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UNITED STATES BANKS AND FOREIGN TRADE FINANCING[1]

The flow of world trade depends in part on financial and credit facilities supplied by commercial banks and trading firms. In general, commercial banks participate in international trade financing on a short- or intermediate-term basis by advancing funds or by lending their names to credit instruments. Bank policies and procedures vary from country to country, however, because of differences in development of financial organization, in importance of foreign trade to the economy, and in ability to provide or obtain external credit.

The role of United States banks in the international field may be described from two points of view. First, the extent to which banks finance world trade may be analyzed on the basis of available information dealing with the volume and sources of international credit. Secondly, the role of United States banks may be compared to that of foreign banks; although comparable data on financial activities are lacking, there may be some significance in a comparison of the number and distribution of foreign offices maintained by United States banks to those maintained by banks of other leading countries.

[1] This article was prepared by Frank M. Tamagna, Chief, and Stephen H. Axilrod, Economist, of the Financial Operations and Policy Section of the Board's Division of International Finance. It is an adaptation for the BULLETIN of a paper prepared in connection with an internal Federal Reserve System study of the international activities of United States banks.

Over the period from the end of the Second World War to December 31, 1953, the outstanding amounts of short-term credits to foreigners reported by United States banks fluctuated around one billion dollars, about the same level as in the early thirties but above levels of the latter part of that decade. Failure of such credits to expand markedly contrasted with the notable growth of United States and world trade from prewar to postwar years.

During 1954, there were indications of greater interest on the part of United States banks in financing international transactions, and outstanding short-term credit to foreigners reported by commercial banks rose 360 million dollars. This was the largest annual increase of the postwar period and brought the total outstanding at the year-end to the highest level since 1931. In general, however, United States banks have been less active in the field of international finance than banks of certain other countries, which have traditionally placed more emphasis on foreign trade and investment.

Growth in foreign financing by United States banks has contributed to the gradual revival of effective international money markets. A significant rise in outstanding bankers' acceptances last year was an aspect of this process. This growth has permitted modest acquisitions of acceptances by the Federal Reserve Bank of New York, under the direction of the Federal Open Market Committee.

Characteristics of Foreign Financing by United States Sources

United States commercial banks and traders—including exporters, importers, and industrial and commercial firms—reported outstanding foreign credits (claims on foreigners) of 2,361 million dollars at the end of 1954, as shown in the following table; more than three-fourths of these claims represented short-term credit, having a maturity of less than one year. This article is focused on short-term foreign credits extended by banks, which are for the most part directly related to the financing of exports, but it also discusses short-term credits extended to foreigners by traders.

Table 1

Claims on Foreigners Reported by Banks and Traders December 31, 1954

[In millions of dollars]

	Banks		Traders	Total
	For own account	For collection		
Short-term	950	302	584	1,836
Other	423	....	102	525
Total	1,373	302	686	2,361

Note.—Preliminary data. Excludes claims reported by Federal Reserve Banks.

Short-term claims reported by banks totaled 1,252 million dollars, while traders reported 584 million. Bank claims, however, included 302 million of items held for collection largely on behalf of customers. These items do not represent credits extended by banks to foreign obligors, although banks often have outstanding advances to domestic customers against them. Since most collection items are actually claims of bank customers, they are so treated in this article wherever possible. Adjusted on this basis, short-term claims of banks were 950 million dollars at the end of last year, and those of traders were 886 million. Only about 15 per cent of all short-term claims were in the form of deposit balances held by United States banks and traders with foreign banks.

Claims on foreigners represent primarily sums disbursed and outstanding under credit arrangements between United States banks and their foreign offices, correspondents, and clients, but they also include claims arising from transactions between United States and foreign businesses and individuals (exclusive of financing extended by business companies to their foreign branches or subsidiaries). Holdings of foreign long-term securities are excluded.

Banks also participate in financing the international movement of goods through transactions that do not give rise to claims on foreigners. Import financing, for example, usually involves a relationship between a bank and its customer in the United States and from this point of view is a domestic operation which does not give rise to a claim on a foreigner. Also, bank loans or lines of credit to domestic producers and exporters facilitate foreign trade by enabling the producer or exporter to extend credit abroad on his own account. In addition, the issuance or confirmation by American banks of sight letters of credit related to United States exports, though involving a foreign correspondent, usually does not result in any actual lending of funds by domestic banks.[2] When the letter of credit

[2] There are no figures available on the outstanding volume of such letters of credit; however, some indication of their magnitude relative to claims on foreigners may be obtained from figures reported by 15 large banks. At the end of 1954 these banks had 142 million dollars in confirmed letters of credit outstanding to Latin America (the only area for which such information is available), and this figure in large part represented sight letters of credit. At the same time, outstanding short-term claims (excluding collection items) on Latin America held by these banks were about 310 million dollars.

results in actual lending, the amount is reported as a claim on foreigners.

Some part of the short-term claims of United States banks on foreigners represents financing of transactions between foreigners, reflecting mostly movements of goods between foreign countries. In the past this type of international banking function was exercised predominantly by British and other European banks, and foreign banks have remained active in this field during the postwar years.

About 200 million dollars of claims on foreigners reported by affiliates and agencies of foreign banks located in the United States are included in the figures. These agencies are active in financing trade between the United States and foreign countries.

The credits other than short-term that are extended to foreigners by commercial banks represent mostly financial transactions fully secured by gold or equivalent collateral or credits that would not have come into existence without guaranty or commitment of the United States Government. For example, United States commercial banks had outstanding at the end of 1954 some 275 million dollars of credits under arrangements that require the foreign borrower to maintain full collateral in gold or United States Government securities; these credits represented largely financial transactions not directly related to trade and for the most part had original maturities of more than one year. In addition, banks had 120 million dollars of credits outstanding that had been extended to foreign customers with Export-Import Bank guaranty. Also, under the offshore procurement program, United States banks have extended some credit to finance the production of goods abroad under contract arrangements whereby the Defense Department purchases the goods and loans are repaid out of the proceeds.

Trends in Export Financing

The magnitude and trend of United States export financing by domestic banks and traders is indicated by outstanding short-term claims on foreigners since the early thirties as reported by these sources and shown in Table 2. Short-term claims reported by banks (including collections) are the only figures available as far back as 1931, and that series will be used for the analysis in this section. Data on gross foreign credits extended by United States sources and on the average maturity of such credits would provide more direct measures of export financing, but these types of data are not available.

Table 2

Short-term Claims on Foreigners Reported by Banks and Traders

[In millions of dollars]

End of year	Banks			Traders
	Total	For own account	For collection	
1954	1,252	950	302	584
1953	890	642	248	493
1952	1,019	574	445	504
1951	968	664	304	498
1950	898	692	206	456
1948	829	n.a.	n.a.	393
1938	594	n.a.	n.a.	640
1931	1,103	n.a.	n.a.	n.a.

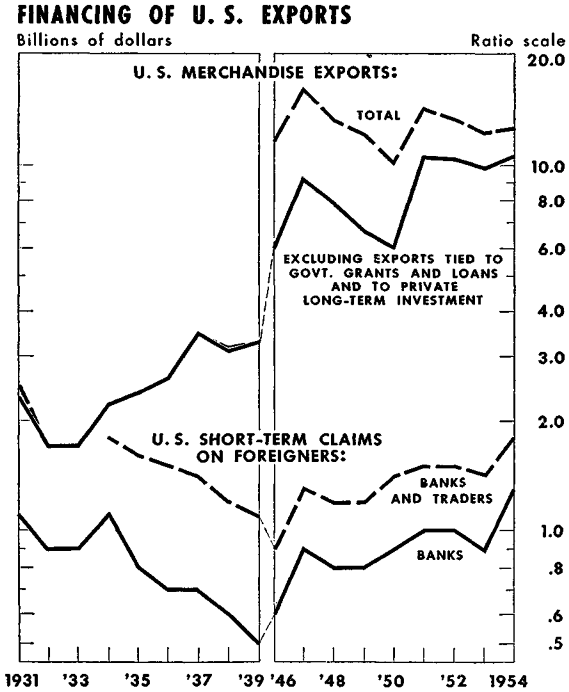
n.a. Not available.

Note.—Preliminary data. Excludes claims reported by Federal Reserve Banks.

The relation between private financing facilities and export trade is influenced by the fact that export of goods may not require financing from banks or traders. For instance, some exports are tied to specific Government loans, to Government grants for economic aid, or to private long-term investments. These "tied" exports generally do not require bank or trade financing, although commercial banks may make short-term advances or provide other facilities incidental to such capital and export transactions. The prewar and postwar trends of financing by banks and traders, in relation to total United States exports and to estimates of exports not financed by long-term capital and aid, are shown in the accompanying chart. The latter volume of exports has been approximated by deducting from total exports estimates of those exports financed directly by outflows of private long-term capital investments, Government economic grants, and Government loans.

In the thirties, when world economic activity was at a low ebb, the outflow of United States long-term private investment was small compared to the level reached during the late twenties, and United States Government grants and loans were negligible.

FINANCING OF U. S. EXPORTS



NOTE.—Exports are annual totals and exclude grant-financed military supplies. Estimates of exports tied to Government grants and loans and to private long-term investment are derived on the basis of data for long-term private investment and gross outflows of Government grants and loans reported by the Department of Commerce. Claims are for year-end dates, and those for banks include collection items.

This left to banks and traders practically all financing of merchandise exports. In the postwar period the outflow of long-term private investment funds has been higher than in the thirties and Government grants and loans have been large, especially in the 1946-51 period. Nevertheless, the volume of trade that might have required financing by banks or traders has increased greatly.

While outstanding short-term credit to foreigners reported by United States banks has expanded recently, it is still much less important relatively than in the thirties. From 1945 through 1953, the ratio of short-term claims reported by banks to annual merchandise exports remained between 6 and 9 per cent. During this period, with the exception of 1950, the ratio of these claims to estimates of exports not financed by long-term private investments and Government loans and grants was in the neighborhood of 10 per cent and in 1954, when United States banks were more active in foreign lending, it rose to 12 per cent. In prewar years, however, ratios of claims to the two categories of exports were much higher—between 45 and 50 per cent in 1931 and around 20 per cent in 1938.

These developments in international financing by banks contrast with the course of bank credit extended for domestic economic activity. A more than four-fold expansion in United States gross national product (from 85 billion to 357 billion dollars) between 1938 and 1954 was accompanied by a similar increase in commercial and agricultural loans to domestic customers (from 6 billion to 28 billion dollars) at all member banks of the Federal Reserve System.

The change since the early thirties in the proportion of exports financed by banks depends in part on factors other than those shown in the chart. One of these is the rate of turnover of claims on foreigners. The 1.1 billion dollars of claims outstanding at the end of 1931 included some foreign assets on which collections were slow, and the decline in claims during the late thirties, when exports tended to rise, may have reflected in part liquidation of slow assets. Claims on Germany, which were affected by standstill agreements, were 40 per cent of the total at the end of 1931. In the postwar years, however, banks have also held overdue claims on a number of countries; for example, the rise in claims during 1951 and 1952 reflected largely the accumulation of overdue claims on Brazil.

Another factor that affects the rate of turnover is the original maturity of United States bank loans to foreigners. This may have shortened from prewar to postwar years. By and large, banks recently have preferred financial arrangements that either involve a contingent liability with their own funds actually not used or involve use of their funds for very short periods only—usually during the initial phase of export transactions, such as the movement of goods to port of shipment in the United States or to port of destination abroad. With shorter maturities, the proportion of United States exports financed by banks may not have declined to the extent indicated by the decline in outstanding claims.

Shorter maturities on foreign credits extended by United States banks have much the same effect for foreign borrowers as a decline in the amount of credit granted. In both instances additional or longer-term financing is required from other sources to support a given volume of United States exports. The decline from prewar to postwar years in trade financing by United States banks, because of a relatively smaller amount of credits and possibly some shortening of maturities, has presumably been compensated for by an expansion of credit from foreign banks to their own customers.

Distribution of Financing

The distribution of foreign financing by United States banks and traders may be analyzed from the standpoint of the various areas within the United States providing such financing, or from the standpoint of the recipient foreign areas and countries.

United States areas of origin. As might be expected, by far the greater part—nearly three-fourths—of all foreign financing from bank and trade sources originated in the New York Federal Reserve District, as shown in Table 3. Following in order of importance were the San Francisco District (11 per cent) and the Chicago District (6 per cent).

Table 3

Short-term Claims on Foreigners, by Federal Reserve District, December 31, 1954[1]

[In millions of dollars]

Federal Reserve district	Banks[2]	Traders[2]	Total
New York	724	610	1,334
San Francisco	166	32	198
Chicago	16	98	114
Cleveland	9	53	62
Boston	20	23	43
Richmond	....	24	24
Philadelphia	3	17	20
Dallas	8	10	18
Atlanta	2	9	11
Minneapolis	....	6	6
St. Louis	2	3	5
Kansas City	....	1	1
All districts	950	886	1,836

[1]Preliminary data. Excludes claims reported by Federal Reserve Banks.
[2]Items held for collection by banks on behalf of their domestic customers have been excluded from bank claims and included with trade claims.

Financing by traders was significantly larger than that by banks in the Chicago, Cleveland, Richmond, and Philadelphia Districts. In these four districts, manufacturers and exporters accounted for credits of 192 million dollars, about 70 per cent of the aggregate foreign credits outstanding at the end of 1954 from trade sources outside the New York District.

Recipient foreign areas. The distribution of short-term financing among foreign areas reflects largely the flow of United States exports. In 1954 the Western Hemisphere, which absorbed about half of United States exports, also utilized half of the financing provided by banks and traders. Western European countries obtained more than one-fourth of United States export trade and one-third of United States financing. Asia's share in United States export trade, about one-sixth, was somewhat larger than its share of financing from United States banks and traders, which was about one-ninth.

The distribution of exports and financing varied greatly among countries. The ten countries with the largest amount of credit outstanding at the end of 1954 received, as a group, about 60 per cent of United States exports and accounted for two-thirds of total outstanding short-term foreign credits of United States banks and traders. These credits amounted to more than two-thirds of United States exports to Turkey, about two-fifths of exports to Brazil and Colombia, and one-fifth of exports to Mexico and Cuba, as shown in Table 4. Although direct participation of United States banks in the financing of trade with the United Kingdom appears to be moderate, their sterling balances with British banks together with claims of traders brought outstanding claims of United States banks and trade sources to more than one-third of 1954 exports to the United Kingdom.

The decline over the period 1931-54 in short-term financing by banks in relation to trade reflected varying trends among different areas. A sharp decline in the ratio for European countries resulted from a reduction in bank claims as trade expanded. For the countries of Latin America as a group, the decline in the ratio was relatively moderate since the large rise in exports to

TABLE 4

RELATION OF SHORT-TERM CLAIMS ON FOREIGNERS TO UNITED STATES EXPORTS, BY AREAS AND SELECTED COUNTRIES, 1954

Area or country	U. S. exports to area[1]	Short-term claims on foreigners:[2] All U. S. sources	Banks[3]	Traders[3]	Ratio of claims to exports: All U. S. sources	Banks	Traders
	(In millions of dollars)				(In per cent)		
Western Hemisphere	6,109	959	481	478	16	8	8
Western Europe	3,353	606	346	260	18	10	8
Asia	1,917	205	105	100	11	5	5
All others	806	66	18	48	8	2	6
Total—world	**12,185**	**1,836**	**950**	**886**	**15**	**8**	**7**
United Kingdom	689	246	[4]159	87	36	23	13
Brazil	450	195	105	90	43	23	20
Canada	2,764	161	71	90	6	3	3
Mexico	627	142	105	37	23	17	6
Colombia	341	125	60	65	37	18	19
Cuba	428	86	60	26	20	14	6
Venezuela	530	84	32	52	16	6	10
Germany	490	78	60	18	16	12	4
Japan	677	65	44	21	10	6	3
Turkey	81	56	39	17	69	48	21
Total—10 countries	**7,077**	**1,238**	**735**	**503**	**17**	**10**	**7**

[1] Merchandise exports reported by Census Bureau for 1954; excludes shipments of grant-financed military supplies.
[2] Preliminary figures of outstanding claims as of December 31, 1954. Excludes claims reported by Federal Reserve Banks.
[3] Items held for collection by banks on behalf of their domestic customers have been excluded from bank claims and included with trade claims.
[4] Of this amount 113 million dollars represents sterling deposits of U. S. banks with British banks.

that area was accompanied by some increase in outstanding credit.

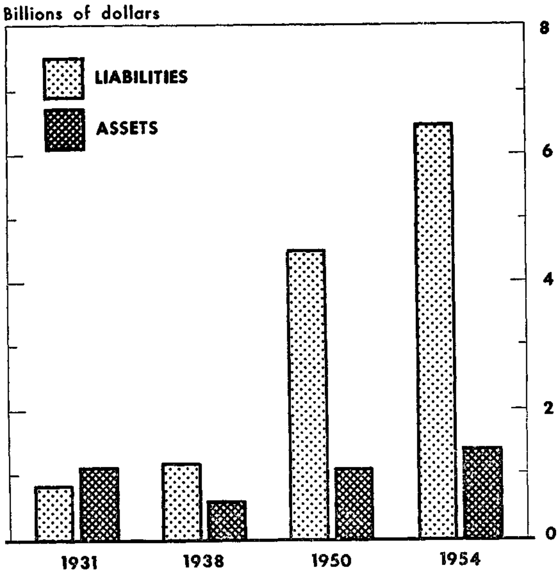
Short-term claims of banks were about 8 per cent of total United States exports in 1954, while claims of traders were 7 per cent. Banks were predominantly responsible for the extension of credit to Mexico, Turkey, Germany, Cuba, and Japan. Trade sources provided a larger share of the outstanding short-term credit to Venezuela, while banks and traders each provided about half of the credit outstanding to Brazil, Colombia, and Canada.

Growth of Foreign Liabilities of United States Banks

The relatively constant level of foreign financing by United States banks since the thirties contrasts strikingly not only with the great expansion of world trade but also with the large movement of foreign funds to the United States.

FOREIGN LIABILITIES AND ASSETS OF U. S. BANKS

Billions of dollars



Note.—Year-end figures. Liabilities represent foreign deposits, and assets represent short-term and other claims on foreigners, reported by U. S. commercial banks. Amount of items held for collection on behalf of domestic clients is included for 1931 and 1938 (breakdown not available) and excluded for 1950 and 1954.

In 1931 deposit liabilities of United States commercial banks to foreigners were smaller than their claims on foreigners, as the chart shows. By 1938, following the large inflow of foreign funds seeking a safe haven in the United States and the contraction of credits during the depression, foreign deposits at commercial banks exceeded outstanding claims on foreigners by 550 million dollars. Between 1938 and 1954 the excess increased to 5.1 billion dollars as foreign deposits at commercial banks rose from 1.1 billion to 6.5 billion, while bank claims on foreigners (excluding collection items) rose to 1.4 billion. To summarize: in 1931 United States banks were net lenders of commercial credit to the rest of the world, but in 1954 they showed a net debit position as a result of their accumulation of foreign deposits.

About three-fourths of all foreign deposits in commerical banks at the end of 1954 were held for accounts of foreign monetary authorities and banks, which in postwar years have come to keep a large part of their reserves and working balances in this country. In addition, commercial banks held in custody for foreigners 1.4 billion dollars of short-term United States Government securities and other short-term paper.

Another view of the foreign operations of United States banks is the relationship between foreign and total business as shown in Table 5 for fifteen leading banks engaged in foreign business at the end of 1954. For ten leading banks in the Second District (New York), foreign deposits were 14 per cent of total deposits while claims on foreigners were only 7 per cent of total loans and bills discounted. In the case of five leading banks outside the New York District, these ratios were 5 and 4 per cent, respectively.

TABLE 5

RELATIVE IMPORTANCE OF FOREIGN BUSINESS OF SELECTED LEADING BANKS, DECEMBER 31, 1954

[Dollar amounts in millions]

Item	10 New York City banks[1]	5 banks outside New York District[2]	Total, 15 banks
Assets			
Total loans and bills discounted	$11,660	$6,720	$18,380
Claims on foreigners[3]	$785	$248	$1,033
Ratio, claims to total (per cent)	7	4	6
Liabilities			
Total deposits	$26,300	$13,300	$39,600
Deposits of foreigners	$3,737	$725	$4,462
Ratio, foreign deposits to total (per cent)	14	5	11

[1] Banks in New York Federal Reserve District that reported deposit liabilities to foreigners of 100 million dollars or more.
[2] Banks outside the New York Federal Reserve District that reported deposit liabilities to foreigners of 20 million dollars or more.
[3] Excludes items held for collection.

NOTE.—Data include wholly owned subsidiaries of these banks.

COMPARISON OF FOREIGN BANKING FACILITIES

The role of United States banks in financing foreign trade may be indicated in part by comparing their foreign banking organization with those of other countries. The choice by a bank of its method of operating in foreign countries depends on numerous factors such as legal considerations, the extent and nature of its international business and the direction in which it desires to develop this business, and the form of organization maintained by the bank in its own country. In general, banks conduct their business in the international field through branches or agencies, affiliates or subsidiaries, representative offices, and correspondents. Each method has advantages and disadvantages. The maintenance of correspondent relations with foreign institutions appears more or less indispensable for any bank engaged in international transactions, while the establishment of foreign offices, either in the form of branches or through subsidiaries and affiliates, requires a sufficient volume of business to justify establishment and maintenance of a foreign organization.

Distribution of foreign offices. In the absence of any other yardstick by which to measure the relative volume of international business carried out by banks of different nationalities, it is interesting to compare the extent to which banks have found it desirable to establish offices in foreign countries. In 1954, as Table 6 shows, some 100 leading banking institutions and 60 affiliated organizations, representing about 20 nationalities, maintained about 1,250 foreign offices (including branches, agencies, and representative offices). United States banks had some

TABLE 6

PRINCIPAL BANKS WITH FOREIGN OFFICES, 1954[1]

Country of ownership or control	Number of banks with foreign offices		Number of foreign branches, agencies, or offices
	Parent banks	Affiliated banks	
United States	8	4	[2]112
Sterling Area, total	*34*	*12*	*596*
United Kingdom	20	12	[3]500
Rest of Sterling Area	14	....	96
Continental Europe, total	*35*	*42*	*376*
France	12	22	119
Netherlands	3	1	66
Italy	6	6	65
Belgium	5	6	19
Switzerland	4	1	10
Other	5	6	[4]97
Canada	6	2	118
Japan	6	1	20
Other	10	....	26
Total	99	61	1,248

[1] Includes foreign branches, agencies, and representative offices. Branches of a metropolitan country's banks in its overseas territories are excluded.
[2] Excludes branches of United States banks in the Canal Zone and Guam.
[3] Excludes more than 1,000 branches in South Africa and Southwest Africa of the British-owned Standard Bank of South Africa, Ltd. and Barclays Bank D. C. O., as well as almost 1,400 branches in Australia and New Zealand of the British-owned Australian and New Zealand Bank, Ltd.; English, Scottish and Australian Bank, Ltd.; and National Bank of New Zealand, Ltd. These branches are considered to function primarily as local banks, and offices and branches of these banks in other countries, including the United Kingdom, are considered as foreign offices for purposes of this table.
[4] Includes branches outside Turkey of the Ottoman Bank, which is of mixed French and British ownership.

Source.—Based on data in *Bankers Almanac and Yearbook, 1954–55.*

110 of these offices. Twenty banks owned by British nationals controlled 500 foreign offices, the largest number. When these are combined with almost 100 foreign offices of 14 banks of other Sterling Area countries, they constitute the most extensive banking network in the world that is tied together by a community of interests, practices, and currency.

Continental European banks and their affiliates, some 75 in number, maintained about 375 foreign offices; the leading French, Dutch, Italian, Belgian, and Swiss banks are represented in this group, as well as banks of other and mixed European nationalities. Canadian banks had about 120 branches abroad, while banks of all other foreign countries were represented abroad by less than 50 offices.

TABLE 7

LOCATION OF FOREIGN BRANCHES, AGENCIES, OR OFFICES OF PRINCIPAL BANKS, 1954

[Number]

Country or area in which located	Nationality of parent bank						Total
	United States	United Kingdom	Rest of Sterling Area	Continental Europe[1]	Canada	Other	
United States	......	5	......	19	11	13	48
United Kingdom	13	[2]12	12	21	8	6	72
Rest of Sterling Area	4	220	56	33	43	13	369
Continental Europe	13	66	......	58	1	4	142
Canada	......	3	......	1	......	....	4
Latin America[3]	65	54	......	48	55	1	223
Middle East and Africa[3]	......	110	2	118	......	6	236
Far East[3]	17	30	21	68	......	3	139
All areas	112	500	[4]96	[5]376	118	46	[6]1,248

[1] Includes the Ottoman Bank, which is of mixed French and British ownership.
[2] Includes offices and branches in the United Kingdom of the Australian and New Zealand Bank, Ltd.; English, Scottish and Australian Bank, Ltd.; National Bank of New Zealand, Ltd.; Standard Bank of South Africa, Ltd.; and Hong Kong and Shanghai Banking Corp. See footnote 3 of Table 6.
[3] Excluding Sterling Area countries.
[4] Includes 5 branches whose location is not known.
[5] Includes 10 branches whose location is not known.
[6] Includes 15 branches whose location is not known.

Source.—Based on data in *The Bankers Almanac and Yearbook*, *1954–55*.

Foreign offices of United States banks are less widely distributed than those of some other nations, as shown in Table 7. Foreign offices of British and other European banks are located in all parts of the world; naturally there are a large number of British offices in the Sterling Area and of European offices on the Continent, but most offices of British and European banks are located in other parts of the world. Latin America is served about equally by offices of United States, British, European, and Canadian banks; the latter are largely concentrated in the Caribbean area. Foreign branches in the Middle East are almost entirely those of British and European banks; and European, British, and, to a lesser extent, United States banks are in the Far East. London remains the world center in which there is the largest concentration of offices of foreign banks, followed by New York and Paris.

Predominance of British banks. Although the number of foreign branches is not by itself a measure of foreign business, a comparison of the number of bank offices maintained abroad and the volume of foreign trade suggests that banks of the British Commonwealth continue to play a predominant role in providing banking facilities for servicing and financing the international movement of goods. British banks maintain 40 per cent of the number of foreign offices, although the trade of the United Kingdom and its dependencies is about 15 per cent of the world total. To these may be added banks from other countries of the Sterling Area and Canada, which together maintain 15 per cent of foreign offices, compared to a similar share in world trade.

Banks of continental European countries maintain about one-third of the foreign offices and these countries, along with their overseas territories, account for about the same proportion of world trade. On the other hand, United States banks have less than 10 per cent of the total number of foreign banking offices, while this country contributes more than 15 per cent of world trade. Banks of other countries, which have 20 per cent of world trade, maintain less than 5 per cent of all foreign branches.

Over the period 1931-54, the number of foreign offices of both United Kingdom and United States banks apparently declined slightly. With respect to the United Kingdom, this decline reflects largely acquisitions by local interests of some banks previously controlled by United Kingdom nationals. Those British banks which reported foreign offices in both 1931 and 1954 expanded the number of these offices about 20 per cent; thus, the leading present-day British banks that maintain such offices have tended to expand their foreign organizations. A similar comparison for United States banks shows a decline of about 15 per cent.

Conclusions

In view of the relatively constant level of outstanding claims of United States banks and traders on foreigners from the thirties to the present and the marked expansion of exports, foreign importers of United States goods are currently more dependent than in the previous period on financing from foreign sources. In the sellers' market which prevailed in the world economy during most of the postwar period, United States exporters in order to meet competition did not need to offer credit facilities on their own account or through banks. Also, a large volume of United States Government grants and loans reduced to some extent the pressure for financing by banks or traders.

Other factors, however, reduced the incentives for commercial banks to supply foreign credits. During most postwar years United States domestic demand for credit was so large that banks had little incentive to seek foreign outlets for their resources. Moreover, the persistence of exchange controls hampered the international flow of short-term credit.

The relatively less extensive system of foreign branches maintained by United States banks may be explained partly by the fact that United States foreign trade expansion on a large scale has been comparatively recent, while the development of an international banking organization is a slow process involving experimentation and risks and requiring the gradual building-up of a highly specialized staff. When foreign countries established their great international banks in the latter part of the nineteenth and early part of the twentieth centuries, they were aided by an environment of comparatively stable, free exchanges and of competitive trade. Moreover, the United Kingdom and other European countries had extensive overseas territories. United States banks established their foreign branches largely after World War I, when unstable currencies and trade restrictions were becoming prevalent. Most United States banks, under these circumstances, apparently have found correspondent relationships adequate for the conduct of the volume of international business which they have been transacting.

Recently there has been a gradual easing of trade and exchange restrictions of foreign countries, and this contributed to the growth in 1954 of foreign financing by United States banks. Accompanying these tendencies, there has been some revival of acceptance financing by United States banks. Outstanding bankers' acceptances rose about 300 million dollars in 1954 to 873 million at the year-end, somewhat above levels of the mid-1920's. Nearly two-thirds of the total outstanding was based on international transactions, and the remainder on goods stored in or shipped between points in the United States.

Because bankers' acceptances are the private short-term paper most comparable to Treasury bills in terms of safety and liquidity, they have been in demand as investments by foreign central banks and other foreign holders of dollar balances, as well as by domestic sources. From the traders' point of view, acceptances are a convenient, flexible, and economical form of financing. The recent growth in bankers' acceptance financing has permitted the Federal Reserve Bank of New York, under direction of the Federal Open Market Committee, to make modest purchases of acceptances from dealers. Some of these transactions were outright purchases and some were made under repurchase arrangements with dealers for limited periods. As of April 13, 1955, the Federal Reserve Bank of New York held 17 million dollars of such paper.