

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

Weaknes of Reserve Currencies

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1966) : Weaknes of Reserve Currencies, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 01, Iss. 3, pp. 21-22,
<https://doi.org/10.1007/BF02922794>

This Version is available at:

<https://hdl.handle.net/10419/137604>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

paid in the form of heavier public spending, accompanied either by heavier taxation or an unbalanced budget, however, certainly does not improve the competitive strength of manufacturing industries.

The effect of subsidies on foreign trade and payments has lately received more attention in Great Britain, but for curbing imports other methods have been preferred. The rebates given to British exporters are not, strictly speaking, subsidies as they merely offset costs incurred in the production of the export goods, but they certainly make the export business more attractive for British manufacturers in comparison with the home market. Most British exporters however value other incentives, in particular the officially sponsored export insurance, more highly. The indirect effect of subsidized coal, rail transport and regional development on export performance is too remote to be noticeable or measurable. Exporters generally do not feel that these subsidies are helping them but are only too well aware of the handicap of heavier general taxation which is the concomitant of selective assistance.

Different considerations apply if a clearly temporary strain has to be absorbed. Quite substantial State contributions to redundancy and rehabilitation schemes in particular British industries have proved well worth-while in the long run. Such financial payments were often successfully combined with and made conditional upon the adoption of concentration and modernisation plans for entire industries, and these have succeeded in greatly improving the competitive position of, e.g., the British textile industry in the world market. Being non-recurrent ad-hoc contributions in return for definite sacrifices and efforts on the part of the recipients, they can however hardly be grouped together with the subsidies which in fact if not in intent have become a permanent tribute payable by the community to a particular sector of the economy. Their relative success certainly does not lessen the dislike and distrust felt by most British economists for subsidies as a means of treating economic ills.

Dr. oec. G. Abrahamson, Caversham, Reading

*Department for Business Trends Research,
The Hamburg Institute for International Economics*

World Business Trends

Weakness of Reserve Currencies

Last year official currency reserves in the shape of gold holdings, convertible foreign exchange and reserve positions in the International Monetary Fund have on the whole increased but comparatively slowly in the western countries. According to data so far available the increase by barely 2% has been only half as much as that in 1964. The central banks' gold holdings should have grown somewhat more rapidly in 1965 than in the previous year and the reserve positions in the International Monetary Fund have shown a much quicker increase even. It was alone the reduction of official foreign exchange holdings that has been decisive for the overall change.

But the development of world currency reserves gives a wrong picture of the world economy's liquidity supply since outside the United States—the most important currency reserve country—they were obviously growing as quickly as in the previous year. The considerable slowing down of international creation of liquidity was but a result of the fact that outside the United States the accrual

of reserves occurred mainly in the shape of gold, after in 1964 its share was a bare third only. Thus the gold demands surpassed by far the increase of monetary gold (approximately three quarters of the supply from current production and Soviet sales have been absorbed by industrial demand, private hoarding, and purchases by East-bloc countries), so that the United States had been forced to reduce its reserves considerably.

The US gold reserves decreased by \$ 1,700 million to \$ 13,800 million—including gold deposited by the International Monetary Fund. This was the most pronounced reduction since 1960. At the same time, however, the American banking system's short-term dollar liabilities vis-à-vis the foreign central banks and governments which in the preceding years had kept rising have slightly decreased according to data covering the period up to November. For in 1965 the United States' balance of payments deficit with \$ 1,300 million had been extraordinarily low (1964: \$ 2,800 million). However, this improvement together with an even declining surplus in the bal-

ance on goods and services was mainly due to the fact that under Government pressure the short-term private capital flow produced a surplus, i.e. a permanent solution of the balance of payments troubles is not yet in sight.

The second reserve currency country within the valid gold exchange standard, Great Britain, is not able anymore to contribute to the world economy's supply of additional liquidity as long as other countries are not prepared to increase their sterling holdings. Therefore the balance of payments deficit of almost \$ 1,000 million in the last year (after more than \$ 2,000 million in 1964) would have caused a considerable shrinking of the country's central currency reserves if Britain had not borrowed once more \$ 1,400 million from the International Monetary Fund (1964: \$ 1,000 million). Even after that, at the end of 1965, with \$ 3,000 million they were lower than in many non-reserve countries, as e.g. in Federal Germany, France, Italy and Switzerland.

Above all the balance of payments difficulties of the two reserve currency countries have led to another activation of the International Monetary Fund. In 1965 members' drawings with \$ 2,400

million almost reached the peak of 1961. Just the same as at that time Britain's high drawings were decisive. However, also the United States made use of the International Monetary Fund's assistance in the support of the dollar. Through the increase of reserve positions in connection with these operations the International Monetary Fund even became the most important source of international liquidity in 1965. Besides it facilitated the meeting of the demand for gold by gold sales to the value of \$ 400 million to countries with comparatively scarce currencies.

The increasing preference for gold originated almost exclusively from the European continent. Apart from additional drawing rights, last year these countries even lost official currency reserves but increased their gold holdings by \$ 2,300 million at the expense of their foreign exchange accounts. The share of gold in the currency reserves (excluding reserve positions in the Fund) therefore jumped from 62 % to 70 %. Alone in

France (gold quota 86 %) this attitude is based on an explicit policy of hoarding. In the other important economies the share of gold was lower in most cases (Federal Germany 69 %, Italy 62 %, Switzerland 94 %, the Netherlands 85 %, Belgium 78 %), but all of them were intent on paying their obligations out of their foreign exchange accounts and hoarding the gold accruing to them from different sources.

These trends are an expression of radical changes in the world monetary system. Obviously the most important non-reserve countries are—more or less distinctly—not prepared anylonger to recognise dollar and sterling as reserve currencies through a corresponding attitude in the field of international monetary policy. Even if full replacement of other reserves by gold is not aimed at efforts are made when it comes to currency lendings to use the International Monetary Fund as a would-be guarantor within the existing system.

Group, world zinc production increased by 5.3 % to 3.11 million lgts in 1965. World consumption, however, rose by 3.4 % only to 3.34 million lgts. Thus the production deficit declined from 280,000 lgts in 1964 to 235,000 lgts in 1965. However, this still quite considerable supply gap has been filled up by stockpile releases and imports from East-bloc countries. In the second half of 1965 there was a small oversupply even and therefore producer stocks increased somewhat above all in Western Europe. Also in the current year a growing supply surplus has to be expected. Thus the stockpile authorities have already released 125,000 tons of zinc for sales in 1966. However, zinc prices should not decline in the near future since producers will continue to replenish their much reduced stocks.

Also lead production is increasing more rapidly than consumption. Therefore in the near future supply difficulties are not to be anticipated. The short boom of lead prices at the end of last year was caused by an only temporary shortage. Then strong supplies from the East-bloc, mainly Bulgaria, caused a noticeable price reduction. According to most recent estimates in 1965 world lead production rose by 4.6 % to 2.69 million lgts, while world consumption rose by only 1.7 % to 2.74 million lgts. Thus the supply deficit has decreased from 127,000 lgts in 1964 to 53,000 lgts in 1965. 120,000 lgts of lead from US-stockpile were available to fill up this gap. It has been under consideration already whether also for lead a fixed producer price should be introduced, and a price of 100 £/lgt is being discussed.

Raw Material Markets

Improved Supply Situation in the Zinc and Lead Market

For several months zinc market prices—apart from minor fluctuations—have been keeping just below the fixed producer price of 110/£/lgt. This comparative price stability is to be explained by supporting orders from leading producers. These intend to prevent a steeper decline of zinc prices as otherwise they might not be able to avoid a reduction of the fixed price. The price pressure in the free market is mainly a consequence of the considerable quanti-

ties released from American stockpiles and of higher offers made by the Soviet Union and other East-bloc countries. At the same time the growth rate of consumption has slowed down and therefore the processing industries can cover most of their demand with zinc supplies at fixed producer prices under long-term contracts and need only purchase minor additional quantities in the market.

According to estimates of the International Lead- and Zinc Study

Index Numbers of World Market Prices of Foodstuffs and Industrial Raw Materials

Index and commodity group	1965				1966		
	February	May	August	November	February	18. 2.	4. 3.
HWWA-Index ¹ (1952—1956 = 100)	95.8	96.8	94.1	95.3	98.8	99.0	99.0
Foodstuffs	88.0	87.1	83.8	85.1	86.9	87.0	86.6
Raw materials other than foodstuffs ...	99.6	101.4	99.0	100.2	104.6	104.7	105.0
Fuels	96.4	95.7	95.4	95.6	95.6	95.6	95.4
Raw materials for consumer goods ..	89.8	90.1	91.0	92.1	92.7	92.9	93.8
Raw materials for capital goods	109.4	114.7	108.1	110.4	121.6	121.9	122.2
Reuter's Index (18. 9. 1931 = 100)	458.2	459.7	445.1	447.6	472.0	472.0	470.4
Moody's Index (31. 12. 1931 = 100)	371.4	382.8	391.0	392.5	414.5	414.5	407.9

¹ Index compiled by the Hamburg Institute for International Economics.