Present Foreign Payments Practices
in the United States

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Foreign payments practices in the United States do not differ basically, except in technical details, from those in other countries which are active in international trade and finance. In contrast to most other countries, however, they are not affected by domestic government restrictions 1/ since residents of the United States are entirely free to make or accept foreign payments and to contract debts or accumulate assets in foreign countries. At present there is one direct restriction on foreign payments--i.e., that affecting Chinese and North Korean interests--and also various restrictions on merchandise exports and imports. All of these restrictions, however, are generally motivated by strategic or protective considerations and (with the exception of those affecting China and North Korea) involve no direct restrictions on the making or receiving of foreign payments. As a result of its favorable trading position and large gold reserves, the United States had not been faced with the problems which, in many other countries, have been regarded as a justification for exchange control, and most foreign payments in the United States are therefore effected along traditional lines in whatever manner experience has proven to be most practical for the type of merchandise or financial transaction involved. A number of nontraditional practices, however, have developed in recent years as the result of trade and

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1/ With the exception of the exporting and importing of gold which is regulated by the Government.

payments restrictions established by foreign governments. While these non-traditional practices apply to only a small part of foreign payments, they have acquired some importance and will be discussed in a separate section of this paper.

Traditional Payments Practices

Payments methods

Most foreign payments in the United States are made through regular banking channels by means of traditional payment methods. "Clean" payments (i.e., those not conditioned upon the delivery of commercial documents or other requirements) to foreign countries are usually effected in one of the following ways:

(a) Cable transfers (where a U.S. bank requests its foreign correspondent by cable to make a payment either out of the former's foreign currency balance or against reimbursement in dollars by credit of the latter's dollar account);

(b) Airmail or regular mail transfers (same transaction as in (a), except that instructions are forwarded by mail);

(c) Drafts (where the U.S. bank draws a bank draft on its foreign banking correspondent to the order of a foreign beneficiary. Reimbursement is the same as in (a) and (b)).

Owing to the universal acceptability of the dollar (and for other reasons discussed later), most of such U.S. payments are made at the present time on a dollar basis, i.e., the U.S. bank credits the dollar account of its foreign correspondent requesting it to effect the payment in domestic currency.

The amount and type of exchange sold by the U.S. banks to their customers are limited only, if at all, by regulations abroad or by the banks' own limitations. No control is maintained by the U.S. Government (apart from that on payments by means of gold), and the form of payment chosen is entirely at the discretion of the customer and his bank.

Purposes of foreign payments

In making or receiving foreign payments, the U.S. banks deal generally with three types of customers which are, in the order of their importance, (a) exporters and importers in connection with foreign shipments, (b) individuals or corporations desiring to make or receive nontrade financial payments and (c) speculators.

Export and import transactions account for the bulk of foreign payments. The methods of financing foreign trade in the United States are basically the same as those employed in other countries which are active in international trade. In contrast to many foreign countries, however, the methods employed (including in particular, the question of whether payment is to be in U.S. dollars or foreign currency) are not prescribed by the Government, but are based on the requirements in each case (market conditions, credit worthiness, etc.) and are entirely a matter of agreement between the customer and his bank. Special requirements exist only for foreign shipments financed under foreign aid programs, such as those of the Export-Import Bank, the International Bank, and ECA. The purpose of these special requirements, however, is largely to guarantee uniformity of procedure rather than to assume exchange "control" over the actions of a U.S. shipper.

Specifically, the principal methods of financing U.S. foreign trade are (a) export and import commercial letters of credit, (b) documentary drafts, (c) advance cash payments, (d) open account basis, and (e) consignment basis. 2/

2/ A detailed discussion of these methods would go far beyond the scope of this paper, but reference may be made to the following publications which contain up-to-date descriptions: Guaranty Trust Company of New York, A Review of Export and Import Procedure (revised, July 1950); William S. Shaterian, Export-Import Banking (New York, 1947); Morris S. Rosenthal, Techniques of International Trade (New York, 1950).

The use of export letters of credit has increased considerably since the war because it protects the shipper not only from the credit risk of shipping to a war-devastated country, but also from the possibility of changes in exchange control regulations abroad. Once the U.S. shipper has obtained an irrevocable letter of credit in his favor confirmed by a prime U.S. bank, he need no longer worry as to whether the foreign authorities will allocate exchange when the merchandise reaches the foreign country three or four months after the date of his contract.

Owing to (a) the large world-wide demand for U.S. goods, (b) the insistence of many U.S. exporters and importers on dealing on a dollar basis because of their lack of foreign exchange experience and confidence in exchange stability abroad, and (c) the regulations of some countries which require U.S. dollar payments for their trade with the United States, a large percentage of U.S. foreign trade is billed in U.S. dollars. The very considerable bearings of this fact on the exchange market and on payment practices are described below.

Foreign payments for account of individuals are usually small individually but, in the aggregate, they represent a fairly important function of the banks located in the larger cities with a heavy foreign born population. The outflow of such payments from the United States is considerably larger than the inflow, and generally is accounted for by personal or charitable payments to friends or relatives abroad or by incidental small payments for services. The individuals initiating these payments are normally very little concerned about the technicalities; they merely fill out their instruction forms and leave it to the judgment of the banks to effect the payments through their correspondents or branches abroad. While the foreign payments of individuals have traditionally been made largely through banking channels (except a fairly small volume which is routed through travel agencies having direct relations with similar agencies or banks abroad), the official rates of exchange in many countries (which many consider unrealistic but which banking channels nevertheless must respect) have driven some of these payments into the hands of less ethical exchange dealers. More detailed information on this subject is given below in connection with the discussion of nontraditional practices.

Payments received by U.S. residents from abroad, if denominated in a foreign currency, and if freely convertible into dollars, are usually sold by them to their banks or, in rare cases, are left deposited in a foreign bank. Because of restrictions on foreign currencies abroad, the recipients usually convert the proceeds into dollars at the earliest opportunity. For the same reason, U.S. banks, when purchasing the currency from a customer, usually do not pay the dollar equivalent to him until they have ascertained that the exchange purchased is freely convertible into U.S. dollars, or can otherwise be freely used.

Financial payments of corporations are generally made through regular banking channels or through mere bookkeeping entries between head offices and foreign subsidiaries or agents; they usually represent the transfer of profits or capital at the official rates of exchange. Owing to the uncertainties of foreign financial and political conditions, payments thus received from abroad are usually converted into dollars rather than kept as a foreign currency deposit in a foreign bank. However, the repatriation of foreign capital and profits is often not only a foreign exchange problem; tax considerations also influence the decisions of investors. This is particularly true of investments in countries with a stable currency because the advantage for tax purposes of transferring or not transferring a profit from a foreign country to the United States at a given moment might well outweigh any adverse developments which could be expected to affect the foreign currency involved.

Conversions of blocked balances by corporations or individuals through nontraditional methods have been growing in importance; they will be discussed further below in connection with the nontraditional payments practices.

Travelers' letters of credit and travelers' checks of Americans going abroad are generally issued in dollars because of the universal acceptability of that currency throughout the world. When these checks or credits are cashed abroad, the foreign bank pays the local currency equivalent (at its buying rate for drafts on New York) to the beneficiary and sends the travelers check or the draft drawn under the credit to the issuing bank in the United States. When these instruments are received in the United States, the dollar amount is credited to the foreign bank's account in reimbursement.

Speculation in foreign exchange is much less widespread in the United States than in the Far and Near East and some European countries. Although the migration to New York, during the last 15 years, of a number of experienced European and Far Eastern exchange specialists and investors has tended to increase speculative activity, this is not believed to be large in comparison with the other factors in the exchange markets. This is due partly to the lack of foreign exchange experience of many Americans and to the fact that restrictions abroad have tended to reduce the opportunities for speculation. U.S. banks are generally aware of the fact that most foreign governments consider speculation in their currencies as undesirable, and they have, therefore, not encouraged speculative activities by their customers. For competitive reasons, however, it might be difficult for a bank to refuse such business to well-established customers maintaining large accounts, and it is often not easy for a bank to distinguish between speculation and bona fide commercial transactions at the time it is approached by a customer.

A few of the more important speculative movements along traditional lines in recent years include: (a) the forward sales of sterling when devaluation became a possibility in 1949; (b) the forward purchases of sterling and the purchases of sterling securities coincident with the rumors concerning an upward revaluation in late 1950 and in the spring of 1951; (c) the various waves of speculative forward purchases of Australian pounds and purchases of Australian securities because of the rumored upward revaluation of the pound throughout 1950; and (d) the considerable flow of U.S. capital (in the form of securities and forward contracts) into Canada throughout the summer and early fall of 1950 when an upward revaluation was expected.

In each case the speculative demand for forward contracts and considerable anticipatory buying by commercial interests had a considerable influence on U.S. banks' foreign balances. Not being able to cover their inflated sales of forward contracts through the purchase in the New York market of similar contracts (and, as will be explained later, in detail, not being permitted to cover them in the official forward market of the foreign country involved), U.S. banks were forced to buy spot exchange at the time the futures contracts were sold. Their foreign balances, therefore, showed very sudden and large increases over normal requirements. This was a profitable business for them owing to the spread between the spot and forward rates and the interest earned on the deposits abroad.

While U.S. banks may have had a moderating influence on exchange speculation in recent years, there have been no governmental restrictions in the United States which might have prevented it. What little restraint existed was due to action by foreign governments, or the fear that such action might be taken. A particularly good example in this connection was furnished in 1950 by the Australian authorities who discouraged speculation in their currency by permitting reconversion into dollars of allegedly speculative Australian pound balances only after a period of delay during which speculators were questioned on the nature of the transactions involved. Some of these spot pound balances had been accumulated as cover for futures contracts sold by the banks.

The foreign exchange market

The principal foreign exchange market of the United States is in New York City. Most inland banks conduct their exchange operations through their New York correspondents, with the exception of a few banks in such cities as Boston, Chicago, Philadelphia, and San Francisco, where some trading is done. In New York, about a dozen domestic banks with active Foreign Departments and some branches of foreign banks comprise the market. Banks do not deal directly with each other but use the services of a number of brokers. All trading is done by telephone since there is no market-place, no trading hours or days are fixed, and daily high or low figures are not officially quoted.

Since most payments to and from the United States are made on a dollar basis, only small supplies of exchange flow into the market and the demand is not particularly large. Trading in the market, therefore, is only a fraction of what it used to be before the war. While the demand is not very large, the supply of individual currencies is, in general, insufficient to meet the requirements and banks have to purchase their net requirements from their foreign correspondents. The banks, therefore, have standing arrangements with their foreign branches and correspondents to purchase exchange from them whenever needed. With the exception of Canada and Switzerland, the rates of exchange charged by the foreign banks for these transactions are those fixed for the dollar by the foreign governments, plus a small margin of profit for the foreign bank. Reimbursement is made in U.S. dollars credited to the foreign bank's account. For certain sterling area currencies (notably Australia and New Zealand pounds, Indian and Burmese rupees, and Malayan dollars), it is usually advantageous for the U.S. banks to make their purchases against American Account Sterling. These transactions, incidentally, represent the only important type of exchange arbitrage now conducted in the market since the opportunities for arbitrage have been reduced very much by exchange restrictions abroad.

The most important foreign currency in the market is the pound sterling, largely because Far Eastern sterling area, Australian, and New Zealand commodities are traditionally billed in that currency and because there is some natural inflow of funds into the market in connection with the sterling income of oil companies and grain dealers. The bulk-buying of commodities by the British Government and the inconvertibility of sterling have almost obliterated the system of sterling bills which, before the war, created a very large supply of sterling in the U.S. exchange market. At that time, British purchases of commodities in the United States (in particular, of cotton) were conducted through private channels. Payment was made traditionally in sterling by means of bills which were often discounted in London. Since the war, however, the United Kingdom has made bulk purchases of commodities against payment in dollars out of governmental accounts--a practice that has been somewhat modified recently. Nevertheless, activity in sterling exchange, although larger than that in any other currency, remains far below the prewar volume.

The Canadian dollar is the next most active currency in the market largely because of the size of U.S. investments in Canada; however, activity is very much limited by Canadian restrictions. The regulations of the Canadian Government, which provide that exports to the United States may not be paid for in Canadian dollars, and some technical market factors restrict to the Canadian markets the bulk of the U.S. dollar-Canadian dollar transactions and limit the scope of utilization of Canadian dollar balances held by U.S. residents.

There is also relatively sizable activity in the Swiss franc. Other currencies are traded only in relatively small amounts or not at all.

Although there are no officially fixed rates for any foreign currency in the United States, rates quoted in the New York foreign exchange market are limited in their movements, in most cases, to a range which roughly reflects the official buying and selling rates for the dollar established by foreign governments. For instance, sterling rates in the U.S. market are practically pegged between $2.79-7/8 and $2.80-1/8 as the result of the official British buying and selling rates for the dollar. If a U.S. bank can sell all its sterling in London at the fixed rate of $2.79-7/8, it would, of course, not need to sell it for less in the New York market. Conversely, it would not pay more than $2.80-1/8 for it.

Only three rates in the traditional New York foreign exchange market can be considered to reflect freely (within certain limits) supply and demand and the market's opinion as to the balance of payments outlook. These are:

(a) American Account sterling forward contracts (other than those which relate to a commercial shipment and can, therefore, be covered in the official London market), rates for which are entirely subject to supply and demand and are in no way officially supported either here or abroad;

(b) The Canadian dollar, the rate for which appears to reflect fairly faithfully supply and demand over a period of time;

(c) The Swiss franc, which is subject to free fluctuations within the fairly broad support limits of the Swiss authorities.

Owing to the general lack of interest in foreign currencies, the New York forward market is largely restricted to sterling. At times, however, abnormal speculative demand will result in unusual activity in other futures.

During periods of normal activity, sterling forward contracts are acquired by commercial customers from their banks largely in connection with their purchases of commodities from Australia, New Zealand, and Far Eastern sterling area countries. The banks, which generally would not want to assume an exchange position for their own accounts, will cover their sales to customers by purchasing a corresponding maturity in the market. In the case of bona fide commercial transactions, i.e., those where a firm contract for the shipment of merchandise exists, banks are also able to cover their sales in the official forward market for the dollar in the United Kingdom, at the official rates fixed by the British authorities. In the case of transactions which are not of the bona fide commercial type, which includes hedging in connection with contemplated commercial transactions, the London official market cannot be used, and the U.S. banks are limited to the domestic market for their covering operations. As indicated in an earlier section, they have to purchase spot sterling to cover their sales of futures during times of unusually large demand because the supply of sterling futures is usually not very great. Most of the supply is derived from hedging operations by corporations and individuals in anticipation of sterling income.

Aside from sterling, futures transactions in the New York market, during times of normal activity, are almost exclusively restricted to a small volume of transactions in Swiss francs and Canadian dollars.

A small but not unimportant part of foreign exchange trading in New York takes place in the market for foreign bank notes. This market is composed primarily of a small number of bank-note dealers and, to a lesser degree, the commercial banks some of which usually keep a small supply for the convenience for their customers. In transactions in Canadian bank notes, the New York agencies of Canadian banks play an active part. The New York market is usually a net buyer of bank notes abroad and purchases its net requirements largely in Zürich. In almost all currencies, bank notes can be bought in New York at (sometimes considerable) discounts, the size of which depends largely on the individual countries' restrictions on the importation of notes. The New York bank note market is maintained largely in order to satisfy tourist demand and in connection with payments to foreign countries. The latter activity is discussed below in detail in connection with the nontraditional payments practices.

Relations between U.S. banks and their foreign correspondents

In order to be able to render these foreign services to their customers, U.S. banks maintain branches in some of the principal foreign financial centers, or establish close correspondent relationships with the principal banks abroad.

The balances maintained by U.S. banks abroad (i.e., in foreign currencies) have been kept to a minimum in recent years because of (a) possible foreign restrictions on the convertibility of such balances into dollars, (b) the fact that such balances must be acquired at official rates of exchange which are frequently considered to be unrealistic and therefore liable to devaluation, (c) unsettled international political conditions, (d) the lack of demand for foreign currencies in the United States, and (e) the impossibility of protecting the banks' foreign balances against devaluation. The last factor is especially important. Under normal conditions, the banks could protect themselves against devaluation by selling in the forward market an amount equivalent to their "spot" balance. Under present conditions this is not possible in most cases, because, as indicated above, there are no important forward markets in the United States (except for sterling), while the official forward markets for the dollar in several foreign countries generally do not cover the purely financial risks of a U.S. bank which maintains an operating balance. As a means of creating short-term funds in the money market, the French Government recently permitted U.S. and Swiss banks to cover their free franc balances and short-term investments by the purchase of dollars in the forward market, but similar facilities are lacking in other countries. For these reasons, the U.S. banks keep their foreign balances to a minimum and convert foreign currencies obtained by them (or their customers) into dollars without delay. Similarly, transactions which would result in the acquisition of blocked balances are carefully avoided.

The dollar accounts maintained by foreign banks in the United States thus have become the principal channel through which settlement between the domestic and foreign banks is made. Business done (i.e., payments made, etc., by the foreign bank for account of the U.S. bank is credited to that account, and business done by the U.S. bank for its foreign correspondent is debited to it. For instance, U.S. banks frequently find it necessary to cover their sales of foreign exchange on a "dollar basis," i.e., not being able to buy the exchange in the domestic market and not having themselves sufficient balances abroad to satisfy the customer, they credit dollars to their foreign correspondents with the request to pay out the equivalent in foreign exchange. Their customer is not necessarily aware of this procedure; he merely pays an agreed rate of exchange for the currency.

Conversely, the accounts maintained in the United States by foreign banks have been small owing to the shortage of dollar reserves abroad and the tendency of exchange control authorities to concentrate exchange reserves in the accounts of the central bank. In many cases, the dollar accounts of foreign banks (other than central banks) represent only minimum balances required for operations.

Position of the central bank

The foreign business of the Federal Reserve System is handled by the Federal Reserve Bank of New York under the supervision of the Board of Governors of the System. Owing to the absence of exchange control and of official rates of exchange, the Federal Reserve System in the United States, unlike the central banks of most other countries, is not a source of foreign exchange for its member banks, nor does it purchase foreign exchange from them except for its own purposes. In other words, the central bank does not "make a market' it does not fix rates; and the banks do not receive any exchange assistance whatsoever from it. It is merely another customer in the market, which purchases or sells currencies for account of its customers (mainly the U.S. Treasury and foreign central banks). In a few cases, the central bank assists in stabilizing exchange rates by standing ready to buy or sell (or both) foreign currencies at fixed rates. In each case, however, it does not act for its own account or for the U.S. Treasury, but as the agent of a foreign central bank which is endeavoring to assure that the New York rate for its currency does not move beyond certain limits between the closing hours of the foreign and New York markets.

Nontraditional Payments Practices

The remainder of this paper will show, in a general way, how the existence of foreign exchange restrictions in other countries (or rather the desire to circumvent such restrictions) has not only modified the traditional practices in the United States described above, but has also been responsible for the creation of a number of new, nontraditional, payments practices. These new practices have been accompanied by the development of a market for foreign currencies which is quite separate from that maintained by the commercial banks in connection with the traditional practices.

Activity along these nontraditional lines accounts for only a small part of the total U.S. foreign payments, but a description should be of interest since the very existence of nontraditional practices is due to the fact that the U.S. dollar is freely convertible and that Americans are free to engage in any financial transactions they wish (including the violation of the regulations of other countries, although, of course, contracts involving such violations cannot be enforced in the courts of countries which are members of the International Monetary Fund).

The development of nontraditional practices has been primarily along the following lines:

(a) The many types of exchange deals incidental to transshipment of merchandise;

(b) Regular black market financial transactions--often referred to as "internal" payments--through transfers outside the regular banking channels, including payments in banknotes;

(c) International security arbitrage;

(d) Trading in blocked balances.

Transshipments of merchandise

Transshipment transactions usually involve the transshipment to the United States of merchandise purchased with a soft currency. An example is that of wool purchased in a sterling area country with sterling out of an account of country "X," ostensibly for shipment to "X." The wool never reaches "X" because it is transshipped either directly (or through a free port in "X") to the United States for sale against U.S. dollars. This type of transaction has the following advantages for the purchasers and the middlemen:

The U.S. importer obtains merchandise more cheaply than his competitors, since his reimbursement in U.S. dollars to the middleman in country "X" for the sterling spent is at a rate which represent a discount from the official U.S. dollar/sterling relation. The middleman in "X" succeeds in converting a soft currency into a hard currency which, in turn, can be converted into domestic currency through the black market at an advantageous rate, or can be used to purchase otherwise unavailable merchandise in the United States. The merchandise might be resold at a handsome profit in "X." The broker who has brought together the U.S. importer and the middleman in "X" receives a liberal commission which in the case of transferable and bilateral sterling amounted to as much as 5 cents per pound sterling in the early days of trading. It should be noted that the sterling involved in these transactions is not, and could not, be credited to an account of the American importer. He merely "purchases" the right to utilize it for his purposes.

It would be futile to attempt, within the scope of this paper, a description of anything beyond the foregoing fairly simple, but typical, example of a transshipment deal. Almost every transaction differs in detail, and at times as many as four or five different countries are involved. While differing in detail, however, all of these transactions have two factors in common: their motivation arises principally from foreign regulations restricting the convertibility of certain currencies into hard currency, and their purpose to the foreigners is to acquire hard currency for conversion into soft currencies at favorable rates or for the purchase of hard currency merchandise.

Among the currencies which have been involved, the most prominent have been "bilateral" and "transferable" account sterling; others include German "offset" marks and German "offset" dollars, the various types of Belgian francs, Canadian "special arrangement" dollars, and certain types of French francs and Dutch guilders.

"Transferable" and "bilateral" sterling have also been used for payment to American exporters in cases where the export could otherwise not have been effected owing to the lack of dollar exchange in the importing country. This use of "cheap" sterling is believed to have been less important than that connected with imports to the United States.

Black market financial transactions

Black market payments received by Americans through transfers outside the regular banking channels usually constitute the liquidation of capital abroad or the conversion of foreign balances which could not otherwise be transferred. In payments from the United States, they reflect the reluctance of Americans to make foreign transfers at the official rates which regular banking channels must respect. Technically, these black market transfers are generally effected in the following manner: An American turns over dollars to an exchange dealer in, say, New York, who in turn credits these dollars to his contact abroad. The latter pays the domestic currency equivalent to the beneficiary either in cash, by check, or through local banking channels. Because they are less exposed to detection by the authorities, "cash" payments in the country of destination usually command a premium over check or banking payments. The important aspect of these transactions is that payments ia made at a rate below the official rate and attractive to the American. The foreign contact can pay this rate (which is initially unfavorable to him) because he can dispose of the dollars so obtained to persons willing to pay a premium for dollars which they cannot legally acquire. Since the end of World War II, the black market has been extensively used for payments to such countries as France, Italy, Greece, Austria, and Germany.

A slight variation of the above type of black market payment has been the growing practice in recent years for Americans to purchase foreign bank notes and mail them directly to friends abroad. Since these bank notes (which usually have been smuggled out of a foreign country) cannot be legally re-imported to that country, the American payor is able to obtain them at a discount. The payor rarely worries about (and often is not aware of) the fact that his shipment of bank notes is contrary to the regulations of the payee's country and thus violates U.S. postal regulations which prohibit the mailing of bank notes to a country which prohibits the importation of notes in this manner. The demand for bank notes in connection with payments of this type has become an important factor in the New York bank note market described above. The quotation of notes at a discount from par is a development resulting from exchange restrictions abroad. Prior to exchange control, the bank note rates (except for seasonal or exceptional conditions) would have varied from parity by only the amount of shipping charges and dealers' profit margins.

International security arbitrage

International security arbitrage is not an invention of recent years, but it has developed in new ways because of the various restrictions abroad concerning the exportation or importation of securities. U.S. holders of British securities, for instance, cannot sell them in England and transfer the proceeds at the official rate. They may, however, sell them to other Americans against U.S. dollars. Because he is unable to convert such securities officially, the American buyer will, of course, expect to obtain them in the United States at a discount. There exists, in fact, a very active market in British securities between Americans (and between Americans and residents of other hard currency countries). The rate in these dealings, usually referred to as "switch" or "securities" sterling, is established as follows: a security which could be sold in London against inconvertible sterling at, say, £100 is bought by one American from another American for \$230. The resulting rate for "switch" sterling would be \$2.30 per pound.

There are similar markets for the securities of other countries, many of which have restrictions on the exportation or importation of securities. A resident of country "X," for instance, might purchase securities of his country in New York against dollars at the prevailing discount. He repatriates them to his country and sells them there against domestic currency at full price, thus netting a considerable profit. He might have utilized the dollars and/or repatriated the securities with the permission of his government. On the other hand, he might have had to purchase the dollars in the black market (which would reduce his net profit), and/or the securities might have been repatriated by smuggling.

Trading in blocked balances

Dealings in blocked balances were practiced even before the war, particularly in the various types of German mark. In the postwar years, this kind of activity has not been very important, except in connection with transshipments which have been described above. In March 1951, a market developed in New York in the new German mark when German regulations permitted the transfer of such balances between foreigners; restrictions on the utilization of balances so purchased and other considerations have kept the rates for these dealings considerably below par. In recent years there has also been a market for certain French and Italian blocked balances accumulated largely from the sale of capital assets. These dealings were effected at rates which were usually close to par, because utilization of the balances was permitted on a broader basis than in the case of the mark.

The "nontraditional" exchange market

A special exchange "market" has developed to accomodate the above described nontraditional transactions. For security arbitrage the market is, of course, largely made by U.S. stockbrokers and securities dealers. A number of these houses are also engaged in exchange dealings for certain types of transshipment arrangements, because they believe that, while these transactions may be illegal under foreign laws, they are legal under U.S. laws, and that they, the brokers, are merely acting as go-betweens who receive a commission for bringing the two parties together without ever letting the illegal payments go through their own accounts. The commercial banks have largely shied away from any of these transactions (except those which are legal under both foreign and domestic laws, such as blocked balances), because they are fearful of having their names mentioned in connection with a transaction violating the laws of any country. The black market payments, and some of the variations of transshipments which involve the more flagrant violations of foreign regulations, are handled by a number of smaller exchange houses and securities dealers.