Estimated Effect on U.S. International Reserve Position From Instituting New Controls at Year-End 1958

It was assumed in the discussion of the U.S. international reserve position (pp. 9–10) that 36 percent of the increase in foreign dollar holdings resulting from the cumulative deficit between yearend 1958 and the end of September 1967 was converted into gold with the remainder held in the form of dollars and short-term dollar claims. This assumption was derived in the following manner:

The cumulative deficit from the end of 1958 through the third quarter of 1967 ($22.2 billion) has been accompanied by increased short-term liabilities and reduced gold holdings of a comparable magnitude over this period (i.e., an increase of $13.4 billion in short-term liabilities and a decline of $7.6 billion in gold holdings for a total adverse movement in our reserve position on this account of $21.0 billion). On the basis that the relative change in dollar liabilities versus gold holdings over the period reflects the propensity of foreigners to hold dollar claims in lieu of presenting such claims for gold, it follows that 36 percent of this cumulative deficit was converted into gold with the remainder being held largely in the form of short-term dollar claims.

Thus, the statistics show the following:

[In billions of dollars]

End of period	Short-term liabilities	Gold	Net adverse change
1958	15.4	22.5	
September 1967	28.8	14.9	
Net change	+13.4	−7.6	21.0

Note.—Of the total net adverse change, 36 percent ($7,600,000,000) comprised a reduction in gold, the remaining 64 percent ($13,400,000,000) comprising an increase in short-term liabilities.

TABLE I.—U.S. BALANCE OF PAYMENTS ON DIRECT PRIVATE INVESTMENT ACCOUNT WITH EUROPE EXCLUDING UNITED KINGDOM—RELATION BETWEEN BOOK VALUES, EARNINGS, REMITTANCES, AND REINVESTMENTS UNDER HYPOTHETICAL ILLUSTRATION

[In millions of dollars]

Year	Beginning of yearbook value (value in preceding year plus reinvestments (col. 5)) (1)	Earnings (0.13 ×col. 1) [1] (2)	0.45 ×col. 2 [2] (3)	Minimum remittance requirements [3] (4)	Earnings less remittances [4] (reinvestment or additions to book value) (5)
1959	[5] 2,426	315	142	191	124
1960	2,550	332	149	191	141
1961	2,691	350	158	191	159
1962	2,850	370	166	191	179
1963	3,029	394	177	191	203
1964	3,232	420	189	191	229
1965	3,461	450	202	191	248
1966	3,709	482	217	191	265
1967	3,974	517	233	191	284

[1] Assume return on investment equals 13 percent. (See appendix text.)
[2] Assume 45 percent of earnings must be remitted if this exceeds 35 percent of investment in 1956–57. (See appendix text.)
[3] Assume 35 percent of investment in 1956–57 (or $191,000,000) must be remitted unless or until 45 percent of earnings exceeds $191,000,000; 45 percent of earnings exceeds $191,000,000 beginning in 1965 and hence the larger amount must be remitted. (See appendix text.)
[4] Col. (2) less col. (4) or col. (5). (See footnote 3.)
[5] Actual value.