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REVIEW OF FOREIGN DEVELOPMENTS

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Nationalization of the Bank of England

Karl R. Bopp
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The Bank of England Act, 1945, is designed to fulfill last summer's election promise of the Labor Party to nationalize the Bank of England. It was introduced by the Chancellor of the Exchequer on October 10 and passed the second reading in the Commons on October 29 by a vote of 328 to 153. The expressed purposes of the bill, which is expected to become law in substantially its present form, are: (1) to bring the capital stock of the Bank into public ownership; (2) to bring the Bank under public control; (3) to make provisions with respect to the relation between the Treasury, the Bank, and other banks.

The relationships with which the new Act deals cannot be understood apart from the basic attitudes of the people toward their prevailing social organization. It is difficult, for example, even to visualize a Soviet central bank outside the control of the State or a Victorian central bank under governmental control. In England for a century or more before the first World War most people believed that the proper role of government was one of laissez-faire. There was widespread determination to keep the activity of the government in economic and financial affairs to a minimum, although the government of the day usually was expected to assume and did assume a large and active part in times of great national emergency, such as wars and crises. A necessary corollary of the general belief in laissez-faire is that the central bank should be independent of the government. The Bank of England has usually been cited as an ideal illustration of an independent central bank.

Predominant opinion in the period of reconstruction that followed the first World War still favored independent central banks. International financial conferences uniformly recommended that "Banks, and especially Banks of Issue, should be freed from political pressure..." - to cite the words of the Brussels Conference of 1920. A decade later this was still the view held both at the Bank of England and at the Treasury. For example, Sir E. M. Harvey, Deputy Governor of the Bank, testified before the Macmillan Committee in November 1929 that the central bank "should be free from political control;" and Sir Richard Hopkins, of the Treasury, testified in May 1930 that "the control of the currency is exclusively a matter for the Bank of England. It is not a matter in which the Government intervenes." Very few witnesses favored nationalization at that time.

A marked change in attitude toward the role of the government followed the abandonment of the gold standard and the adoption of a cheap money policy in the depression. Illustrative of this change was the establishment of the Exchange Equalization Account, with the Bank of England as executive agent, but under the control of the Treasury. In reviewing this and similar reforms, Governor Norman said at the Mansion House in 1936:

"I assure Ministers that if they will make known to us through the appropriate channels what it is they wish us to do in the furtherance of their policies, they will at all times find us willing with good will and loyalty to do what they direct us as though we were under legal compulsion."

The current reaction to laissez-faire in monetary policy, therefore, is not merely a war-time phenomenon; it has been developing for several decades and at an accelerating rate since the Great Depression.

The overwhelming victory of the Labor Party in the elections is a measure of the strength in the United Kingdom of the view that the government should take a positive role in the economic and social life of the country. It is the intention of the Labor Government to bring under public ownership the fuel and power industries, inland transportation--rail, road, air, and canal--and the iron and steel industry. In addition, it plans extensive governmental control over exports and over supplies and prices of scarce raw materials, and continuation of war-time controls over labor, food, and clothing. Nationalization of the Bank of England is an integral part of this larger program of increasing the role and responsibilities of government in the life of the country.

It is as a reflection of this change in fundamental attitudes toward the role of the government rather than as a harbinger of changes in monetary policy that the nationalization of the Bank is significant. "As regards policy, it is clear that for some time past the power has shifted from Threadneedle Street to Whitehall..." as Mr. Oscar Hobson remarked when Lord Catto of the Treasury was appointed governor to succeed Mr. Norman. Hugh Dalton, Chancellor of the Exchequer, expressed the same view to the House of Commons on August 21, 1945, when he said that "To a large extent the change proposed would have the

effect of bringing the law into accord with the facts of the situation as they had developed." If there is a surprise in the law, it would appear to be that the government, whose time one might expect to be fully employed with pressing issues of substance, should be so concerned with bringing statutory law into accord with the facts. Another element of general interest is that the government would formally assume responsibility for powers that it already possesses but with divided responsibility. This aspect of the proposed legislation is considered of great public advantage by Lord Bradbury who wrote to the Statist that "There is always much to be said for putting the saddle on the right donkey's back."

The Bank of England has been a private corporation whose shares are bought and sold freely in the open market. The stock has almost always been a good investment and at times a good speculation. Under the new Act, the owners are to transfer their Bank stock to a treasury nominee in exchange for "the equivalent amount of Government stock created by the Treasury for the purpose." For each £100 of Bank stock the proprietors will receive an allotment of £400 of 3 per cent government stock on which the government will retain the option of redemption at par after April 5, 1966. In effect, this means that the stockholders will suffer no loss in income, since Bank stock has paid a regular dividend of 12 per cent for the last twenty-two years. The Bank will pay the Treasury each half year an amount equal to the accumulated dividend or such sum as may from time to time be agreed upon between the Treasury and the Bank. In other words, the Bank will provide the Treasury with the funds needed to pay the interest on the new government stock. Earnings beyond this amount will continue to be credited to surplus and reserves but no longer, of course, even hypothetically to the stockholders.

The Bank has been managed by a Court of Directors consisting of a governor, a deputy governor, and 24 directors elected by the proprietors of at least £500 of stock, each of whom has one vote. Under the new Act, these officials will be appointed by the King and the number of directors will be reduced from 24 to 16. The term of the governors will be five years and that of the directors four years, with one-quarter of the terms expiring each year. All will be eligible for reappointment. Members of the House of Commons, paid government servants, and aliens will be ineligible. Not more than four directors may be full-time employees of the Bank.

In August, before the details of the new law were known, the Statist felt that "a more or less clean sweep of the Court of Directors is perhaps to be expected." The actual terms and the discussion surrounding the introduction of the bill, however, led the Economist to conclude that "it will be very surprising if there are many new faces around the table when the first nationalized Court assembles." The apparent intent is to maintain the principle of continuity in the membership and to prevent, at least after the initial change, a government of the day from replacing the whole Court at one time.

The Treasury will be empowered after consultation with the governor to give such directions to the Bank as it deems necessary in the public interest. Subject to such directions, however, the affairs of the Bank are to be managed by the Court of Directors. The governor has the right to be heard before the Treasury may issue directions. What this may mean in practice depends largely on the personalities at the two institutions. Since it has been announced that Lord Catto will remain as governor "for an appropriate period," it is extremely unlikely that any serious disagreements are in immediate prospect. It is not apparently intended that the Treasury should issue directions on minor matters.

If the Bank thinks it necessary in the public interest, it may request information from and make recommendations to bankers and, if authorized by the Treasury, may issue directions to any banker to assure that the requests or recommendations are made effective. Obviously, this provision is very broad. There is, however, no evidence that its purpose is to govern the day-to-day operations of bankers such as decisions on whether to grant a loan to a particular applicant. The initiative for the requests and recommendations is placed in the hands of the Bank, not of the Treasury.

Bretton Woods Deadline

Alice Bourneuf

The Fund and Bank Agreements as drawn up at Bretton Woods include similar provisions setting a deadline before which the Agreements must be signed by a certain proportion of the countries represented at Bretton Woods if they are to come into force. The Bank Agreement can not become operative unless the Fund Agreement is adopted. The following discussion, therefore, is in terms of the conditions necessary for the Fund to come into existence. One provision (Fund, Article XX, Section 2(e)) states that the Agreement will be open for signature by the governments represented at Bretton Woods until December 31, 1945. At the time of signature, each government must make a small payment to the Fund for the purpose of meeting administrative expenses. Another provision states that the Agreement can not enter into force until governments having 65 per cent of the quotas, as allocated at Bretton Woods, have signed the Agreement in Washington and deposited "instruments" with the Government of the United States stating that they have accepted the Agreement in accordance with their own laws and have taken all the steps necessary to enable them to carry out their obligations under the Agreement (Fund, Article XX, Sections 1 and 2). Now that the deadline is approaching, arrangements may be made for deposit of these instruments with American representatives abroad in order to avoid the delay involved in actual transmission of the instruments to Washington.

On the basis of the provisions cited, it would seem quite possible for the governments represented at Bretton Woods to sign the Agreement on December 31 and deposit the instruments at some later date. In that case, the Agreement would not come into force until such time as the instruments had been deposited by governments having 65 per cent of the total quotas. However, it was presumably intended that

the instruments would be deposited at the time of signature and that the Agreement itself would have to come into force before December 31, 1945. This intention is borne out by a provision which requires the Government of the United States to return the small payments for administrative expenses if the Fund Agreement has not entered into force by December 31 (Fund, Article XX, Section 2(d)). Perhaps, however, this provision could be disregarded by mutual agreement if it was known that the required instruments would be deposited in the near future.

In any case, the distinction between actual signature on behalf of the governments in Washington and the deposit of the instruments may not be of any practical importance. In most countries some action of the legislature will be required in order to authorize signature of the Agreements in Washington and payment of the small sum for administrative expenses. Presumably, very general laws could be adopted at the same time providing that the countries would carry out all obligations under the Agreements. This might lead to difficulties as far as actual appropriations for subscriptions are concerned.

Even assuming that actual signature of the Agreements is all that is required prior to December 31, there is considerable question as to whether the deadline will be met. Up to the present time, the United States is the only country which has taken all the steps necessary to accept membership in the Fund and Bank. In Canada, the enabling legislation is now under consideration and there is every reason to expect that it will be passed within a few weeks. The United Kingdom has delayed consideration of the Bretton Woods plans until the present loan negotiations are concluded. There have been long delays on the part of most other countries first because of uncertainty as to the American position and, more recently, because of uncertainty as to the British position. China is reported to have taken most of the necessary steps, one or two Latin American countries have passed enabling legislation in one house, and France is reported ready to introduce legislation.

It appears that Britain would obtain many advantages from membership in the Fund and Bank and that Britain could live up to the obligations in the Fund Agreement even without a large loan from the United States since the transitional arrangements clause allows Britain to postpone the elimination of existing exchange restrictions for some time. It seems very probable that the British have tied the two together primarily for bargaining purposes. There is no doubt, however, that the chances of achieving the ultimate objectives of the Fund will be much greater if a large dollar loan is made to Britain. There have been indications in the newspaper reports that one condition of the loan will be commitments on the part of the United Kingdom on exchange restrictions which are stronger than any of the commitments incorporated in the Fund Agreement and that another condition will be an understanding that Britain will accept the Bretton Woods plans. For these reasons as well, therefore, there is every reason to expect British approval in the near future. If by any chance the British took the position, however, that they did not want to adopt the Bretton Woods plans until the informal agreements reached in the present negotiations are approved

by the United States Congress, there is no possibility whatever of meeting the December 31 deadline since the results of the present negotiations will presumably not be submitted to Congress until January at the earliest.

The long delay in the British acceptance of Bretton Woods may, in any case, seriously prejudice the chances of meeting the deadline or even of eventual adoption of the Agreements. If the United Kingdom proceeds immediately to present the Bretton Woods plans to Parliament at the conclusion of the present loan negotiations, there is a strong probability that the British will accept the plans two or three weeks before the December 31 deadline. This will leave very little time for other countries to take the necessary action. Even assuming that British intentions as far as the Bretton Woods Agreements are concerned are fairly clear, the time will still be short.

The acceptance of the Fund Agreement by the United States, United Kingdom and Canada would mean acceptance by governments having a total of 49 per cent of the quotas. The necessary additional 16 per cent of the quotas could be made up in a number of different ways. The percentage of the total quotas allocated to some of the larger countries is in round numbers as follows: Russia, 14%; China, 6%; France, 5%; India, 5%; Belgium, 3%; the Netherlands, 3%; Australia, 2%; and Brazil, 2%. The quotas of the Latin American countries including Brazil add up to only 5 per cent. The percentages are very similar in the case of the Bank. As soon as there is reason to believe that the 65 per cent total will be reached by December 31, all countries represented at Bretton Woods have a strong incentive for accepting the Agreements before that date. If they do not, they will have to apply for membership just as though they had not been at Bretton Woods. The Fund can impose any terms and conditions it sees fit on admission of such countries to membership. The quotas assigned at Bretton Woods might not be allocated to them and their access to the Fund might be more limited than that of the original members which did meet the December 31 deadline. These considerations strengthen the possibility that the 65 per cent minimum will be reached by December 31, 1945.

There is sufficient chance, however, that the December 31 deadline will not be met by countries having 65 per cent of the quotas to warrant some consideration being given to what the effects would be of not meeting the deadline. Presumably, the agreements reached at Bretton Woods could be amended by an exchange of notes on the technical level among the governments of the countries represented at Bretton Woods. One difficulty which will arise if an amendment of this sort becomes necessary is that the Agreements will have to be re-submitted to Congress as amended. The deadline might have to be extended to December 31, 1946, to allow sufficient time for consideration by the United States Congress and for action by other countries, since other countries would presumably wait for re-adoption by the United States before taking any action. Although Congress might re-adopt the plans very quickly, there are endless possibilities for delay and there is also the possibility of submission of further interpretations and proposed amendments to the agreements by the opposition groups in Congress.

Once any amendment to the Agreements has been made, there will be great difficulties in the way of keeping opposition groups in Congress from seeking other amendments.

The fact that other countries have been slow in ratifying the Agreements should lead Congress to realize that our interest in the Agreements is as great as, if not greater than, the interests of other countries. Congress might take the attitude, on the other hand, that there is little point in rushing the Agreements through again if foreign countries are going to delay their acceptances indefinitely. A clear indication of British intentions might solve this problem. Another possibility is that the large sums which have been made available to the Export-Import Bank, and other sums which may be made available by direct intergovernmental credits in the next few months, may be considered by members of Congress as rendering unnecessary the Bretton Woods plans. This may be all the more true if the recipients of the direct loans are persuaded as a condition of the loans to make much stricter commitments on commercial policy and exchange restrictions than are incorporated in the Fund Agreement. There is no doubt that some of the Congressional enthusiasm for the plans was based on the mistaken idea that the Bretton Woods plans were essentially plans for the immediate post-war period rather than plans for permanent international monetary machinery.

Results of the Netherlands Currency Exchange

J.H.F.

In June 1945, the Netherlands Government ordered all bank notes of 100 guilders--the largest in circulation--to be deposited in blocked accounts.^{1/} In September, the Government ordered all the remaining paper money deposited in such accounts, with the exception of 10 guilders (\$3.79) per person which could be exchanged for new currency. At the same time, bank deposits were frozen in such a way as to permit transfers from one account to another, while prohibiting cash withdrawals except in hardship cases. The resulting movement of the demand liabilities of the Nederlandsche Bank between July 2 (last date before the withdrawal of 100 guilder notes) and October 22 (latest date for which the figures are available) is shown in the following table:

Demand Liabilities of Nederlandsche Bank
(Millions of guilders)

	July 2, 1945	July 30, 1945	Aug. 27, 1945	Sept. 24, 1945	Oct. 8, 1945	Oct. 22, 1945
Notes outstanding (old)	4,960	3,448	2,573	1,683	855	630
" " (new)	-	-	-	-	398	668
Government deposits	105	230	475	1,330	1,791	2,493
Blocked deposits	-	991	1,338	1,303	1,708	946
Other deposits	529	616	577	664	247	259
Total	<u>5,594</u>	<u>5,285</u>	<u>4,963</u>	<u>4,980</u>	<u>4,999</u>	<u>4,996</u>

^{1/} See Review of Foreign Developments, July 23, 1945, p. 4.

In this period, bank note circulation dropped from 4,960 million in old notes to 668 million in new ones. Unblocked non-Government deposits decreased from 529 million to 259 million; the bulk of the latter sum probably belongs to public bodies and credit institutions the holdings of which were exempt from the blocking measures. The sum of unblocked means of payment (other than Government deposits) thus fell from 5,489 million to 927 million. The difference of 4,562 million is made up of the following items: A sum of 630 million in old notes was still outstanding on October 22; this amount is probably composed in part of notes held by Germans and by collaborators or war profiteers who decided to forfeit their holdings rather than to reveal illegal dealings, and to a smaller extent of notes still in the process of being deposited, e.g., by holders residing in allied or neutral countries. A sum of 946 million was deposited on blocked accounts. The bulk of the remaining 2,986 million consists of notes which were deposited by their owners in ordinary bank or savings accounts in anticipation of the exchange decrees. These notes were used by the commercial and savings banks for purchasing Treasury bills and to a lesser extent for repaying advances to the Nederlandsche Bank. The Treasury apparently used the newly acquired funds for increasing its deposits with the Nederlandsche Bank. These movements are suggested by the fact that in the period under consideration the Bank's advances declined by 520 million and Government deposits increased by 2,388 million. The sum of these two items is almost identical with the otherwise unexplained drop in the note circulation. The decrease in blocked deposits between October 8 and October 22, which amounts to 762 million and is almost balanced by an increase in Government deposits of 702 million, suggests that blocked balances may have been used by the owners for making payments to the Government, either in the form of taxes or through the purchase of Treasury bills. No information on that subject is available at the moment. Possibly the rise in Government balances with the Bank has been due in part also to forfeitures to the Government of bank notes not deposited in accordance with the regulations.

On November 13, the Netherlands Minister of Finance, Professor Lioftinck, gave a short preliminary report on the exchange measures. He declared that the exchange had fulfilled the expectations of the Government. Means of payment in circulation had been reduced to a normal level. People had been forced to live on their current income rather than on money accumulated during the war. Black market transactions had been curbed and prices had fallen. Finally, collaborators and war profiteers had been forced to part with a substantial portion of their gains. The Minister announced that the Government would supplement its anti-inflationary measures by a tax upon the increase in property holdings and by the issue of a 3 per cent loan which would absorb the bulk of the blocked accounts and at the same time make possible the consolidation of the floating public debt of 9 billion guilders. The remaining blocked balances would be gradually unfrozen.

Because of its timing, the Netherlands currency exchange probably will have better results than similar operations previously conducted in other countries. The renewed expansion of means of payment in circulation, which inevitably follows a drastic contraction, will coincide with a rapid increase in domestic production and imports. The changes in the supply of money and goods will therefore be in harmony with each other and thus the danger of either inflation or deflation will be minimized.

Foreign Exchange Control in Canada

W.E.T.

By the end of August 1945, outstanding advances by the Canadian Government to the Foreign Exchange Control Board had reached an all-time peak of 1.2 billion dollars. Government accounts show that as of March 31, 1945, outstanding advances to the Board amounted to 850 million dollars and the month-by-month advances since then, as disclosed by the periodic reports of the Comptroller General, were as follows: May, 100 million dollars; June, 100 million dollars; July, 100 million dollars; and August, 50 million dollars. A record of the amounts advanced to the Board by the Government and the amount outstanding at the end of each fiscal year (March 31) and at the end of August 1945 is shown in the following table:

Government Advances to the Canadian Foreign Exchange Control Board
(In millions of dollars)

<u>Fiscal year ending March 31</u>	<u>Amount of advances</u>	<u>Amount outstanding</u>
1941	325	325
1942	400	725
1943	-325 ^{1/}	400
1944	185	585
1945	265	850
Apr.-Aug. 1945	350	1,200

^{1/} The Board turned over 700 million dollars of accumulated sterling to the Government which left a net credit balance of 325 million dollars for the year's operations and resulted in a corresponding decline in the outstanding advances.

As a rule the Canadian Government does not disclose the nature of its advances to the Exchange Board, but it is generally recognized that the underlying reason for their size in recent months has been the Board's effort to maintain the present rate of exchange between Canadian and United States dollars in the face of a heavy drain on its resources resulting from a large traffic in securities, increased tourist travel and large purchases by the French and by UNRRA. It is expected that by the end of the next fiscal year (March 31, 1946), the present high level of advances to the Exchange Board will have been reduced since the seasonal flow of tourists will have ended and the midsummer flow of security transfers across the Canadian-United States border has now subsided. Moreover, a Canadian credit to France, provided for under legislation recently introduced in Ottawa, is expected to decrease the drain of Canadian dollars from the Exchange Control Board which characterizes the French cash-purchase program.

Nominations to Board of Directors of the
Export-Import Bank

M. J. P. R.

At present the Secretary of State is the only member of the five-man Board of Directors of the Export-Import Bank provided for in the Export-Import Bank Act of 1945. The Secretary may designate an officer of the State Department, appointed by and with the advice and consent of the Senate, to act for him in the discharge of his duties as a Director. It is rumored that Assistant Secretary Clayton may be so designated. The only other Director named in the Act was the Foreign Economic Administrator who was to serve as Chairman of the Board of Directors. The Act provided that if the Foreign Economic Administration ceased to exist the President, by and with the advice and consent of the Senate, would appoint a Director to take the place of the Administrator and would designate from time to time one of the five members of the Board as Chairman. It was also provided that the President would appoint three other Directors, by and with the advice and consent of the Senate.

The former Board of Trustees of the Bank ceased to function as of October 31. The new Board will begin to function as soon as two of the members to be appointed by the President have been appointed and approved. Since the Board of Directors must pass on all loans made by the Bank, no new loans may be authorized until two appointments to the Board are approved. President Truman has recently nominated William McChesney Martin, Jr., Herbert Earle Gaston, and Robert Tenbroeck Stevens as members of the Board. These nominations have been sent to the Senate for approval. According to the Export-Import Bank Act of 1945, not more than three members of the Bank's Board of Directors may belong to any one political party. Mr. Martin, Mr. Gaston, and the Secretary of State, or the person designated by him, are Democrats; Mr. Stevens qualifies as a Republican. Therefore, the fifth Director, still to be nominated, cannot be a Democrat, which fact precludes the possibility that the Secretary of the Treasury will be appointed. It is rumored that Wayne C. Taylor, President of the Bank, will not be nominated. Considerable interest attaches to the designation of the Chairman. It would seem likely that the Secretary of State, or the Director designated by him, will be named as Chairman, since the Secretary of State is the only direct link between the Board of Directors of the Export-Import Bank and a permanent agency of the Government.

William McC. Martin, Jr., was President of the New York Stock Exchange during the years 1938-1941. His name was suggested to the President by the Export-Import Bank. Herbert E. Gaston has been Assistant Secretary of the Treasury since 1939. Prior to 1939, he served as Assistant to the Secretary of the Treasury for six years and before that was a newspaper editor. Mr. Gaston was suggested to the President by the Treasury Department. Robert T. Stevens is a textile distributor and President of J. P. Stevens and Company, Inc. He is also a director of several cotton mills and of the Guaranty Trust Company of New York. From January 1934 to January 1942, Mr. Stevens was a Class B Director of the Federal Reserve Bank of New York. He resigned this office in 1942 when he joined the United States Army.

The Silver Situation

Mary Maroney

The squeeze in foreign silver supplies in the United States market which has followed the end of the war is seen by the proponents of higher prices for silver as having placed the metal in a strategic position. The highlights of the market position for the past three months have been: (1) the revocation in August of WPB Order M 199 which limited and controlled the uses of silver; (2) the practical disappearance of foreign silver supplies as the result of this order; and (3) the increase in the OPA ceiling price for imported silver from 45 cents to 71.11 cents per ounce. Although apparently intended as a de-control adjustment which would bring more foreign silver into the United States, the latter action has backfired and has not only failed to improve receipts from abroad but has touched off a wave of speculative interest which has had quite the opposite effect.

Coincidentally with these developments, Senator McCarran has introduced into Congress bills proposing an increase in the Treasury price for domestically produced silver from 71.11 cents to \$1.29 per ounce, the monetary value. His bills would also abolish the 50 per cent tax on profits in silver transactions and end the Executive's power over silver imports, exports, and acquisitions. On the other hand, Representative Celler has reminded Congress that he has a bill before the Committee on Ways and Means to wipe out the Silver Purchase Act and the support the Treasury has given since 1934 to silver prices. Another legislative item, of immediate interest to the market, is that introduced by Senator Green to extend beyond December 31 the time during which the Treasury, under the original Green Act, may make its "free" stocks available to domestic industry. Without foreign silver, the New York market is reported able to get along on domestically produced silver, which the Treasury is not buying, plus the Treasury's releases from its "free" stocks. Failure to extend the Treasury's authority to continue these releases, however, would put the market under serious pressure.

This latter situation indicates how radically the position of silver has changed in world markets during the war. It is suggestive also of the strength of inflation sentiment in world commodity markets. Traditionally silver has had a strong affinity for the movements of commodity prices. Because of the United States subsidy to domestic production, however, and the parallel policy of purchasing all foreign silver offered, this affinity has been overshadowed for some years by the Treasury's large accumulation of silver stocks. Now that these stocks are being reduced, silver may recover its pre-depression sensitivity as an inflation index. The chart showing prices of silver on the New York market since 1913 is of interest in this connection.

The bases of the war-time change are several. As is shown by the accompanying table of imports all the important contributors to our large pre-war receipts have greatly altered their relation to our market in recent years. Declining production, due to manpower shortages, has been partly responsible for the change. Larger coinage

requirements arising from the higher world price level have had some influence. In addition, many countries have experienced a notable demand arising from hoarding. Another abnormal factor with the Latin American producers has been the unusual demand for silver objects, particularly jewelry, which these countries could satisfy by retaining their bar silver for home manufacture. The war-time restrictions on production in the United States have afforded double protection to foreign manufacturers in limiting the amount of competing civilian goods of United States origin and in keeping our ceiling on foreign bar silver prices low.

At the same time that imports have been falling, domestic consumption of silver has been rising rapidly. In the war industries, there has been an extension of silver-using technology as well as substitution of silver for scarcer metals, especially tin and nickel. We have also become exporters on a substantial scale to allies in need of silver to meet coinage and hoarding demand. Notwithstanding a severe limitation on the output of non-essential silver manufactures in the United States (to 50 per cent of 1941-1942 production), it has been necessary to make available some of the Treasury's so-called "free" (i.e., non-monetized) silver for industry and for lend-lease export, as well as to shift to non-consumptive use in plants working on war contracts some of the silver backing silver certificates. At the present time, the Treasury's stocks of unmonetized silver, while still substantial, are some 900 million ounces below their early May 1942 figure, which was the high point of accumulations. They now amount to approximately 490 million ounces, of which it is estimated that approximately 210 million is obligated for monetization.

The present agitation for higher silver prices, therefore, springs in a general way from the fact that stocks in the United States market are dependent on legislative action. Our 1944 consumption of silver amounted to 120,000,000 ounces. This was six times the pre-war figure. Although consumption for war purposes has been shut off, the figure for this year will probably again be large because of the backlog of civilian demand fed by high purchasing power. United States production in 1944 was 37 million ounces; although renewed operations of the gold mines is again contributing some by-product silver to the supply, it does not seem that 1945 production will be a great deal larger. Thus the Treasury's authority to continue sales from its free silver is of great interest. The amount of this free silver remaining in the Treasury, approximately 280 million ounces, would seem to be adequate to meet our coinage and industrial requirements. The question of the authority to continue releases is the important factor in the bullish sentiment and there has been no indication of official policy one way or the other.

There have been some indications that the situation in our market has had upsetting consequences in the larger foreign markets. In Mexico, the rise in our price increased the intrinsic value of the silver peso above its monetary value so that the Mexican Government has attempted to retire the outstanding silver coins at a 20 per cent premium. Despite the fact that this premium cancels out the

estimated profit to be derived from foreign shipment, the Bank's retirement program is reported to have met with comparatively little success. The Bank intends to mint new coins with a lower silver content. The failure of hoarded silver to return will, of course, make less newly mined silver available for sale on the world market.

In Canada, the Government has been under pressure to increase the domestic price for silver above the present price of 40 cents Canadian but so far has not yielded. Of the 14 million ounces of Canadian silver produced last year, about three-quarters was required for domestic use. Although comparatively little production can take advantage of the higher United States price, an active market in silver properties is reported. In London, prices have been raised to correspond to the United States price. There have been no other repercussions since the market is controlled and there have been no special demands. There is no indication as yet of any marked effects of the United States price increase in India and China. In these markets, where hoarding is very important, the quotations are considerably above the United States price.

Table 1

United States Imports of Silver Bullion
(In millions of ounces)

Period	Total	Imported from						All other
		United Kingdom	Canada	Mexico	Peru	Other Latin America	Japan	
1938	246	83	29	97	17	8	7	4
1939	194	39	23	81	16	10	11	14
1940	166	1	20	74	18	11	31	13
1941	134	-	18	75	14	12	8	7
1942	108	-	14	70	11	8	-	6
1943	63	-	8	24	12	15	-	4
1944	51	-	6	15	11	15	-	4
1945: Jan.-Sept.	34	-	4	12	7	10	-	2

Table 2

Silver Consumed in Industry and Arts
in the United States
(In millions of ounces)

1938	20
1939	45
1940	44
1941	72
1942	101
1943	130
1944	120

Table 3

Silver Production
(In millions of fine ounces)

Area	1938	1939	1940	1941	1942	1943	1944
Mexico	81	76	83	78	85	71	63
United States	59	58	67	69	54	45	37
Canada	22	23	24	22	21	17	14
Peru	21	19	19	15	16	15	12
Other Latin America	16	17	15	16	16	15	14
Europe, excluding U.S.S.R.	14	15	13		Not available		
Australia and Oceania	15	15	15		"	"	
Asia, excluding Japan	11	11	12		"	"	
Africa	6	5	6		"	"	
Total	247	240	255				

Table 4

United States Silver Stocks
(In millions of ounces)

	April 30, 1945	October 31, 1945	Change
In Treasury	2,901	2,052	-849
As security for certificates	1,521	1,535	14
Bullion	1,158	^{1/} 1,273	115
Dollars	363	262	-101
In General Fund	1,380	517	-863
Dollars	10	17	7
Subsidiary coin	10	10	--
Bullion for recoinage	2/	--	--
"Free" bullion	1,360	^{1/3/} 490	-870
Outside Treasury	414	707	293
Dollars	51	104	53
Subsidiary coin	363	603	240
Total stock	3,315	^{4/} 2,759	-556

^{1/} 878 million ounces of these items are held by Office of Defense Plants of the Reconstruction Finance Corporation in non-consumptive uses.

^{2/} Less than 500 thousand ounces.

^{3/} Of this amount it is estimated that approximately 210 million ounces are obligated for monetization.

^{4/} Excludes silver contained in five cent piece coinage. Through June 1945, the latest date available, 40 million ounces had been consumed.

NOTE: In the appended chart of New York silver pieces, the line since 1933 represents quotations on foreign silver. The Treasury's price for domestic silver is not shown.

NEW YORK PRICE OF SILVER

MONTHLY AVERAGE OF NEW YORK PRICE PER FINE OUNCE OF BAR SILVER

