

Shifting the World's Stock of Gold

Extraordinary Position of the Allies in the Supply and Command of the Yellow Metal — Vast Sums Are Coming Out of Circulation and Going Into Banks, While Most of the New Production Since the War Has Gone Into English Reserves.

"The Annalist," New York, points out in discussing a huge shipment of gold from Britain to the United States to rectify the exchange situation, the favorable position of the Allies. While the angle of view is from New York, it shows some extraordinary reserve financial strength.

Five hundred million dollars is a sum not to be lightly regarded even in these days of billion and five billion dollar loans, and when thought of as a transaction in gold it becomes even more impressive. It is, for instance, more than the world's entire annual production of the yellow metal—75 per cent. more than the amount which is yearly added to the stocks of gold money. It is a sum greater than the entire gold holdings of all the South American countries combined. Yet, if the reports cabled from London last week should prove true, England, on behalf of her allies and herself, in an effort to restore the exchange markets to a normal level, will add that much to this country's already plethoric gold reserves. If financially accomplished, it will be a feat of financial prestidigitation unparalleled in history, for it must be done without unduly depleting the banking reserves of those countries which are, according to the report, to contribute to the fund. Whence, then, is the gold to come? It is a difficult question to answer, but a study of the position of the leading nations in respect to their gold stocks may aid in enlightening the subject.

The year of war has witnessed some remarkable shifts in the gold holdings of the United States and of the countries directly involved in the great struggle. These changes have been both international and internal in character, and at the present time the latter are no less interesting than at the former because they show, in some cases at least, the extent to which the mobilization of the golden armies of the belligerents has progressed.

For several years prior to August, 1914, France, Russia, and Germany had been engaged in a fierce competitive scramble for gold, and the holdings of their great State institutions had expanded rapidly. So rapidly, in fact, did they grab the metal that the movement threatened to become an unsettling factor in world finance, and had resulted in serious discussion among American bankers as to the advisability of taking measures to protect our stock of gold. Under these circumstances, the outbreak of war found them with what was, up to that time, about the peak of their gold reserves. Most of this had, however, been accumulated without drawing very largely on the amount in circulation.

The world's total stock of gold money, counting the amounts in banks and public treasuries and in circulation, was then in the neighborhood of \$8,800,000,000, according to the best estimates available. Of this sum approximately 80 per cent. was within the borders of the warring nations and their colonies and the United States, their holdings being divided in the following manner:

United States	\$1,871,000,000
United Kingdom	749,000,000
Balance British Empire	751,000,000
Total British Empire	1,500,000,000
France	1,088,000,000
Russia	1,008,000,000
Italy	275,000,000
Belgium	70,000,000
Austria-Hungary	291,000,000
Germany	989,000,000

It will be observed that the gold holdings of the Teutonic allies were equal to only about one-third those of its foes, or, excluding the figures for the British Empire outside the United Kingdom, approximately two-fifths. Of the \$1,280,000,000 of gold which was in the possession of Austro-Hungary and Germany when hostilities commenced, some \$587,000,000 was in the State banks and the balance, just under \$700,000,000, in other institutions and in circulation. Shut off as they are from the rest of the world, such of this latter as they are able to bring into their banking reserves constitute for the time practically the only source of gold upon which they can draw.

Despite this handicap, however, the gold holdings of the Reichsbank increased during the first year by \$258,900,000, or more than the gain in the entire holdings of all the State institutions of the Allies by \$23,500,000, even if the British currency note redemption fund of \$142,500,000 be included. It is a remarkable showing, more so even when it is considered that in thus mobilizing its gold resources the country has been confined to internal sources for the additional supply, and the result was obtained very largely through appeals to the patriotism of the German people. Nevertheless, the fact remains that, when taken as a whole, the German holdings of precious metal have been in no wise augmented by the change. What happened is merely that the following shift occurred from the end of July, 1914, to the end of the same month this year:

	Reichsbank.	Gold in Other Institutions and Circulation.
1914	\$339,000,000	\$650,000,000
1915	597,900,000	391,100,000

As a consequence of this transfer the amount of Germany's gold in active service is now much larger than ever before, but at the same time her potential supply for banking purposes has evidently been reduced to a point where it is becoming more difficult to divert it into the financial stream. That is clearly shown by the fact that whereas the first eight or ten months of war were marked by a steady drain of gold from circulation into the Reichsbank, the last two months have witnessed only a very small increase, so small, in fact, that even if continued at the same rate, it would take a very long time for it to have any appreciable effect upon the gold position of the German Empire.

Turning to the Allies, it is seen that the outbreak of the war found them with a total gold supply of \$3,941,000,000; but included in this are the holdings of the British Empire outside the United Kingdom, which, for the most part, are unlikely to play an important part in the situation, though an appeal to the patriotism of the people might in some places meet with a surprisingly large response. Excluding these holdings, however, the Allies possessed at the beginning of last August about \$3,190,000,000 of gold, the greater part of which was in the great banking institutions, more than \$2,250,000,000 being so held.

During the year ended with the beginning of the current month the banks of England, Italy, France and Russia added to their combined gold resources the sum of \$92,900,000. Moreover, in addition to this sum, the British Government accumulated a gold reserve against the redemption of currency notes amounting to \$142,500,000, so that the total increase in what may be called their "visible" supply during the year was \$235,400,000. This gain was by no means uniformly distributed, however. For instance, the returns of the Bank of Russia show that that institution lost no less than \$30,000,000 of its gold, while the holdings of the Bank of France decreased by \$2,200,000 in the period. Italian holdings increased by \$1,400,000. The net gain, therefore, must be wholly attributed to the strengthened position of the Bank of England and the creation of the British currency note redemption fund.