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In this study, the form 1960-1961 is used to designate a period covering both the first and second year specified; 1960-61 to designate a shorter period covering parts of two calendar years.

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Preface

This study is an exploratory essay on problems arising out of recent changes in our international trade and payments position. It is the first report to emerge from a new program of research in this area started by the National Bureau in 1960 with the assistance of a grant from the Rockefeller Foundation. The main purpose animating this initial exercise is to identify problems and to assist in the selection of topics on which further research might usefully be undertaken by the National Bureau or others. Given, however, the current importance of these problems, the present study seeks to illuminate them by drawing upon and, within modest limits, adding to existing knowledge about our international position.

Twenty years ago, in a study of the balance of payments during the interwar period, published by the Department of Commerce in 1943 under the title *The United States in the World Economy,* I was largely concerned with the impact of this country's economic behavior and policies on other countries. From that point of view, the most striking and, in its ultimate consequences, perhaps most fateful phenomenon of that period was the contraction by more than two-thirds from 1929 to 1932 in the gross amount of dollars paid out by the United States to other countries on goods, services, and long-term investment. This was one of the external manifestations of the Great Depression—the shrinkage in our economic activity and employment and therewith in our demand for imports, the fall in commodity prices, and the cessation of our foreign investment activity. One of the principal conclusions emerging from that study was therefore "the fundamental importance of maintaining a more stable and ample flow of dollars in our transactions with other countries."

Judged by that standard, our performance in the world economy has been greatly superior since the Second World War. True, certain of our trading partners most dependent on the American market—especially Canada, the Latin American countries, and Japan—may have reason to complain about the level, regularity, or rate of growth of our demand as it affects their exports. But in our global trade and payments relations of the last several years the problem has been rather the reverse of what it had been before the last war. The flow of dollar payments to other countries has appeared all too buoyant, and the size and stability of our receipts from them have given cause for concern. Though the impact of our economic behavior and policies on other countries remains of key importance in the world economy, the United States economy is now itself more exposed than at any time in recent decades to influences from abroad and to inhibitions stemming from the prolonged weakness in its balance of payments, the cumulative reduction in its net international reserves, and the mobility of private capital.

The focus in this study is on the problems of assessing the elements of strength and weakness in our international trade and financial position and of improving adjustment processes so as to diminish the external constraint on our domestic, as well as foreign, economic policies. Attention is also given, more briefly, to the problem of making adaptations in our monetary and fiscal policies to prevent our increased international exposure from handicapping us in the pursuit of economic stability and growth. To the extent that policies are discussed, the aim is not to develop specific proposals but to indicate alternatives and to suggest some of the considerations which need to be borne in mind in weighing them.

The present essay grapples with problems which are in continuous evolution. Assessments and assumptions based on present knowledge may be swiftly proved wrong by the turn of events. Even our knowledge of the present leaves many gaps. Nowhere is this more true than in the area of cost and price comparisons between the United States and other countries, as is, I think, made clear in this report. It is startling to contrast how little is actually known on this subject with its importance to our international position and with the amount of comment and generalization about it. With the assistance of a grant from the National Science Foundation, the National Bureau has embarked on a project which, it is hoped, will provide a better basis for an appraisal of how our prices compare with those of our leading competitors. This investigation is being carried on by Irving Kravis, Robert Lipsey, and Philip Bourque.

A collateral study is being conducted by H. G. Georgiadis with a view to seeing what can be concluded about our international competitive position from a systematic investigation of the past behavior of our exports and imports and those of other countries. It is hoped that his study will, among other things, throw light on the relations between our international trade and payments, on the one hand, and employment levels and growth rates at home and abroad, on the other. These relations bear on one of the major policy issues now confronting the United States—that is, the kinds of effects which higher employment and faster growth in this country would have on its balance of payments.

I am greatly indebted for criticism and encouragement in the preparation of this paper to Arthur F. Burns, who has been patient enough to read and discuss the manuscript at various stages of its development and to try to save me from serious error. I am also indebted for a careful and critical reading of the manuscript to other colleagues at the National Bureau, especially to Solomon Fabricant, Geoffrey H. Moore, Hourmouzis G. Georgiadis, Irving B. Kravis, Ilse Mintz, and Norman B. Ture; and, among the members of the Board of Directors, to Erwin D. Canham, Crawford H. Greenewalt, Gottfried Haberler, and Willard L. Thorp. My thanks are due H. Irving Forman for drawing the charts, James F. McRee, Jr., for editing the manuscript, and Alice Goldwasser, Elias Logos, and Esther Reichner for helping in the preparation of some of the statistical and other materials.

My sense of obligation is also very great to my old friends and colleagues at the U.S. Department of Commerce, particularly to Walther Lederer and his staff in the Balance of Payments Division. Though having no responsibility for the analysis which I have attempted and, indeed, disagreeing on some questions of balance-of-payments presentation of special concern to them, they have generously provided me with supplementary data and helpful advice on many points. Like everyone else interested in the problems considered here, I am above all indebted to them for their contributions to knowledge about our international trade and payments position.

Many others have been generous with their time and ideas, and sometimes with their criticisms and dissents, in reviewing my drafts or in responding to my queries and requests for help. Though I must

absolve them of any responsibility for or concurrence in my analysis, I especially want to thank Oscar L. Altman, Philip Arnow, Carl P. Blackwell, Jack Downie, Peter Fousek, Irving S. Friedman, Milton Gilbert, Frances Hall, Seymour E. Harris, Arthur B. Hersey, Edward S. Lynch, Alfred Maizels, Robert J. Myers, Evelyn Parrish, William A. Salant, Christopher T. Saunders, Robert W. Stevens, and Robert Triffin.

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