Mr. Bernstein

This goes to the printer, Eddie, this afternoon (Oct. 25) and we get galley on it tomorrow. I'm sorry the time is clipped so short. Had I not been at the meeting yesterday when the stencilled copies came out, I would have got it to you then.

WRG

October ~~25~~ 24, 1944

To:

From: Mr. Thomas

Attached is a copy of the proposed Review of the Month for the November Bulletin. Comments sent to Mr. Gardner by 10 a. m. October 25 can be inserted before copy is sent to printer. Other changes may be made in galley.

W.T.

Attachment

UNITED STATES FOREIGN TRADE AND CAPITAL MOVEMENTS AND INTERNATIONAL RESERVES

During the past fifteen years culminating in the World War the international position of the United States has undergone far-reaching changes. In its endeavors to assist our Allies in the World War the American economy is now supplying an outflow of goods nearly five times as large in value as in prewar years, not including goods sent abroad to supply our own troops. Exports for foreign account are for the most part being financed by simple book-entry through Lend-Lease. If exports are to continue after the war in a volume exceeding that of the prewar period, new peace-time markets will have to be found and other methods of financing will have to be substituted for Lend-Lease. It is not to be expected that in the early postwar years exports of American goods on anything approaching the war-time scale can be matched by merchandise imports or foreign services. Meanwhile a major role will have to be played by American capital.

The nature of the capital movement before the war raises a question as to what measures will be necessary to prevent the perverse flows that characterized the 1930's. During that decade American investment abroad, which had been on a great scale in the 1920's, was reversed, and the flow of foreign capital to this country mounted. Instead of functioning as an international lender, the United States drew money from the rest of the world -- most of it upon a relatively permanent basis. Foreign countries lost gold to the United States, which added 15 billion dollars to its reserves in the period 1934-1940. Nevertheless foreign reserves are today far higher in dollar purchasing power than they were before the great losses of the 1930's occurred. This is attributable to the growing volume of world gold production, dishoarding by the public, the 69 per cent increase in the dollar price of gold, and the outpouring of American money abroad in connection with the war.

The wartime increase in foreign gold reserves has been supplemented by the rapid expansion of dollar reserves in the form of balances in this country. Gold and dollar reserves of foreign countries amounted to more than 17 billion dollars at the end of September 1944, as compared with 7 or 8 billion dollars in 1928 before disintegration of the gold standard set in. This stronger reserve position abroad, together with the achievements at Bretton Woods, promise more ample resources and more orderly financial relationships in the postwar world. If this promise is realized, the chances of maintaining a volume of foreign trade commensurate with the heightened productivity of the American economy in the postwar period will be greatly strengthened.

Wartime Exports of the United States

Since the middle of 1943 American exports have been running at the level of about 14 billion dollars a year. Before the war the annual average was 3 billion dollars. The expansion is unprecedented. It is the product of a war that is being vigorously prosecuted in both the European and the Pacific theatres. As the accompanying table shows, exports to the United Kingdom, the U.S.S.R., and the Mediterranean and African regions, which before the war amounted to less than three-quarters of a billion dollars a year, have grown to nearly 10 billion dollars. Exports to China, India, Australia, and New Zealand have grown from about 200 million dollars a year to nearly 1,300 million dollars. Within the Western Hemisphere the expansion has been less striking. Nevertheless there has been a tripling of exports to Canada, this nation's second largest customer in time of peace; and even to Latin America, which has not been producing the munitions and equipment of war, the flow of exports has been substantially enlarged.

While this vast trade was building up under the urgent pressures of war and despite the submarine, important regions were placed temporarily beyond our reach. Most of the continent of Europe in the period covered by the table was either occupied by the enemy or blockaded. The same was true of the Malay States, the Netherlands East Indies and other areas under Japanese control. The areas that were largely sealed off from American trade had taken a billion dollars of our goods a year in the period before the war.

United States Exports by Areas

(Millions of dollars)

Area	Year ending June 30, 1944					Annual average 1936-1938		
	Lend-Lease							
	Munitions	Indus-trial products	Agricul-tural products	Total	Cash Account	Total	Non-agricultural 1/	Agricul-tural
United Kingdom	2,693	1,066	1,100	4,859	*	499	234	265
U.S.S.R.	1,785	1,094	610	3,490	*	49	49	**
Africa, Middle East and Mediterranean Area 2/	1,250	276	117	1,643	*	214	179	35
China and India	502	224	72	798	*	117	102	15
Australia and New Zealand	269	197	15	482	*	100	88	12
20 Latin American Republics	70	18	**	88	798 e/	485	439	46
Canada	--	--	--	--	1,429 e/3/	454	383	71
Unallocated	244	28	16	288 3/	542 3/	1,048	714	334
Total	6,813	2,903	1,930	11,646	2,769	2,967	2,189	778

e/ Estimated on the basis of published data for nine months ending March 1944.
* Not available for publication.
** Less than half a million dollars.
1/ Includes small amount of agricultural re-exports.
2/ Coverage of Lend-Lease data and pre-war data under this heading are not identical.
3/ If indirect Lend-Lease through Canada was relatively the same in the year ending June 1944 as in the period March 1941-June 1944, about 192 million dollars of Lend-Lease exports should be transferred from "Unallocated" to the areas listed in the table, and the same amount should be transferred under Cash Account from Canada to "Unallocated".

The table showing these broad developments is necessarily limited in detail for reasons of security. Most of the up-to-date information concerning American foreign trade that is now given to the public is that which is permitted to appear in the quarterly reports of the Lend-Lease Administration. While these reports are not detailed, it is possible on the basis of them to show the division of our Lend-Lease supplies among munitions and war equipment on the one hand and industrial and agricultural products on the other. Foreign trade paid for in cash cannot be similarly classified nor can the figures of shipments outside the Western Hemisphere be shown by countries. Indeed, for purposes of the table it has been necessary to estimate even exports to Canada and the twenty American Republics by projecting 9 months figures. Nevertheless, it seems possible to say on the basis of the data that direct war equipment comprises less than one-half of the great flow of goods that is currently leaving our shores. The remainder is divided between industrial products, the use of which has been sharply stimulated by the war, and agricultural products.

Agricultural exports represent a type of commodity that will be consumed in even larger volume in the post-war period; but there is little reason to believe that the world will continue to draw agricultural commodities from the United States on the present scale once the period of relief and reconstruction has passed. It is evident from the table that the United Kingdom is now taking under Lend-Lease alone a volume of agricultural products more than twice the value of our exports of every type to the United Kingdom before the war. The abnormalities are even more apparent in the case of the U.S.S.R., which in ordinary times can largely feed and clothe itself. Output of agricultural products for domestic consumption will revive abroad and other agricultural exporting countries will regain their positions in world trade. As the post-war transition period passes it seems probable that the basic trend in the export trade of the United States from agricultural products, in which this country had the strongest competitive position in the 19th century, toward those manufactures in which we now dominate world markets will reassert itself and that from this standpoint the agricultural component of our wartime trade cannot be regarded as carrying any promise of permanence.

Wartime Imports

Merchandise imports to this country have also been stimulated by the war; but more than half of the rise from the 2.5 billion dollar average of the pre-war years to the current annual rate of 4 billion dollars appears to be due to an advance in prices. In the chart it is possible to trace three distinct stages of recent import history. From the middle of 1940 through 1941 imports rose under the impetus of inventory accumulation and government stockpiling. Continental Europe was cut off as a source of supply but imports from other areas rose sharply. An extensive reduction in the flow of imports occurred with the start of the Japanese war, the cutting off of our Far Eastern sources of supply, and the intensification of submarine attacks. As anti-submarine measures increased in effectiveness and the American rate of shipbuilding surpassed the rate of ship losses, imports again began to rise. New sources of supply were developed, largely in Latin America and in Africa, for products formerly acquired in the Far East. To date the history of our wartime imports has in considerable degree been that of displacement of important sources of supply by others at rising prices. A more general rise in imports may be expected as additional shipping becomes available and as new areas are freed in Europe and Asia.

How far the rise in imports carries and whether it can be sustained and increased in the post-war period will be one of the determining factors in the future of this country's export trade. The ability of foreigners to buy civilian goods in the post-war period will largely depend upon their ability to get command of dollars. At present the supply of goods available for export is a limiting factor. The crucial test will come after the shortage of civilian goods in our own markets begins to be relieved. Until then it may be necessary to continue the wartime controls in many types of goods that foreigners as well as our own citizens will want to buy. As reconversion is accomplished, however, it seems unquestionable that the vast productive powers of this country can be most effectively employed only if a much greater foreign trade is carried on with the world than before the war.

Other factors than merchandise imports will also help to put the dollars in foreign hands that will be needed if the great post-war readjustments in our export trade are to be accomplished without excessive shrinkage in the aggregate. American use of foreign shipping will help; but in view of the unequaled merchant marine which this country has created during the war and the probability of a large measure of Government assistance to maintain it, American use of foreign shipping is unlikely to be greater than before the war even with a greatly expanded trade. American travel in foreign countries will also help, and can be counted upon to do so on a far more extensive scale than before the war. More problematical is the question of whether American capital will venture abroad again in generous amounts, if governmental assistance is not forthcoming.

Pre-war Capital Flow

The last great period of American investment in foreign countries, as the table shows, was in the 1920's. During that decade American capital flowed abroad in the form of security purchases, direct business investments, and short-term funds. Notwithstanding the backflow of amortization payments, nearly 3 billion dollars of American capital moved out of this country on balance in the two years 1927 and 1928. While Americans were buying foreign bonds, however, foreigners were being attracted into our stock market and foreign central banks were accumulating reserves here in the form of dollar balances. The movement of foreign funds to the United States was irregular, but at times during the decade it served as a substantial offset to the great outpouring of American capital.

In the second half of 1928 Americans began to lose their interest in foreign bonds as the domestic bond market tightened and the stock market drove ahead toward its climax in 1929. Foreign investors put still greater amounts into American securities. The net outward movement of capital on all accounts from this country, which had been 1,200 million dollars in 1928, fell to less than 300 million dollars in 1929. By the end of 1931 the world-wide depression with its accompanying financial crisis had come to overshadow every other consideration. The movement of American capital into securities and business

INTERNATIONAL MOVEMENT OF CAPITAL TO THE UNITED STATES

(In millions of dollars. Minus sign indicates net movement from U. S.)

		American capital						Foreign capital					
Year	Net inflow or outflow	Total	Foreign securities: New issues	Foreign securities: Other	Amortizations	Direct investments 1/	Change in short-term funds 2/	Total	Net purchase or sale(-) of American securities	Amortizations	Short-term funds: Official 3/	Short-term funds: Other 2/	Foreign purchase or sale(-) of U. S. currency
1922	-815	-822	-666	-137	134	-153	4/	7	27	-20	4/	4/	4/
1923	-78	-465	-317	5/	82	-148	-82	387	5/358	-20	-14	2	61
1924	-581	-994	-823	5/	120	-182	-109	413	5/205	-20	38	202	-12
1925	-676	-917	-824	5/	221	-268	-46	241	5/321	-20	17	-61	-16
1926	-307	-857	-921	155	296	-351	-36	550	115	-20	27	419	9
1927	-452	-1,336	-1,114	193	285	-351	-349	884	-30	-20	128	824	-18
1928	-1,195	-1,541	-1,019	-94	361	-558	-231	346	483	-20	97	-205	-9
1929	-282	-836	-415	105	276	-602	-200	554	378	-20	223	-33	6
Total	-4,386	-7,768	-6,099	222	1,175 7	-2,613	-1,053	3,382	1,857	-160	516	1,148	21
1930	-777	-555	-775	405	300	-294	-191	-222	86	-20	-109	-184	5
1931	-443	756	-190	283	257	-222	628	-1,199	86	-20	-115	-1,157	7
1932	-221	478	-51	146	172	-16	227	-699	-6	-20	-270	-325	-78
1933	6/-342	-13	-83	-120	123	32	35	-289	180	-15	-52	-331	-71
Total	-1,783	666	-1,099	714	852	-500	699	-2,409	346	-75	-546	-1,997	-137
1934	6/422	281	-17	105	114	-17	96	111	--	-15	12	139	-25
1935	1,508	540	-53	-50	185	34	424	968	335	-15	10	639	-1
1936	1,208	232	-47	55	181	-12	55	976	615	-15	71	280	25
1937	877	321	-13	64	190	35	45	556	260	-15	163	151	-3
1938	441	67	-53	-10	87	16	27	374	72	-15	-5	307	15
1939	1,497	324	-53	64	93	9	211	1,173	-71	-15	304	824	131
1940	7/1,503	266	--	25	59	23	159	1,237	-231	-10	658	56	35
Total	7/7,456	2,031	-236	253	909	88	6/1,017	7/5,395	980	-100	1,213	2,396	177

Source: Data derived from "The United States in The World Economy", Department of Commerce, 1943, and condition statements of Federal Reserve Banks.

1/ Includes public offerings of American and semi-American corporations for foreign purposes (excluding discounts and refunding).

2/ Includes changes in banking and brokerage balances and a small amount of other short-term funds.

3/ From 1923 through September 21, 1938, figures represent official funds at the New York Federal Reserve Bank only and thereafter they also include funds held with commercial banks in New York City.

4/ Figures not available.

5/ Foreign and domestic security transactions not shown separately for these years. Foreign security transactions for these years are, therefore, included with "Net purchase or sale of American securities".

6/ Includes a 40 million dollar outflow in 1933 and a 30 million dollar inflow in 1934 to cover security arbitrage operations which could not be divided between foreign and domestic security transactions for these years.

7/ Includes special capital transactions amounting to 729 million dollars of the British Government in connection with the manufacture or storing of war supplies in this country.

investments abroad dwindled away to almost nothing and heavy withdrawals of short-term funds from foreign countries began. The net movement of American capital as a whole turned inward.

Until the devaluation of the dollar in January 1934 the return flow of American funds was more than offset by the withdrawal of foreign short-term funds from the American market; but after that event the movement of foreign money turned heavily toward the United States and added its effects to those of the return flow of American funds. From 1934 through 1940, as the table shows, the inward movement of American capital from abroad was about 2 billion dollars; and that of foreign capital was 5-1/2 billion dollars. Of the foreign capital nearly 1 billion dollars represented net purchase of American securities. All of this was acquired in the years of stock market advance (1935-1937) just as in the earlier period of 1928-1929; and, as in the earlier period, the subsequent stock market relapse brought no net liquidation. Liquidation occurred only after the outbreak of the world war forced the British Government to take over the dollar securities of its citizens and proceed to convert them into cash for war purchases.

Another portion of the 5-1/2 billion dollars represented the accumulation of dollar reserves by foreign central banks and governments. Holding dollars was often more convenient and, when Treasury bills were bought, more profitable than holding gold. Balances accumulated by foreign monetary authorities during the period amounted to 1,200 million dollars. Yet another portion, amounting to over 700 million dollars, represented special capital transactions of the British in connection with the manufacture or storing of war supplies in this country before the advent of Lend-Lease.

Only 2-1/2 billion dollars of the total recorded capital inflow of 7-1/2 billion on both American and foreign account represented the movement to the United States by foreigners of private short-term funds. Most of this short-term money was of the sort that shifts easily from one financial center to another under the impact of political and economic uncertainties. Some part of it undoubtedly came here to restore working balances that had been reduced in the period when the dollar was depreciating on the exchanges before definitive devaluation had occurred, and the subsequent expansion of business activity must have created a need for additional working balances. But the fact that most of these ~~the 2-1/2 billion dollars of~~ foreign short-term funds accumulated either during the crisis which the so-called gold-bloc countries -- France, Netherlands, Switzerland, and Belgium -- experienced after devaluation of the dollar or during the succession of war scares that characterized the later 'thirties suggests that the bulk of the 2½ billion dollars ~~these funds~~ were acquired for other than commercial reasons. What would have happened to them had the war not intervened with the vesting of private dollar assets by foreign monetary authorities and the freezing operations of the American authorities is difficult to determine. The fact that stands out is that the greater part of the recorded capital inflow of 7-1/2 billion dollars in the period 1934 through 1940 was of a different and more permanent character. It represented American money that had come home to stay, or foreign investments and official funds that were accumulating in a world financial center of increasing scope.

It should be noted that during this period the "unexplained items" in our official balance of payments were unusually high. In the aggregate they amounted to 3-1/2 billion dollars for the entire period 1934-1940. Capital movements that escaped the reporting system undoubtedly contributed to this figure, including some movements of a volatile type. The most concrete evidence, however, that we have as to the nature of a portion of the unexplained items is that refugees coming over here shifted substantial sums in this country from foreign to domestic ownership. These sums transferred to the American community ceased to be part of the international capital account. To a considerable extent refugee transfers have either been spent or will remain in the American community.

Lend-Lease and Other Developments

The introduction of Lend-Lease operations early in 1941 opened up a completely new phase of international finance. The rapidly mounting volume of war exports was ~~financed~~ handled by simple bookkeeping operations. Services such as ship-repair were supplied on the same basis and even certain construction operations. From the beginning through June 1944, more than 28 billion dollars of Lend-Lease assistance has been granted to the countries that are helping us fight the war. Over 21 billion dollars of this is reflected in our merchandise export trade.

As Lend-Lease operations taper off, however, after the war the question of the direction of the capital flow will again become of major importance. In one respect a change from the 1930's seems probable. Movements of foreign capital to the United States in disturbing amounts or for unproductive purposes are likely to be greatly curtailed. Foreign countries have had too extensive an experience with exchange controls to permit it to continue, and there is nothing in the plan for an International Monetary Fund devised at Bretton Woods that would prevent the application of these controls to capital movements. The greater problem will be to revive the flow of productive capital from the United States to the areas where it is needed. Direct investments to spread the range of American business enterprise will undoubtedly be in evidence immediately after the war. Countries with strong credit standing will also be able to borrow in the American market. The recent 100 million dollar credit to the Netherlands by a group of New York banks, while it is short-term and backed by gold, is an indication of possibilities in this direction. Nevertheless, the almost negligible amount of American lending abroad in the 1930's suggests the limitations that may be encountered in the uncertain post-war period unless American investors can be assisted at the outset by some measure of Government protection. The International Bank for Reconstruction and Development proposed at Bretton Woods was designed to provide such assurance. Most of the operations of the Bank would be in the field of guaranteeing loans which otherwise the private capital market would not make on reasonable terms.

Shifts in Gold Reserves

Foreign countries will enter the post-war period much better supplied with gold and dollar reserves than they were before the breakdown of the gold standard in the 1930's. As a group they will be able to meet larger deficits in their international transactions with the United States, should such deficits occur, without resorting to currency depreciation or exchange control or drastic measures of internal deflation.

It is estimated that by the end of September 1944 foreign countries had gold and dollar reserves in excess of 17 billion dollars as compared with 7 or 8 billion dollars at the close of the 1920's. How it came about that foreign reserves grew in such an extraordinary fashion notwithstanding the heavy and recurrent gold flows to the United States in the 1930's is partially shown in the accompanying table.

The first period in the table (1929-1933) covers the general disintegration of the gold standard. Most countries outside the so-called gold bloc, composed of France, Switzerland, the Netherlands, and Belgium, were involved in exchange depreciation or exchange control before the period was finished. The pressures first became acute in the raw material countries toward the end of the 1920's. Prices for their exports had been slowly declining even before the 1929 crash; and in the latter half of 1928, as has been noted earlier in this review, American loans abroad began to contract. The pressures on the raw material countries are reflected in the table in the experiences of Australia, Japan, and the Latin American group -- particularly Argentina and Brazil.

As the depression deepened major countries became involved in financial crisis. Germany, England, and the United States all held large amounts of short-term balances due to foreigners, and runs developed on each of these countries in succession. Germany was forced completely off the gold standard and into exchange control. It never recovered the gold that it lost at that time. England stopped short of exchange control but allowed sterling to depreciate. With the readjustment of sterling, money began to flow back to England and that country ended the period with gold reserves substantially higher than before. The United States was in the strongest position of the three with a foreign trade

Central Gold Reserves and Sources of Increase

(In millions of dollars)

	Central gold reserves			Gold production	Other sources of increase
	United States	Foreign	Total		
Amount at end of 1928	3,745	6,310	10,060		
Increase 1929-1933	265	2,190	2,455	2,315	140
January 1934 increment in dollar value 1/	2,780	5,895	8,675		
Increase or decrease (-)					
1934-1940	15,200	-5,615	9,590	8,560	1,030
1941-September 1944	-1,170	5,595	4,425	4,425	
Amount at end of September 1944	20,825	14,375	35,205		

Note: For footnotes see table below. Before January 1934 gold is valued at $20.67 a fine ounce; thereafter at $35 a fine ounce.

This table not ready when copy was stencilled. It will show, for the same periods as in the table above, the breakdown of the foreign gold reserve figures by significant countries and groups.

surplus and ample gold reserves. But its gold acquisitions for the period as a whole would have been considerably greater had the heavy withdrawals of foreign funds not occurred.

The funds withdrawn from the United States were mainly gold-bloc funds; and the gold bloc also participated in the withdrawals from England and Germany. Over 2-1/2 billion dollars of gold was added to this group's holdings during the period -- the greater part of it going to France.

The international strength of the gold bloc, however, proved only temporary. After devaluation of the American dollar in January 1934 the gold bloc stood almost alone on the gold parities of the 1920's. As its position became increasingly insecure, a series of capital flights occurred which carried gold in large amounts to the United States. The movement was broadened to other countries and intensified by war developments. Italy became involved in war in 1935 and Spain in 1936, and by the close of the period 1934-1940 the war in Europe was in full course. In addition the American stock market and the growing export surplus on merchandise account drew gold to the United States. United States gold reserves rose by 15 billion dollars in the period 1934-1940 while foreign reserves declined by over 5 billion dollars. As the table shows, the largest losses were experienced by France, the United Kingdom, Spain, and Italy. Much of the world was on an exchange control basis during this period and most countries had allowed their currencies to fall in relation to the dollar -- otherwise the gold losses would undoubtedly have been larger.

After Lend-Lease went into operation in March 1941, the foreign world as a whole ceased to lose gold. The mounting tide of American exports was handled by book entries. By the end of 1942 the balance of international trade outside Lend-Lease operations had turned adverse to this country. Heavy imports of raw materials and other supplies from Canada, Latin America, Africa, India, and other areas of the world still open to trade were paid for in cash. Cash exports outside Lend-Lease were insufficient to offset them. Finally, as American troops assembled abroad in great numbers military pay and other expenditures in excess of reverse Lend-Lease began to pile up dollars in foreign hands.

From the beginning of 1940 through September 1944 foreigners acquired about 5-1/2 billion dollars of gold while United States stocks fell by more than 1 billion. Most of this has occurred in the last three years. In fact from their peak in November 1941 just before the United States entered the war United States gold reserves have declined by 2 billion dollars to 21 billions. Foreign governments and central banks on the other hand have added not only to their gold stocks but to their official dollar balances as well. At the end of June 1944 such balances amounted to 3.3 billion dollars, 2 billion of which had been acquired since the start of 1940. Altogether foreign countries have added some 7-1/2 billion dollars to their gold and dollar reserves during this phase of the war. The increase has been shared by many countries that before the war were relatively weak in reserves.

Factors of Growth: Gold Mining and Revaluation

While it is clear that the great gold acquisitions of the United States have at times seriously threatened the reserve position of particular foreign countries, they have never had more than a partial effect upon the foreign reserve position as a whole. Powerful forces have been at work building up the world's gold stock. The two major forces are the mining output of gold and the revaluation upward of its monetary value per ounce. They are closely interrelated.

The table shows the immediate effect of the increased price of gold that accompanied devaluation of the dollar in 1934. Devaluation followed a few months in which this country was buying foreign gold at steadily rising prices. It might have been expected that the increase in the dollar value of gold, which occurred from November 1933 to January 1934, would be offset by a corresponding shrinkage in the value of the dollar. There is little, however, to substantiate this viewpoint, taking the period as a whole. Whether the value of the dollar is measured in terms of other currencies or in terms of its commodity purchasing power, it stood as high at the end of the turbulent decade of the 1930's as it did at the beginning. Despite devaluation, the exchange value of the dollar rose during the decade in terms of the great majority of foreign currencies. The only important currencies in terms of which it declined significantly were those of the Netherlands, Switzerland, and Belgium and even in these cases the exchange depreciation was far less than the devaluation of the dollar in terms of gold. As regards the purchasing power of the dollar in terms of world commodities, the same comment can be made. Notwithstanding devaluation, its purchasing power over most products was greater at the end of the 1930's than at the beginning and in terms of the general average it was substantially higher.

The effects of revaluation on the international gold position were far-reaching. They are evident both in the table and in the chart. The dollar purchasing power of foreign gold reserves was immediately increased by 5.9 billion dollars. This was a somewhat larger amount than foreign countries lost to the United States in the succeeding period of 1934-1940. Without it a number of the more important countries would have had to call a halt to the gold outflow much earlier. The United Kingdom, for instance, lost far more in the 1934-1940 period than its total gold stock on the old valuation. So did Italy and Spain; and France lost the equivalent of almost its entire stock. Without revaluation, shipments of gold in the same dollar magnitude from these countries would have been a physical impossibility.

The effects of revaluation were not limited, however, to the accumulations of the past. As the chart shows, the output of the mines has been a continuous source of growth in gold stocks of the world and of the United States. In 1929 world gold production was about 400 million dollars. It had fluctuated between 320 million dollars and 470 a year during the preceding quarter of a century. The depression of the early 'thirties and the higher price of gold in terms of sterling and numerous other currencies was already stimulating mining output when the sharp increase in the dollar price from less than \$21 an ounce to \$35 stimulated it still further. Both physical output and the value of each ounce produced rose. The dollar value of annual gold production reached a peak of over 1,400 million dollars in 1940 and 1941 before war demands for men and equipment began to contract output. This was a full billion dollars a year in excess of the annual value produced in the 1920's. As year after year it flowed into monetary stocks it enabled great transfers of gold to be made to the United States without a corresponding effect on foreign gold reserves; and during the war, when the United States was losing gold, it fed foreign reserves in a steady stream all over the world.

Other Factors

The table shows that other factors than gold production and revaluation were at work, but that their net result was relatively limited. Precisely what these other factors were and how much each accounted for it is not possible to say. The figures opposite "Other sources" are residual items. They represent the difference between the changes shown in monetary reserves and the amount of world gold production. Any error in the figures for reserves or production would be reflected in the amounts attributed to "Other sources", and since there is a possibility of errors in several cases where scattered reporting dates or estimates are involved, too much reliance should not be placed on the exact figures.

They can largely be explained, however. While the use of gold in dentistry, the arts, or for industrial purposes would constitute a deduction from monetary stock, commercial consumption was low in the slack years of the 1930's. Meanwhile the amounts of gold turned in to the monetary authorities by the public in several countries were substantial. Under the stress of depression and with the inducement of the higher sterling price of gold the Indian public dishoarded nearly 300 million dollars at the old dollar valuation in years 1931-1933 and about 840 million dollars thereafter at the new valuation. Our own citizens were required by law to turn in their gold coins in 1933. In 1935 at the time of the Ethiopian war the Italian people turned in their wedding rings and other gold at great public rallies to assist the Government in meeting war needs. At the outbreak of the world war in 1939 private holdings of gold were mobilized in several countries. Throughout the decade, however, there had been new hoarding of gold from time to time by those who acquired it on the London market or elsewhere. The figure in the table, therefore, of 1,210 million dollars for total net receipts from "Other sources" in the years 1929-1940 does not appear unreasonable.

No figure is given in the table for the period 1940-September 1944. During this period gold has been sold to the public in both the Near East and Asia to combat inflation and to obtain local currencies needed in the prosecution of the war. To the extent that this is the case the amount of monetary gold reserves in the hands of central banks and governments at the end of September 1944 has been overstated. Precise figures of the amounts involved have not been published.

It can be estimated, however, that foreign gold reserves at the end of September 1944 were at least 14 billion dollars which, together with official dollar balances of about 3 billion dollars, gives a total of 17 billion dollars of gold and dollar reserves. Furthermore, these reserves were growing and were better distributed than the 7 or 8 billion dollars that foreign countries possessed on the eve of the financial crisis of the 1930's. While the 1940's and the 1950's may be decades in which world trade will be subject to unpredictable stresses arising out of the great distortions of the war, one of the factors -- namely disturbing capital movements -- that played so prominent a part in overturning the international balance in the 1930's will almost certainly not be permitted to play that role on the same scale again. The International Monetary Fund proposed at Bretton Woods permits full use of the experience which most countries have now gained in the control of capital movements. The Fund would also provide a mobile reserve of currencies to which all members would contribute and which could be made available to any member for meeting trade deficits until corrective measures become effective. This mobile reserve could be massed at any danger point and would powerfully reinforce the position of any member whose independent reserves were proving inadequate to meet the drain.

With measures of capital control abroad, with foreign reserves more ample than they have ever been before and supplemented by the resources of the International Monetary Fund if that institution comes into being, the prospects for some degree of stability and freedom in international exchange relationships in the post-war period will be good. How great a degree of stability and freedom -- and in particular how great a volume of American export trade -- will depend on the success that the United States achieves in moving toward a full production economy at home and in pursuing on the international front policies that encourage American imports of foreign goods and services, and that facilitate American investment in all parts of the world where it will prove productive.