The Dollar Overhang from Earlier Years

On September 30, 1967, the national monetary authorities of the noncommunist countries held a total of 14.4 billion of United States dollars; private foreign holdings of dollars totaled 15.1 billion. The combined total of $29.5 billion,[4] had been accumulated chiefly in the years between 1950 and 1965.

The division of foreign dollar holdings into official and private is significant on several grounds, although it is well known that central banks on occasion "place" some of their dollar holdings with commercial banks.[5] As a consequence, published figures do not tell the complete story in that they do not reveal how many private holdings are actually hidden monetary reserves of the central bank. But to the extent that the statistics tell the correct story, the division is important, especially because of the different motives for holding dollars.

Private foreign dollar balances are held almost entirely for transactions purposes. The "transactions demand" for dollar balances on the part of commercial banks and traders abroad is determined by daily, weekly, monthly, and seasonal variations in receipts and expenditures, by interest-rate differentials, by the cost of foreign-exchange operations, and by expected changes in exchange rates. Official dollar holdings, on the other hand, are determined largely by political considerations. The central banker of a large industrial country does not look in the first place at the alternative costs and earnings of his asset-mix, but rather on the advantages or necessities of international financial cooperation or noncooperation. These differences in motivation bear on the problem of the large liquid liabilities of the United States to foreign

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[4] Total liquid dollar liabilities were $31.2 billion, if the debts to the International Monetary Fund ($1.0 billion) and to other international organizations ($0.7 billion) are included.

[5] The central bank does this by way of swap or repurchase agreements that make it attractive for commercial banks to use their excess reserves for acquiring the dollar assets, which yield interest and a small gain in the resale price. The main purpose of the central bank is to syphon off some excessive lending capacity, or excess liquidity, of the banking system; in this fashion dollar assets take the place of government securities in open-market operations.

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