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REVIEW OF FOREIGN DEVELOPMENTS

June 5, 1951

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June 5, 1951

EUROPEAN CAPITAL MOVEMENTS

Robert Solomon

A number of articles have appeared in the press recently concerning the flight of capital in Europe to Switzerland and, from there, into dollars. These articles related the capital movements to the machinery of the European Payments Union as well as to the system of "bank-note accounts" in Belgium. Since considerable confusion has arisen concerning these matters, the following notes are intended to clarify the techniques involved in these capital movements.

Techniques of capital flight from Belgium

Since its inception in March 1949, the Belgian system of foreign "bank-note accounts" <sup>1/</sup> has been progressively widened and then restricted again after Korea. Under this system, there has been a greater demand for Belgian bank notes abroad than for the banknotes of other European countries outside their borders. This was true because Belgian francs acquired abroad by foreigners could be sent back to Belgium through authorized channels; by this process the foreigner would acquire a "bank-note account" in Belgium which he could use to buy Belgian exports or to finance other purchases in Belgium. Thus the discount on Belgian bank notes in Zurich has been smaller than on other European bank notes, and by the same token, it appears certain that the volume of transactions involving Belgian bank notes in Switzerland was considerably heavier than for other currencies. It is generally assumed that significant portions of American and Swiss imports from Belgium are financed by the use of bank-note accounts acquired in Switzerland. <sup>2/</sup>

It is unlikely that imports from Belgium into countries other than the United States and Switzerland have been financed to any appreciable extent by the use of bank-note accounts since most other currencies have been quoted at a discount relative to the Belgian franc in free markets. As a result importers in other countries found that the official rate for Belgian exchange was lower than the free market rate for bank notes. The very existence of the Belgian bank-note account system explains, to some extent at least, the discount of other currencies relative to the Belgian franc, since as noted above, it tended to reduce the discount on the Belgian franc relative to the dollar.

1/ See this Review April 12, 1949.

2/ Until January of this year bank-note accounts were transferable among nationalities; as a result American banks could purchase these accounts from Swiss banks. Now, in order to acquire bank-note accounts, American banks must purchase Belgian franc notes in Switzerland, ship them to the United States and then return them to Belgium.

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It is evident that Belgian residents desiring to convert their assets into dollars or Swiss francs would, once they transported their Belgian francs to Switzerland, find a readier market than would the nationals of other countries. While there are legal limits on the amount of currency travelers are permitted to take out of Belgium, there has apparently been a considerable amount of illegal exportation of banknotes.<sup>1/</sup> The purchasers of the Belgian currency, presumably Swiss or Americans, would then deposit it in an authorized bank abroad and would acquire a "bank-note account" in Belgium, which in lieu of paying foreign exchange, could be used to finance the importation of goods from, or payment for services in Belgium. Thus Belgium has financed the flight of capital by relinquishing foreign exchange receipts for a portion of its exports.

Effect on Belgian EPU position

For the purposes of the monthly clearings and settlements in EPU, each central bank reports to the agent its holdings of balances in the currencies of the other members. Changes in these holdings reflect not only the current account transactions which occurred during the month but all payments among the countries which pass through official channels. Thus all sorts of capital movements may reflect themselves in the monthly positions as reported to EPU if the proceeds in foreign exchange are sold to the central bank of the recipient country or if foreign exchange is purchased from the central bank in the country of origin.

In the case of most countries this reporting process involves a simple statement of the size of the various accounts. In the case of Belgium and Switzerland, however, there exists no bilateral payments agreement and the balance must be calculated each month to take account of Swiss and Belgian balances held by Belgian and Swiss commercial banks. Furthermore, the calculation attempts to exclude changes arising from arbitrage operations among the Belgian franc, the Swiss franc and the dollar. The virtually unrestricted payments arrangements between Belgium and Switzerland permit the banks of each country to purchase dollars on the free market of the other country. Thus, for example, Belgian banks may purchase dollars (needed by their customers to finance current payments) in Switzerland rather than from the National Bank of Belgium, if relative exchange rates make this course profitable. The monthly changes in balances arising from such operations are excluded in principle from the EPU calculations.<sup>2/</sup> In the course of these monthly calculations by the Belgian and Swiss authorities, it became apparent that the inclusion of bank-note accounts (held by Swiss nationals or banks) tended to increase the payments deficit of Belgium and increase the surplus of Switzerland. Paradoxically, it was

<sup>1/</sup> It has been reported that Belgian notes are even dropped from airplanes as a means of smuggling them out of Belgium and into Switzerland. The New York Times, May 14, 1951, p. 37.

<sup>2/</sup> It appears that technical difficulties have arisen in carrying out this principle. After this paper had been stencilled information was received indicating that as of May 29, 1951 further arbitrage operations among Swiss francs, dollars and Belgian francs have been prohibited in order to eliminate difficulties in establishing deficits and surpluses in EPU.

the Swiss who objected to this result. This objection, as will be discussed below, appears to have been the main reason for the recent abolition of the bank-note account system as regards EPU countries.

Capital movements from third countries through Belgium

Because the discount on Belgian bank notes in Switzerland has been lower than on bank notes of other countries, there has been an advantage for nationals of other countries who wish to acquire dollars or Swiss francs to do so through the Belgian franc. In order to enjoy this advantage, it was obviously necessary that the Belgian francs be acquired at a rate lower than the black market rate, since the latter rate tends to correspond with the free rates in Switzerland. For example, a Frenchman who purchased Belgian francs on the black market (or sold French francs on the Belgian free market for foreign banknotes) and sold the Belgian francs in Switzerland would be no better off than one who sold his French francs directly in Switzerland. It was necessary that the capital movements be disguised, in one of the many well-known forms, as current transactions in order that Belgian francs be acquired at around the official rate. This means there was a tendency for exports to Belgium to be understated in value and for imports to be overvalued; in either case other Europeans could acquire a balance in Belgium, convert it into banknotes, transport them to Switzerland, and sell them for Swiss francs or dollars.<sup>1/</sup>

It must be pointed out that these operations did not affect Belgium's net position with the other EPU members, since any deterioration in Belgium's position with Switzerland was offset by an improvement in its position with the country from which the capital entered Belgium. For example, a French exporter might sell 100 million Belgian francs of goods to a Belgian importer but declare to his own authorities that he had sold 80 million of exports. He repatriates 80 million of his Belgian franc proceeds but arranges that the other 20 million be deposited to his account (or to the account of an intermediary) in a Belgian bank. This amount can later be withdrawn as currency, smuggled into Switzerland, and sold for Swiss francs. As a result of this operation, the French monetary authorities have lost 20 million Belgian francs of foreign exchange earnings, Switzerland has gained the same amount, and Belgium has financed 100 million of imports by paying 80 million to France and 20 million to Switzerland.

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<sup>1/</sup> It goes without saying that there is also an incentive for such disguised transactions to take place directly with Switzerland. However, Belgium's trade with the other OEEC countries is about twice as great as Switzerland's; presumably there are greater opportunities for such operations with Belgium than with Switzerland.

If the 20 million of Belgian francs had been sold to an American rather than a Swiss, the Belgian position in EPU would have been debited by only 80 million (paid to France) so that its EPU surplus would be 20 million larger than in the previous case. But, when the bank-note account was used by the American who acquired it, Belgium would export 20 million francs of goods or services without receiving dollars for them. As a result, Belgium would receive 10 million francs in dollars (for 50 percent of its net surplus) from EPU, giving the remainder in credit to EPU, but would subsequently lose dollar export proceeds equivalent to 20 million francs.

In the case where the Belgian francs are sold to a Swiss, the surplus of the latter country in EPU is increased. Even though Switzerland is paid in dollars for 50 percent of its monthly surpluses with EPU, the Swiss authorities have objected to the enlargement of its creditor position. Perhaps the primary explanation for this objection is Switzerland's fear of too quickly exhausting its quota in EPU and thereby laying itself open to the possibility of discriminatory trade restrictions on the part of the EPU debtor countries.

Thus, in response to Swiss insistence, the Belgian authorities announced that beginning May 1, 1951, bank-note accounts could no longer be established (nor could existing accounts be fed) by nationals of EPU countries. Since the system was probably not utilized by other EPU countries to any appreciable extent anyway, the principal effects of the new regulation will occur in Switzerland.

The new regulation will eliminate the demand for Belgian bank notes by virtually all but American buyers, who may still use them to finance purchases in Belgium. Thus the discount on the Belgian franc in Switzerland will probably increase somewhat. The Swiss will have accomplished their purpose of reducing or eliminating the capital inflow from Belgium and this will reduce their monthly EPU surpluses; correspondingly, Belgium's monthly surpluses will be increased. Nevertheless, as long as Americans are willing to purchase Belgian banknotes in Switzerland in order to acquire bank-note accounts, it will still be possible for the same types of capital movements to take place. However, more of the capital will now be converted into dollars and less into Swiss francs.

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A NEW THEORY OF ECONOMIC DEVELOPMENT

J. Herbert Furth

Professor Charles P. Kindleberger has just published a highly original and important theory sketching the international aspects of economic development. In his book "The Dollar Shortage", a title far too narrow for the content, he presents the most serious modern challenge to the classical thesis of automatic equilibrium in the balance of international payments.

Professor Kindleberger states that "equilibrium in the international balance of payments of a country depends upon its position in the evolutionary cycle and differs from static equilibrium where the current account . . . tends to equal zero". A "primitive undeveloped country" starts the cycle as a "young debtor which is borrowing at a rapid rate." It then becomes an "adult debtor which has a current account in balance." Still later, the country begins "repayment of old loans" as a "mature debtor", and emerges as a "young creditor" which extends loans to "young debtors." At the next stage it becomes an "adult creditor which neither lends nor accepts repayment on balance." Finally, the "mature creditor" exhausts its foreign investments by "accepting repayment of past loans from mature debtors." Having depleted its foreign capital, it becomes "economically senescent" and "may be regarded as eligible to start the growth cycle over again" (pp. 75-76 and 125-126).

The "transition between the various stages of the dynamic adjustment of a country appears to be brought about historically in large measure by war. . . . Aside from war, however, the evolution of the young creditor to the next stage of maturity will be brought about through the reduction of . . . relative rates of technological development. . . . The rise in incomes abroad produced by foreign investment and the impetus of the developmental process will narrow the gap until it closes" (pp. 78-79).

Cyclical fluctuations reinforce the tendency toward imbalance. The different positions of the various countries in the evolutionary cycle produce "tendencies toward secular stagnation and secular exhilaration", respectively; as a result, "some countries fail to adjust to deficits . . . whereas other countries fail to adjust to surpluses". These failures prevent the cyclical deficits and surpluses from being corrected according to the automatism of "Hume's law of trade"; it becomes therefore possible for a country to run a surplus, and for another one to run a deficit, in times of both prosperity and depression (pp. 98-101).

Difficulties such as the "dollar shortage" are bound to arise if "a country whose current account acts like that of a young creditor" does not make sufficient international loans (p. 77). The answer to the question, however, why such difficulties did not arise until "the

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twentieth century regime of the dollar, . . . can at best be speculative" (p. 187). Professor Kindleberger stresses "the increased inelasticity of supply and demand which appears to characterize the world at present" (p. 191). In the United States, the rate of expansion is slowing down; in the rest of the world, the awareness of American standards of living makes it difficult to restrain consumption and stimulate capital formation. "With increased tendency toward disequilibrium, . . . the world has paid for its economic advance . . . through the loss of a quasi-automatic system of adjustment" (p. 188).

### The problem of verification

Professor Kindleberger has purposely neglected to verify his theory by historical analysis; he declares himself satisfied with producing "merely more hypotheses, unproved and in many cases probably unprovable because of being drawn up without regard for the idiosyncrasies of data" (p. 8). It is true that economic science is badly in need of new theories, even in the form of -- provisionally -- unproved hypotheses; eventually, however, any hypothesis will be discarded unless it is proved to be consistent with the data.

The problem arises, therefore, how such consistency can be proved or disproved. Professor Kindleberger states that since the end of the first World War the United States has been a "young creditor", and the United Kingdom a "mature creditor." It is not quite clear whether he does so only because the balance of payments of these countries conforms to his theoretical scheme or because the general economy of these countries gives the picture of "youth" and "maturity", respectively. If the theory is correct, it should be possible to correlate a country's domestic stage of development with its balance of international payments; but in order to do so, it would be necessary to define the various stages of development on the basis of criteria that are independent of the country's international position.

Two different criteria might be used for that purpose: the level of technological skill -- as measured by per-capita volume of capital or by per-capita productivity of labor -- which a country has reached, or the speed with which the acquisition of such skill is proceeding; in both cases, the factors might be measured either in absolute terms or in relation to the outside world. The first criterion seems inconsistent with the facts. The United Kingdom, prototype of the "mature" creditor country, has not reached a higher level of technological skill than the United States, prototype of the "young" creditor country. The second is insufficient if taken by itself. Technological progress in the United States may well be neither more nor less rapid at present when the United States is a creditor nation than it was fifty years ago when it was a "mature" debtor, or even a hundred years ago when it was a "young" debtor.

The best solution may therefore be a combination of the two criteria: the difference between "young" and "mature" debtor and between debtor and "young" creditor nations may be based on the level of technological skill, with the rate of progress showing little variation; but the difference between "young" and "old" creditors may be based on the rate of progress irrespective of the level reached. The question arises, however, whether there is any necessary connection between the slowing down of the rate of progress and the achievement of a certain level. Professor Kindleberger's remarks about the reasons for the transition from "youth" to "maturity" seem to imply such a connection, somewhat in the line of the Ricardian concept of secular stagnation; but such an assumption would leave unexplained the fact that -- whatever the present outlook for the U. S. economy -- the United States certainly did not "mature" at the same level of technological skill as the United Kingdom.

It seems more likely, therefore, that the slowing down of the rate of progress is not simply the consequence of having reached a certain level of technological skill, but the result of factors less directly connected with technology; for instance, of factors involving social psychology, political institutions, or geographical position. If this is true, the "evolutionary cycle" would depend upon the entire complex of a country's social data, and would greatly vary from one country to another. In fact, "evolutionary cycles" might show even greater diversity than the traditional business cycles. This conclusion would be in agreement with Professor Kindleberger's general ideas which stress the close interrelation of the economic and non-economic aspects of social activity.

#### The problem of international synchronization

If Professor Kindleberger's theory is correct, international equilibrium presupposes strict international synchronization of economic development. A country can be a "young" debtor only if another country acts as a "young" creditor. Whenever the "young" debtor comes of age, another "primitive" country must take its place, or a "young" creditor country must in turn become "adult." Defects in synchronization would immediately lead to international disequilibrium.

In order to make this theory more than a mere tautology, it would not suffice to show that some country invariably starts or ceases to lend whenever another country starts or ceases to borrow. It should rather be shown that there is some mechanism coordinating the changes in debtor and creditor countries; for it would be nothing short of a miracle if it appeared that during all the centuries preceding the twentieth an almost perfect synchronization occurred by mere coincidence. In addition, it should be shown that this coordination was, at least in the past, inherent in the domestic development of the countries involved; for otherwise it would have happened frequently in the past -- such as happened according to Professor Kindleberger in the United States during

the 'thirties -- that a country which had reached a certain stage of domestic development failed to act internationally according to the rules of that stage.

Two centuries ago, Hume showed that static equilibrium in the balance of international payments was reached -- under certain conditions -- by a relatively simple automatism inherent in the market price system. Similarly, it would now have to be shown that dynamic equilibrium could be reached -- again under certain conditions -- by some dynamic automatism. Once that automatism is analyzed, it would be possible to fit disequilibria such as the "dollar shortage" into the theoretical scheme by isolating the factors responsible for the presence and absence of the equilibrium conditions. In this connection; the world-wide switch from economic freedom to strict economic controls, administered by national governments on the basis of purely national considerations, might well play a decisive role.

#### The problem of socialism

Professor Kindleberger's theory is different from most or all recent theories of economic development in that it seems to leave no room for a change in the fundamental structure of economic society. It is not quite clear whether the author believes that technological forces are so strong as to make other social institutions seem unimportant in comparison, or whether he feels confident that the present organization of the Western world will prove more permanent than its critics assert.

In any case, the relations between domestic development and international balance pose as interesting and difficult problems in a centrally planned as in a market economy. The economic relations between the Soviet Union and its satellites might, for instance, be interpreted as those of a "young" creditor to "young" debtors. These relations are, however, obviously different from, say, the relations between the United States and Latin America. In fact, the very future of our society may depend upon the answer to the question of whether the Western or the Soviet system provides the better solution for the difficulties facing "young" debtors. A reasonable discussion of these questions requires, however, a clear understanding of the role played by economic development in the framework of the two competing systems.

Professor Kindleberger will be the first to concede that he has not yet provided a full-fledged solution to the riddle of economic evolution. However, his theory opens a vast new field for promising economic research.

June 5, 1951

BALANCE OF PAYMENTS, GOLD AND FOREIGN  
DOLLAR BALANCES: PROSPECTS FOR 1951

Frank M. Tamagna \*  
Arthur B. Hersey

SUMMARY

In the year 1951 the United States is expected to show a surplus of around \$1.5 billion with respect to current account transactions (non-military goods, services and private donations). This net surplus would be about the same as last year's, and may be expected as a result of approximately equivalent increases in both imports and exports of goods. Private investments may provide a net amount of somewhat less than \$1 billion to foreigners over the current year. It is estimated that U. S. Government foreign aid programs and loans from official institutions will contribute additional financing in an amount between \$2.5 and \$3.0 billion. These figures do not include shipments under the military aid program, which may add between \$2 and \$4 billion to both exports and government aid figures. Altogether it may be expected that foreigners will receive from these combined sources a net amount in excess of \$2 billion during the current calendar year. The monetary reserves of foreign countries, however, may be expected to rise by a lower figure not only because a small portion of their dollar receipts will presumably remain in private accounts, but also because the item "errors and omissions" of the U. S. balance of payments may reflect over the year some concealed inflow of funds, running off of advance payments for imports, and otherwise unrecorded amounts offsetting in part our imports and other net payments to foreigners.

Current Account Prospects

For the year 1950 the United States balance of payments showed a net surplus in the neighborhood of \$1.0 billion on account of trade (non-military goods) and of \$.4 billion on account of services and private donations. In the first quarter of 1951 U. S. foreign trade was in a position of relative balance, and services and private donations showed a surplus at the annual rate of around half a billion. For the current year as a whole, it is expected that a trade surplus of perhaps as much as \$1 billion will reappear, while the surplus on services transactions and private donations probably will not differ greatly from last year's figures. It is possible, but by no means certain, that the over-all surplus will be greater in the current second quarter than later in the year.

Exports - Recorded exports of non-military goods have risen from \$10.3 billion in 1950 to an annual rate of \$12.3 billion in the first quarter of 1951. A big up-swing has raised the annual rate further to \$14.2 billion in March, and it appears likely that exports continued at some such high level in April and perhaps in May. In March the quantity index for exports (adjusted to exclude military exports) was up 19 per cent from March 1950; the price

\*/ The statistical material on which this study is based was prepared by members of the Financial Operations and Policy and the Special Studies Sections of this Division.

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(unit value) index was up 16 per cent. The up-swing since Korea has included a large increase in shipments of non-military metals and metal products; however, all groups of exports have shared in the increase. For raw cotton, the rise from the seasonally low third quarter of 1950 has been mostly in price rather than in quantity, but in food and other exports -- mostly industrial products -- there has been substantial increases in the physical volume of shipments as well as in prices. Textile shipments abroad are up more than 40 per cent in quantity from the low level of early 1950 and sharp price increases have contributed substantially to a much larger rise in value. Miscellaneous exports were rising again in February and March, after the first big wave of post-Korean buying had tapered off. It is likely that this new wave of foreign buying will continue to be reflected in our export statistics for the Spring months.

Ordinarily, an evaluation of the prospects for U. S. exports (non-military) would be greatly influenced by expectations regarding the dollar payments which will be made to other countries for U. S. imports and other items in the balance of payments. Today, however, foreign gold and dollar reserves are much larger than a year or two ago and controls on dollar expenditures have been loosened, particularly in Western Hemisphere countries and the Far East. The rising trends of prices abroad will create pressures for further relaxation of import and exchange restrictions in foreign countries. Whether the dollar payments for U. S. imports shall continue to rise, or, as seems a little more likely, our imports shall fall below their present level, any general impairment of foreign reserves is quite unlikely. Thus, regardless of the volume of our imports, we may expect a strong demand for U.S. exports during the rest of the year.

The chief uncertainty for exports is how soon and to what extent production controls in the United States will restrict the availability of metal products for sale abroad. Exports of other U. S. manufactures, semi-manufactures and some crude materials (represented by the "all other" and "textiles" lines in the chart) may go a good deal higher by the end of the year, particularly if foreign demand is debarred from obtaining metal products and shifts to these items. The projection shown on page 5 implies, however, that total non-military exports after remaining at a high level in the second quarter will fall off somewhat in the second half of the year.

MDAP Exports - Although transfers of end-use and other military items under the Military Defense Assistance Program are included in our export statistics, they are in fact part of our own military expenditures since they are acquired through direct purchases by the U. S. Government and are financed with special funds outside the customary channels of foreign trade financing.

MDAP goods and services amounted to about a half billion dollars in 1950. The annual rate of recorded shipments under this program passed the billion mark in February and March and will continue to grow during the rest

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of the year; these figures exclude services and may also exclude some unrecorded transfers of goods. It is quite possible that provisions of goods and services under MDAP and the corresponding financing may add between \$2 and \$4 billion to both export and government aid figures for the year 1951 as a whole. This would mean that the monthly trade totals, as reported in U. S. statistics, will ultimately show a large surplus of exports -- but for our purpose we shall leave these exports and their corresponding financing out of the balance of payments picture.

Imports - The big up-swing in the value of U. S. imports from a rate of less than \$8 billion in the first half of 1950 to the annual rate of \$12 billion in recent months has been due both to rising prices and increase in quantities. Four of the commodities with big price increases during 1950 -- wool, burlap, tin and copper -- have been imported here in recent months in smaller volume than a year ago; imports of rubber are up only about 20 per cent, no more than in proportion to the rise in world output. Market prices of rubber, wool and tin have recently declined, but the peak prices had not yet been reflected in import statistics through March, so this decline will not have much effect on average import values for the current quarter. Only in rubber does there seem to be a real improvement in the demand-supply outlook.

Increases in quantity of imports have been widely distributed among commodity groups, including many semi-finished and finished manufactures as well as some raw materials. The rise in imports has been stimulated by the availability of a wide range of semi-manufactures and manufactures from Europe. Striking increases in this respect have been those of steel and chemicals. The average cost of imports of semi-manufactures and manufactures, which had lagged behind U. S. wholesale price indexes for these classes of goods, advanced rapidly in the latter part of 1950 and the early part of 1951.

While the demand for imports at present prices may be expected to remain strong in this country, doubts may be raised with respect to availabilities from abroad, with particular regard to items such as steel, metal manufactures, and chemicals. Moreover, rising prices in Europe will make imported goods less attractive to the U. S. market than they were in recent months, especially if the present trend of domestic prices toward stability continues. For these reasons, imports are not likely to rise much farther this year. The projection on page 5 implies a slightly lower average level than in the first quarter. <sup>1/</sup>

Services and Remittances - Little change is expected in our service account, whose surplus last year amounted to \$.8 billion and was running at a somewhat higher rate in the first quarter of this year.

Private donations have remained comparatively stable at a level of approximately \$.4 billion for some time, and it is assumed that they will continue at that level for the rest of the year.

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<sup>1/</sup> The projections include several hundred million dollars for adjustments to the recorded import statistics on account of Government purchases abroad, etc.

The Financing of the Export Surplus

The sources available at the present time for the financing of a surplus on current account may be said to include U. S. private investors, the U. S. Government, and the official domestic and international lending agencies. These sources are expected to provide a flow of dollars to foreign countries over the year as a whole in the neighborhood of some \$3.7 billion -- or in excess by over \$2 billion of the estimated surplus on current account.

Net dollar payments on account of private capital movements (representing largely direct investment) are estimated to amount during 1951 to around \$900 million. This would represent some increase over the current rates of direct investment abroad, which can reasonably be expected in view of special and new requirements for the development of strategic materials needed by the United States. It also includes some investment which may result from Israel's flotation of bonds in this country.

It is estimated that disbursements of U. S. Government aid to foreign countries, in the form of grants for economic purposes (excluding military end-use items), may run for the year at around \$2.5 billion. This might include about \$2.2 billion of expenditures under programs of economic assistance to Western Europe and about \$300 million in grants to under-developed areas and civilian supplies to Japan and Korea.

Foreign aid and development programs will continue to include some net lending from governmental sources, which may be placed for 1951 at between \$200 and \$300 million. This estimate would result from net disbursements on outstanding or proposed loans from the International Bank, the Export-Import Bank, and ECA, including the loan to India recently approved by Congress. These disbursements will be partly offset by repayments from the United Kingdom and other foreign debtors.

Changes in Monetary Reserves

On the basis of the above considerations the net payments position of the United States vis-a-vis the rest of the world may be projected for the year 1951. In the following table this projection is compared with partially estimated figures for the first quarter of 1951 (on an annual basis) and actual figures for 1950.

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## Balance of Payments Prospects

(In billions of dollars)

	1951 (estimated)	First Quarter 1951 (estimated, annual rate)	1950 (actual)
Exports of Non-military goods	13.5	12.8	10.2
Imports of Goods	-12.5	-12.8	- 9.3
Services (net receipts)	.8	1.0	.8
Private donations (net payments)	- .4	- .4	- .4
	<hr/>	<hr/>	<hr/>
Surplus on Goods, Services and Private Donations	1.4	.6	1.3
	<hr/>	<hr/>	<hr/>
Private Capital	.9	.8	1.1
U. S. Government Grants (Excluding MDAP Financing)	2.5	2.8	3.6
Official Lending	.3	.2	.2
	<hr/>	<hr/>	<hr/>
Total Financing Through Invest- ments, Grants, and Loans	3.7	3.8	4.9
	<hr/>	<hr/>	<hr/>
Net Payments to Foreigners	2.3	3.2	3.6
Adjustments for Errors and Omissions -	-	- .3	.0

Altogether it may be expected therefore that in 1951 foreigners will receive from these combined sources a net amount of some \$2.3 billion, as compared with net receipts of \$3.6 billion in 1950. Of last year's amount, about \$2.9 billion went to increase foreign monetary reserves. Of this, foreign monetary authorities used about \$1.7 billion to purchase gold from the U. S. Treasury and invested about \$.9 billion in U. S. Government securities.

The first quarter of this year witnessed a general conversion into gold by foreign countries of their current dollar accruals as well as, in part, of accumulated dollar balances. Net dollar payments to foreigners for this period have been estimated at \$730 million (after allowance for a net credit of something under \$100 million as "errors and omission"); foreign countries, however, drew down their dollar balances by \$150 million and acquired \$880 million of gold from the U. S. Treasury.

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The agreement on domestic credit policies between Federal Reserve and Treasury, on March 3, however, was followed by a rapid reversal of this panicky situation --the weekly rate of our gold sales, which was running at \$81 million in the first two months, declined to \$52 million in March and to \$8 million in April and May. The decline of foreign gold purchases this quarter has been accompanied by a sharp fall in the net accumulation of dollars by foreign countries, which during April amounted to \$30 million only. This fall probably reflects either a large export surplus on our part or a large net inflow of capital from abroad or possibly a combination of both.

Net dollar payments for the year of 1951 are expected to accrue largely (to the extent of perhaps \$750 million) to Latin American countries, which will continue to benefit through most favorable terms of trade as well as a continuous inflow of capital from the United States, both from governmental and private sources. The United Kingdom is also expected to continue to accumulate gold and dollar reserves through the large volume and high prices of sterling area exports, although at a considerably slower pace than in 1950 -- perhaps in the neighborhood of some half billion dollars over the entire year. Similarly, considerable gains -- in the aggregate of \$300-400 million -- are projected for other raw material producing countries (such as Indonesia, Philippines, Thailand, Egypt), while continental Western Europe is expected to register on the whole only moderate gains (\$250-300 million).

In view of recent trends, and except for unforeseeable changes in international relations or the domestic situation of the United States, it seems likely that foreign monetary authorities will hold the larger portion of their current dollar accruals in the form of deposits or securities at Federal Reserve Banks. On the other hand, it is not believed that foreign countries will sell any substantial part of the gold they purchased in past months, so that an outflow of gold from the United States of between \$1 and \$1.5 billion may well be expected for the year as a whole. Our gold stock will therefore remain well above the \$20 billion level which prevailed at the end of the war.

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CHARTS

1. "Foreign Trade" (Exports and Imports)

As reported by Census, without balance of payments adjustments.

The upper thin line for exports is the published total (raised to quarterly rate). The solid line is after deduction of the amount of MDAP shipments included in the export statistics, as reported in FT-900.

2. and 3. "U. S. Exports" (by commodity groups)

"All Other" consists of nonmetallic minerals (petroleum, coal, etc.); chemicals and related products; inedible vegetable and animal products, except fibers and wood; wood and paper; miscellaneous.

"Special Categories" are certain metal and other products for which detailed information is no longer made available. The two upper lines in the chart have been adjusted to exclude special category items throughout the period shown. For the first half of 1949 these adjustments are partly estimated.

The rise in special category exports from the middle of 1950 corresponds roughly to MDAP shipments as shown in the first chart.

4. "Gold and Dollar Balances" (U. S. and Foreign)

5. "Gold and Dollar Balances" (ERP Countries and Sterling Area)

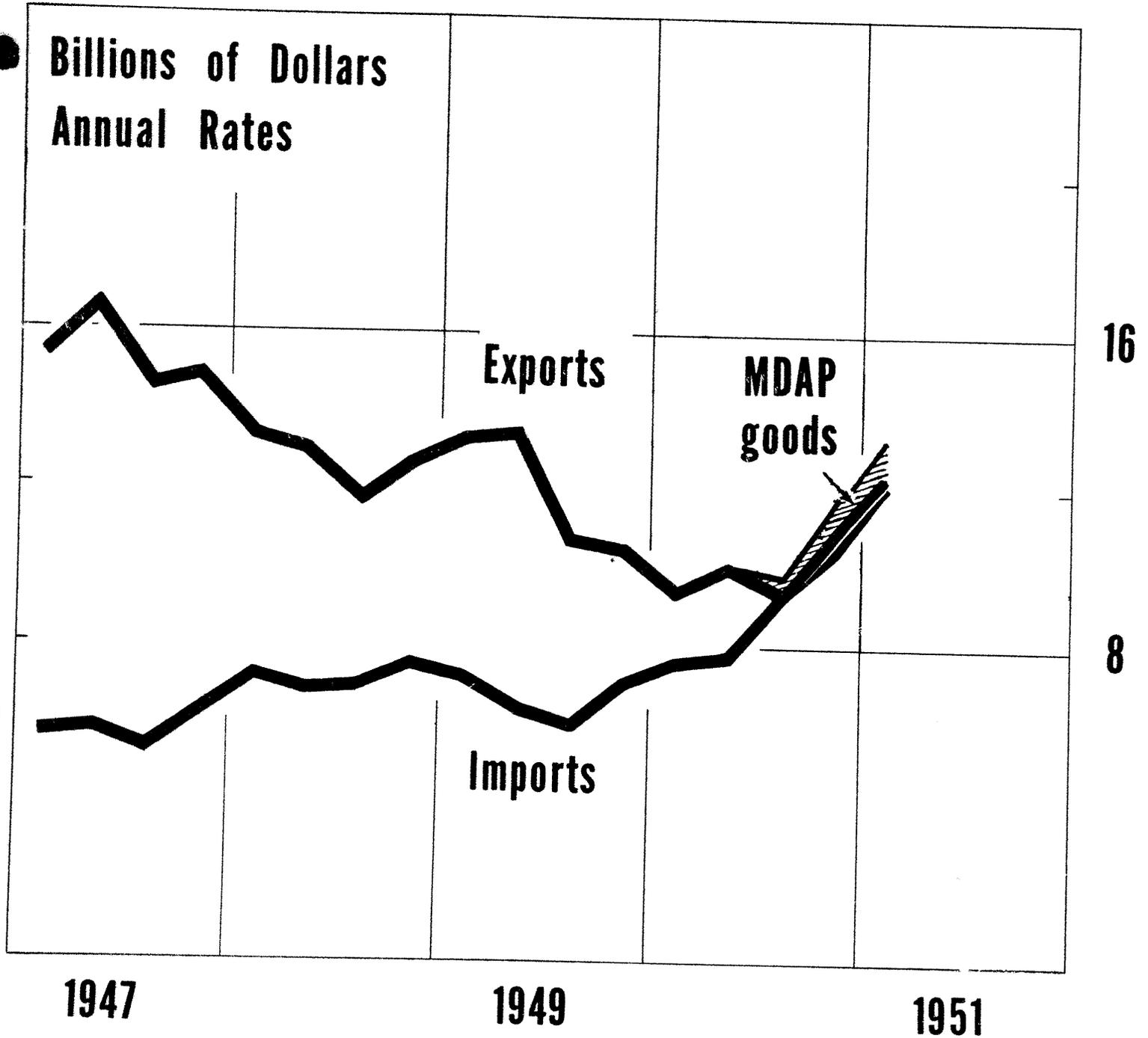
The line for "ERP countries excluding U. K." includes their dependencies.

6. "Gold and Dollar Balances" (Other Areas)

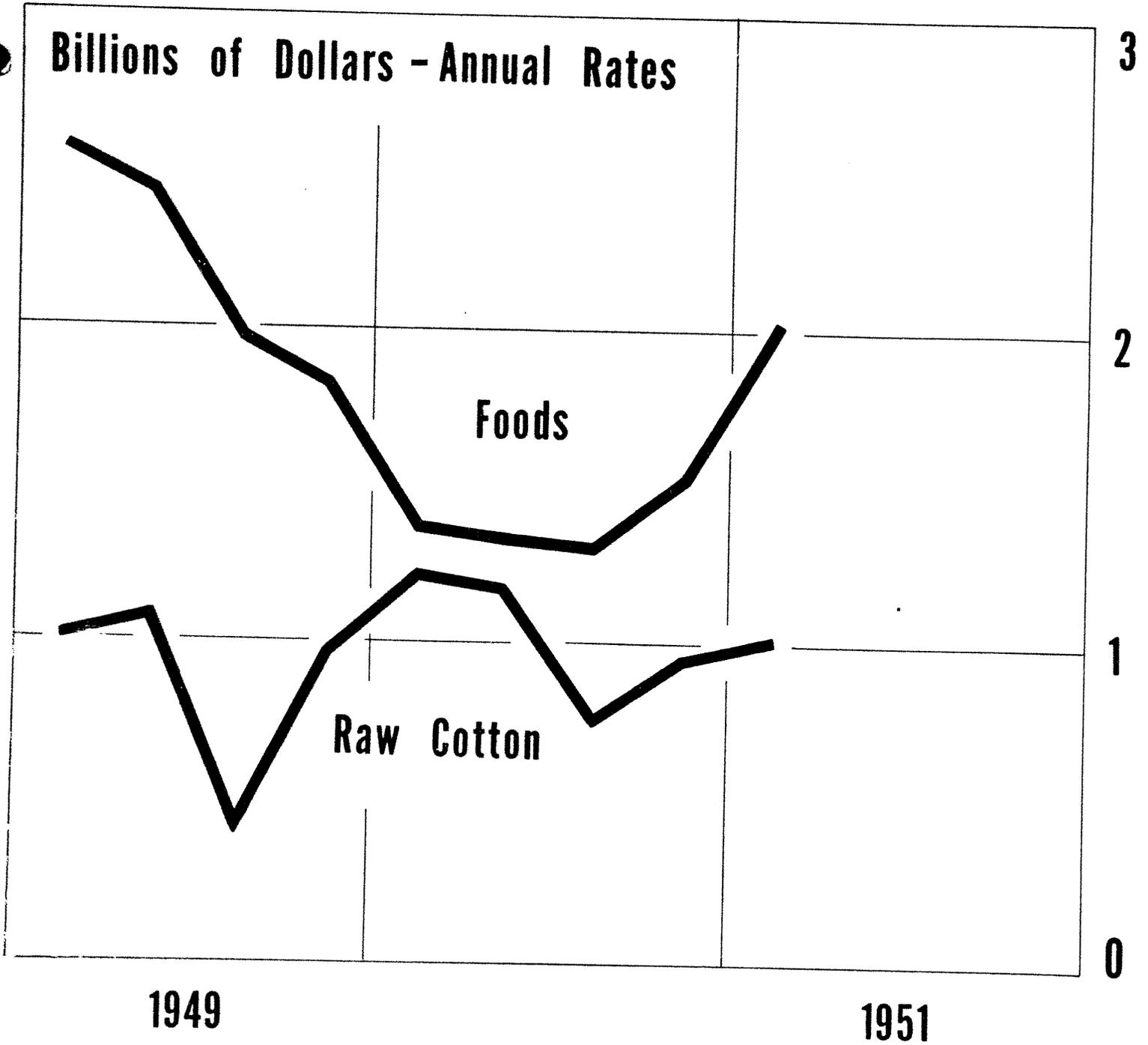
The line for "Rest of World" includes holdings by non-ERP Europe (dollar balances only for U.S.S.R.) and by independent countries in Africa.

RESTRICTED

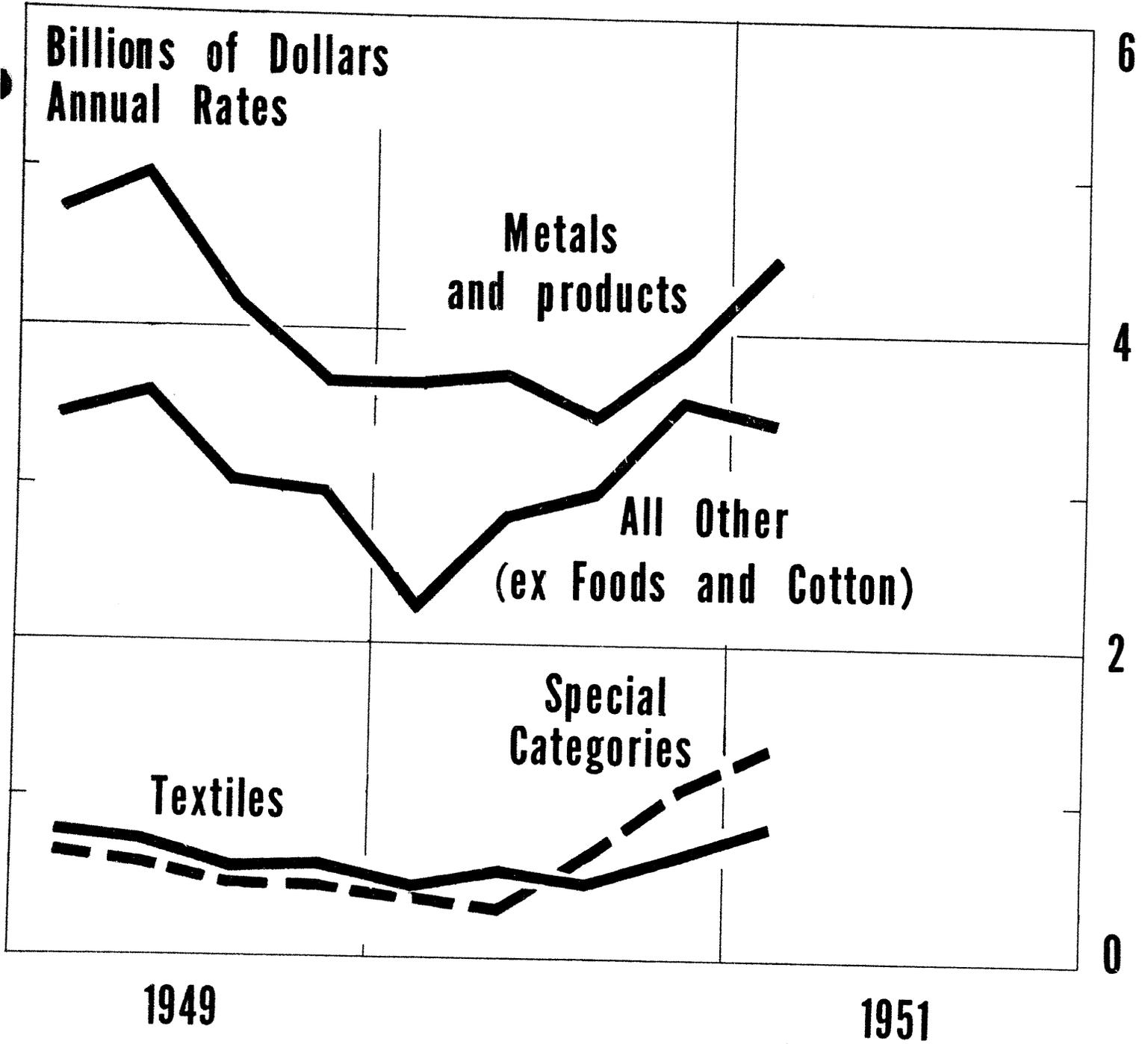
# FOREIGN TRADE



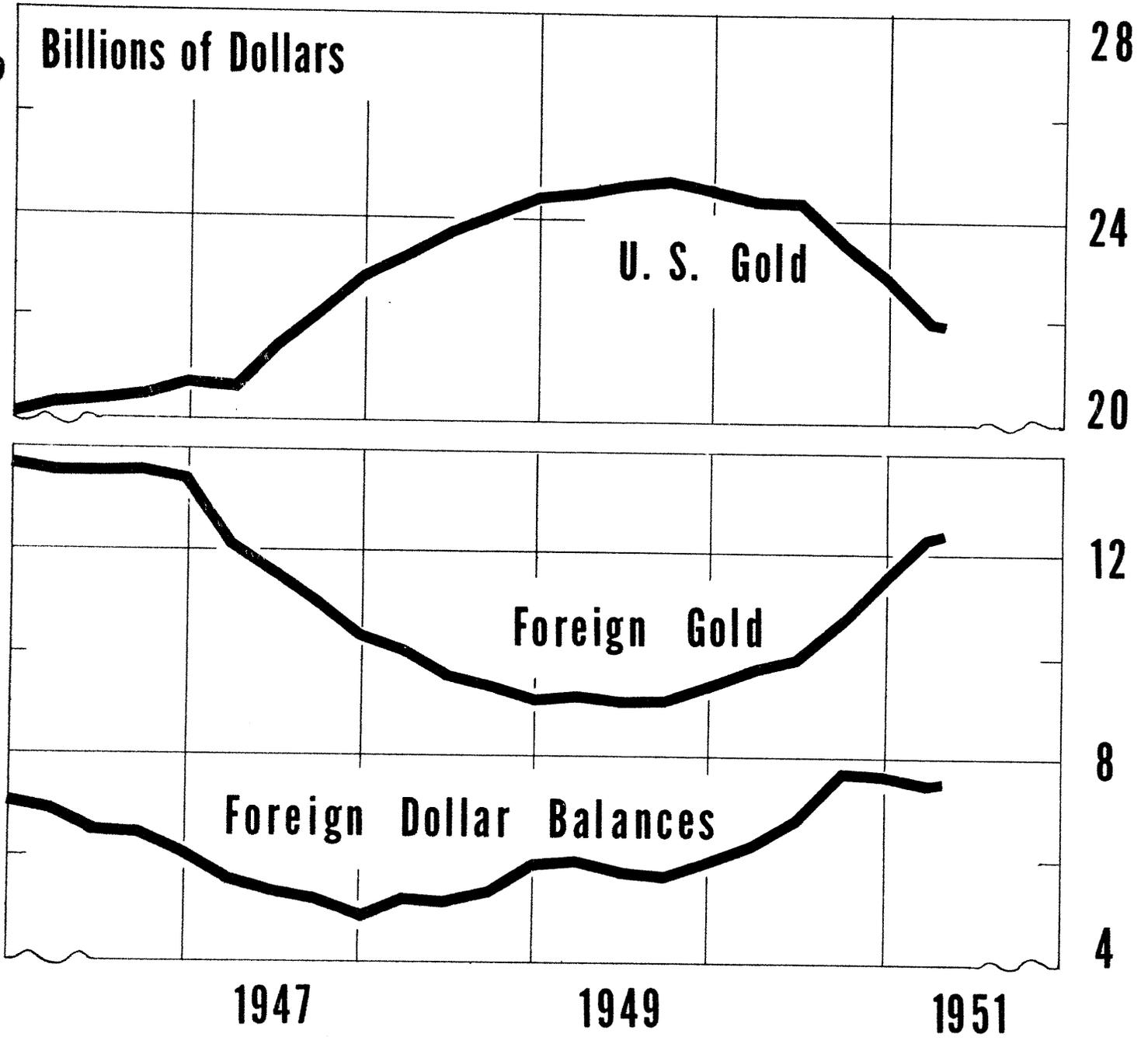
# U.S. EXPORTS



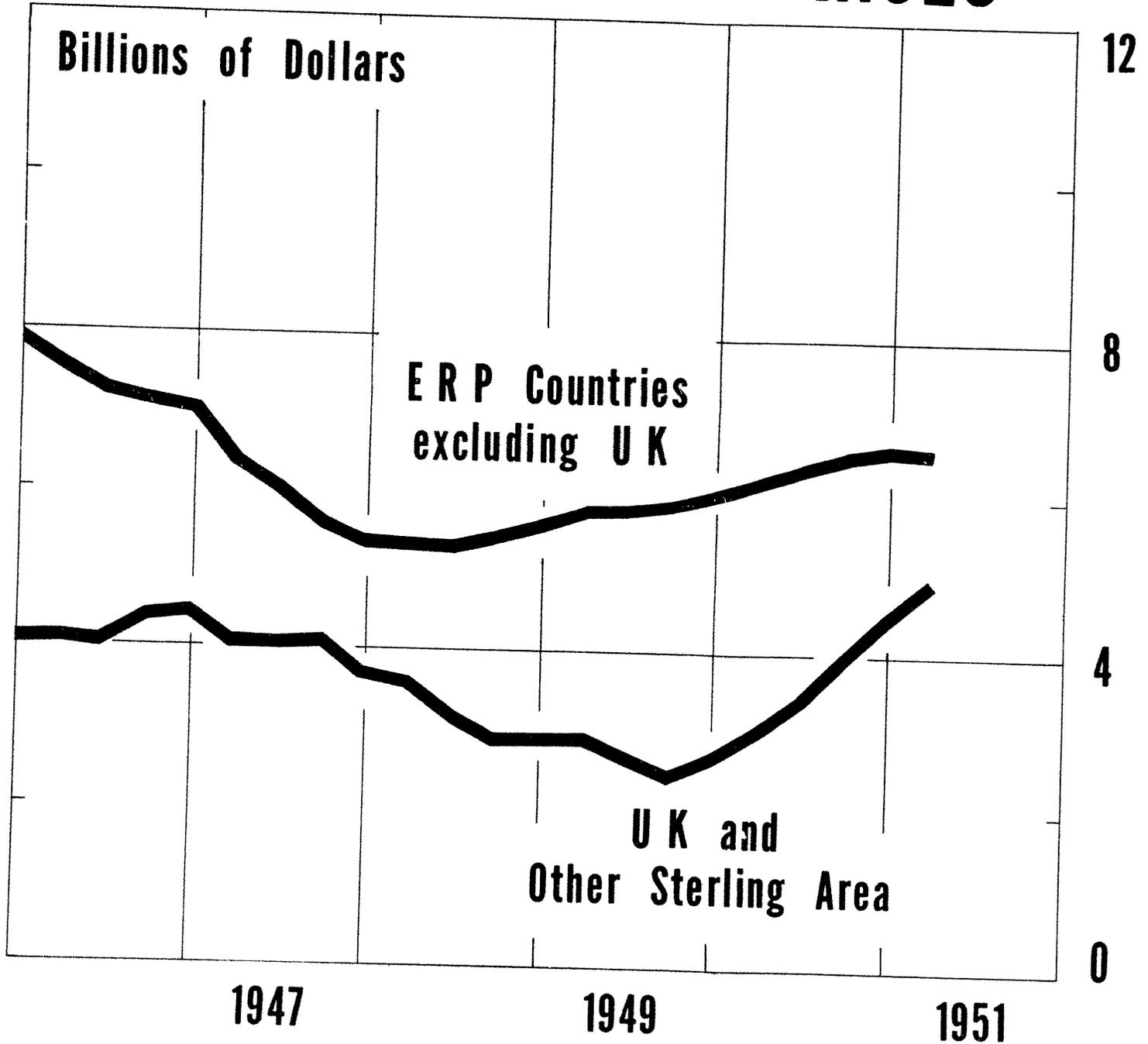
# U.S. EXPORTS



# GOLD AND DOLLAR BALANCES



# GOLD AND DOLLAR BALANCES



# GOLD AND DOLLAR BALANCES

