	+1,109	+888
C. Long-term capital	−221	+215	+257	[1] +77	[1] +200	+436	+777	+521	+97	+27
IV. Net inflow (+) or outflow (−) of funds on gold short-term capital account, total	−789	−504	−499	−288	−1,044	−750	−841	−1,008	−1,455	−1,704
A. Net increase (−) or decrease (+) in United States gold stock	−310	+133	−53	+131	−1,266	−1,822	−1,272	−1,364	−1,799	−3,174
B. Net movement of United States short-term capital abroad	−191	+628	+227	+35	+96	+424	+55	+45	+27	+211
C. Net movement of foreign short-term capital in United States	−288	−1,265	−673	−454	+126	+648	+376	+311	+317	+1,259
V. Errors and omissions	+320	+92	+73	+61	+415	+368	+157	+425	+249	+789

[1] The net long-term capital transactions figure for 1933 includes $40,000,000, and that for 1934 includes $30,000,000, representing the net transfer of funds in security arbitrage operations. These transactions cannot be divided between domestic and foreign securities in these years.

Foreign Funds Control

On April 10, 1940, when Denmark and Norway were invaded, Executive Order No. 8389 was issued freezing all assets in the United States belonging to those countries and their nationals. The successive invasions of other European countries were accompanied by additional executive orders, culminating on June 14, 1941, in an executive order which froze the assets of all the rest of continental Europe, both the aggressor and the neutral nations. The registration of assets in the United States of all foreign countries, as of June 1, 1940, and June 14, 1941, was also required by the order of June 14.[1] Shortly thereafter freezing orders were issued covering the assets of China and Japan and, somewhat later, those of the various countries overrun by the Japanese. In accordance with the order of June 14, almost 600,000 reports were filed which indicated that the total foreign stake in the United States amounted to about $12.7 billion. Of this amount, some $6 billion were affected by the freezing controls, as were an additional $2 billion of gold under earmark and foreign securities held in this country for foreign account.

On December 18, 1941, the First War Powers Act, 1941, was approved giving the President broader authority over all foreign-owned property, including the power to vest such property. Under this authority a large number of Axis properties were vested by the Alien Property Custodian; some have been liquidated, while others were operated during the war in such way as to materially assist the United States war effort.

At the outset, Foreign Funds Control was designed to insure that none of the assets of the occupied countries could be used to further the aims of aggressor countries. The order of June 14, 1941, however, was avowedly "in the interest of national defense and security" and, of course, after our entry into the war Foreign Funds Control became a part of economic warfare against the Axis. The chief objectives of the Control were the complete severance of all financial and commercial intercourse, trade, and communication, direct or indirect, between the United States and the Axis and Axis-dominated countries, and of transactions between the United States and other countries which might benefit the Axis. These objectives were achieved through a system of licenses, making each transaction affecting blocked accounts subject to Treasury approval. This system was administered by the Treasury Department through the Federal Reserve Banks and the individual commercial banks.[2]

Because of the broad nature of the prohibitions contained in the freezing order there were many transactions, not in any way inimical to the purposes of the control, for which it was deemed undesirable to require individual licenses. To cover these transactions several general licenses were issued to cover the transactions of countries in the "generally licensed trade area," such as the American Republics, the British Commonwealth, and the Union of Soviet Socialist Republics. No further license was required for normal trade even with nationals of blocked countries in this area, unless their names appeared on the "Proclaimed List of Certain Blocked Nationals."

General licenses were also granted to the neutral European countries—Sweden, Switzerland, Portugal, and Spain, covering the transactions of their governments and their nationals. These licenses were granted after the governments involved guaranteed, in effect, that the purposes of Foreign Funds Control would be carried out. General licenses were issued to most individual nationals of blocked countries who had been living in the United States for periods of time, and also to permit certain transactions, such as allowing a person in the United States owing money to a blocked national to pay into a blocked account.

One of the most difficult problems of Foreign Funds Control involved the possible disposal in the United States by the enemy of looted securities and American currency. In the case of registered securities it was required that the registration of any security registered in the name of a blocked national could not be changed without a license. To meet the problem of bearer securities, it was provided, beginning in June 1940, that all securities entering the United States from any foreign country must be deposited in a Federal Reserve Bank and could be released only upon satisfactory proof that they were free from any Axis taint.

[1] U. S. Treasury Department, Census of Foreign-Owned Assets in the United States, Washington, D. C., 1945.

[2] For a detailed discussion see report of the U. S. Treasury Department, Administration of the Wartime Financial and Property Controls of the United States Government, Washington, D. C., 1942.

With respect to American currency there was a dual problem of preventing its entry into the United States for the use here of the Axis and of depreciating its value abroad so that Axis holdings would be of reduced usefulness. The former was achieved by a control system similar to that for securities requiring that, except for a nominal amount carried for personal expenditures, all currency brought into the United States must be deposited with a Federal Reserve Bank for examination (General Ruling No. 5). In the case of American Republics where the American dollar was commonly used, the Treasury announced that it would entertain applications for the release of currencies forwarded by such countries but would permit it to be redeemed only if Axis taint were proved to be absent. Dollar currency imported direct from Europe was presumed to be looted. The effect of these restrictions on dollar-currency movements was to decrease substantially the value of the currency holdings of the Axis abroad.

At the end of 1945 the liberation of all formerly occupied areas was followed by General License No. 94, which removed controls over current transactions with all blocked countries except Germany, Japan, Portugal, Spain, Sweden, Switzerland, Liechtenstein, and Tangier. Further, under General Order No. 95, also issued in December 1945, provision was made for the unfreezing of blocked assets of certain countries. By the end of March 1947 all countries except Portugal, Spain, and Tangier, were generally licensed both as to blocked assets and current transactions.

Notes to Chart 19 and Table 27

Chart 19

United States common stocks—Moody's series for yield on 200 common stocks, year end.

United States corporate stocks held by foreigners—computed on basis of annual compilation of dividend payments to foreigners and estimates of market value of foreign holdings at year ends. Includes both common and preferred issues. Data for 1941 not available.

United States direct investments abroad, receipts—ratio of interest and dividend receipts and branch earnings to United States equity in investments abroad, including United States interest in net worth, bonded indebtedness, and intercompany advances.

All United States corporations, dividends—data for United States corporations filing balance sheets with the Bureau of Internal Revenue, ratio of dividend payments to net worth. The series has several defects, the most important of which is the change in the number of consolidated returns filed, particularly in 1942. One effect of increased consolidation in that year appeared to have been a sharp drop in the dividends-net worth ratio as intercompany dividends were eliminated. Data for 1945 not available.

Foreign direct investments in the United States, payments—ratio of interest and dividend payments, and branch earnings, to foreign equity in investment in the United States as estimated at year ends. Data for 1941 not available.

All United States corporations, earnings—net profit after taxes of all corporations filing balance sheets with the Bureau of Internal Revenue as a percentage of the net worth of those corporations. Data for 1945 not available.

United States direct investments abroad, earnings—net income after foreign taxes of all United States direct investments abroad as a percentage of United States net equity in those enterprises.

General Notes.—1. Insurance companies are included only in the data referring to all United States companies.

2. The equity in direct investments abroad used in calculating yields is gross in the sense that it includes the equity of parent companies which are in turn foreign-controlled. Income receipts and payments are gross in the same sense.

Table 27

The international investment position of the United States summarizes this country's international assets and liabilities of a commercial nature, including United States Government loans. Therefore, personal property and real estate held by individuals for nonbusiness uses and the assets of nonprofit institutions are excluded. Merchandise inventories are also excluded. Gold holdings, including gold held under earmark for foreign account, have been excluded from both assets and liabilities.

The value of enemy property in the United States seized by the Alien Property Custodian has been excluded from foreign assets in this country after vesting. However, United States property in enemy countries is included at prewar values in the estimates of American assets abroad, except for American holdings of dollar bonds, which had a market value of about $41 million at the end of 1941. The latter are excluded after 1941 inasmuch as such bonds were excluded from trading privileges on the exchanges in this country. No reductions have been made for war damage to direct-investment properties. American assets exclude the value of military installations and equipment but do include assets and liabilities resulting from financial transactions of the armed forces.

Insofar as possible the estimates are based on the residence of United States citizens and aliens on year ends. The investments abroad of all residents of the United States, both citizens and aliens, are included in the value of United States investments abroad, and the assets in the United States of all foreign residents, both aliens and American citizens living abroad, are included in foreign investments in the United States.

Direct investments are shown at book values, stocks and bonds at market values, and assets and liabilities of the United States Government and other claims at face or stated values. The estimates for several items are rather arbitrary, particularly with respect to the effects of changes in residence, war damage, the movements of United States currency, and, in some instances, changes in market prices of securities.

Form 577

DEPARTMENT OF COMMERCE

BUREAU OF FOREIGN AND DOMESTIC COMMERCE

WASHINGTON 25

Budget Bureau No. 41-R620
Approval Expires 10-31-46

QUARTERLY REPORT ON TRANSACTIONS WITH FOREIGN SUBSIDIARY OR AFFILIATED CORPORATION

Quarter ended ____________

Name of U. S. company ______________________________

Name of foreign company ______________________________

Country of foreign company operations ______________________________

	Gross	Foreign taxes withheld	Net received
	(Amounts in dollars)		
1. Dividends received by U. S. company			
a. On common stock	______	______	______
b. On preferred stock	______	______	______
2. Interest received by U. S. company on bonds, notes, advances, etc.	______	______	______
3. Royalties received by U. S. company	______	______	______
4. Management fees, service charges, head-office expenses allocated, etc.	______	______	______

5. Equity in earnings of foreign company, year ended ____________(See instruction B)__________

6 Intercompany accounts and advances outstanding at end of quarter (Amounts in currency in which payable)
   a. Due to U. S. company ______
   b. Payable by U. S. company ______

7. Changes in holdings of securities of subsidiary or affiliate
   a. Increase ( ) or decrease ( ) (Check)
   b. Type of security ____________
   c. Number of units ____________
   d. Percent of total outstanding ______
   e. Amount of transaction $__________
   f. If a newly formed or newly acquired enterprise, please indicate type o° business to be conducted ____________________
   g. Other party to transaction (name and address)________________

Instructions

A. Report on this form transactions with foreign corporations 25 percent or more of whose voting stock is held by the reporting company, either directly or through domestic affiliated corporations. Separate reports should be filed for each foreign subsidiary of each domestic affiliate, except that where more than one associated domestic corporation has an interest in the same foreign company, their combined interests and transactions should be reported on one form. The report should be based on quarters ending March 31, June 30, September 30, and December 31, and should be submitted within 30 days of the close of the quarter.

B. Item 5 is to be answered once each year, on the report for the quarter during which the relevant figures become available. The amount entered for this item should be shown in the currency in which the books of the subsidiary are kept, and should represent the equity of the American company (or companies) in net earnings (or deficit) before payment of common dividends and before provision for unrealized exchange losses and gains.

ANNUAL FOREIGN BOND AMORTIZATION AND INTEREST SERVICE QUESTIONNAIRE -- TRANSACTIONS DURING CALENDAR YEAR 1945

Ref. 30

(PLEASE GIVE AMOUNTS IN THOUSANDS OF DOLLARS)

Budget Bureau No. 41-R327.1
Approval Expires 11-30-46

		PRINCIPAL AMOUNT OF BONDS				INTEREST		ANY INFORMATION THAT
ISSUE	Monies disbursed for retirement of bonds.	A) Retired by cash; B) Estimated proportion owned by residents of foreign countries.	Called during 1945 but unredeemed on December 31.	Surrendered in lieu of cash.	A) Outstanding on Dec. 31, 1945; B) Estimated proportion owned by residents of foreign countries.	Paid in 1945. Please do not include payments on coupons serviced in prior years but not presented until 1945.	Estimated proportion paid (Col.7) on bonds owned by residents of foreign countries:	IN YOUR OPINION MIGHT HELP US TO MAKE BETTER ESTIMATES OF UNITED STATES HOLDINGS OF FOREIGN DOLLAR BONDS.
PLEASE SHOW SEPARATELY DISBURSEMENTS BY YOUR AGENTS OR BRANCHES IN FOREIGN COUNTRIES, IF ANY, BUT EXCLUDE DISBURSEMENTS OF CO-AGENTS IN THE UNITED STATES								
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

2-117/9

PLEASE USE REVERSE SIDE FOR REMARKS.

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Department of Commerce Field Service

(*November 14, 1947*)

Albuquerque, N. Mex., 203 W. Gold Ave.

Atlanta 1, Ga., 50 Whitehall St. SW.

Baltimore 2, Md., 103 S. Gay St.

Boston 9, Mass., 2 India St.

Buffalo 3, N. Y., 117 Ellicott St.

Butte, Mont., 14 W. Granite St.

Charleston 3, S. C., 18 Broad St.

Charleston, W. Va., 103 U. S. Court House.

Charlotte 2, N. C., 112½ E. Fourth St.

Cheyenne, Wyo., Twenty-first and Carey Ave.

Chicago 4, Ill., 332 S. Michigan Ave.

Cincinnati 2, Ohio, Fourth and Race Sts.

Cleveland 14, Ohio, Euclid Ave. at E. Ninth St.

Dallas 2, Tex., 1114 Commerce St.

Denver 2, Colo., 828 Seventeenth St.

Detroit 26, Mich., 230 W. Fort St.

El Paso 7, Tex., 12 Chamber of Commerce Bldg.

Fargo, N. Dak., 20½ Broadway

Hartford 1, Conn., 135 High St.

Houston 14, Tex., Fannin at Franklin St.

Jacksonville 1, Fla., 311 W. Monroe St.

Juneau, Alaska, Fourth and Seward Sts.

Kansas City 6, Mo., 911 Walnut St.

Los Angeles 12, Calif., 312 N. Spring St.

Louisville 1, Ky., Sixth and Broadway.

Memphis 3, Tenn., Madison at Front St.

Miami 32, Fla., 36 NE. First St.

Milwaukee 1, Wis., 517 E. Wisconsin Ave.

Minneapolis 1, Minn., Second Ave. S. and Third St.

Mobile, Ala., 308 Federal Bldg.

New Orleans 12, La., 333 St. Charles Ave.

New York 1, N. Y., 350 Fifth Ave.

Oklahoma City 2, Okla., 102 NW. Third

Omaha 2, Nebr., 405 S. Sixteenth St.

Philadelphia 2, Pa., 42 S. Fifteenth St.

Phoenix 8, Ariz., 234 N. Central Ave.

Pittsburgh 19, Pa., Seventh Ave. and Grant St.

Portland 4, Oreg., 520 SW. Morrison St.

Providence 3, R. I., 24 Weybossett St.

Reno, Nev., 50 Sierra St.

Richmond 19, Va., 801 E. Broad St.

St. Louis 1, Mo., 1114 Market St.

Salt Lake City 1, Utah, 508 Post Office Bldg.

San Francisco 11, Calif., Washington and Battery Sts.

Savannah, Ga., 218 U. S. Court House and Post Office Bldg.

Seattle 4, Wash., First and Marion Sts.