

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Problems of the United States as World Trader and Banker

Volume Author/Editor: Hal B. Lary

Volume Publisher: UMI

Volume ISBN: 0-870-14153-8

Volume URL: <http://www.nber.org/books/lary63-1>

Publication Date: 1963

Chapter Title: Front matter, Problems of the United States as World Trader and Banker

Chapter Author: Hal B. Lary

Chapter URL: <http://www.nber.org/chapters/c1908>

Chapter pages in book: (p. -18 - 0)

Problems of the United States as World Trader and Banker

Hal B. Lary



NATIONAL BUREAU OF ECONOMIC RESEARCH
New York 1967

Distributed by COLUMBIA UNIVERSITY PRESS
New York and London

STUDIES IN INTERNATIONAL ECONOMIC RELATIONS
NUMBER 1

Copyright © 1963 by
NATIONAL BUREAU OF ECONOMIC RESEARCH

Second Printing

All Rights Reserved
L. C. Card Number 63-11079

Printed in the United States of America

2,005,955

National Bureau of Economic Research, Inc.

Lary, Hal Buckner, 1910-

Problems of the United States as world trader and banker.

(New York, National Bureau of Economic Research, 1968.
xvi, 175 p. diagrs., tables. 24 cm. (Studies in international economic relations, no. 1)

Bibliographical footnotes.

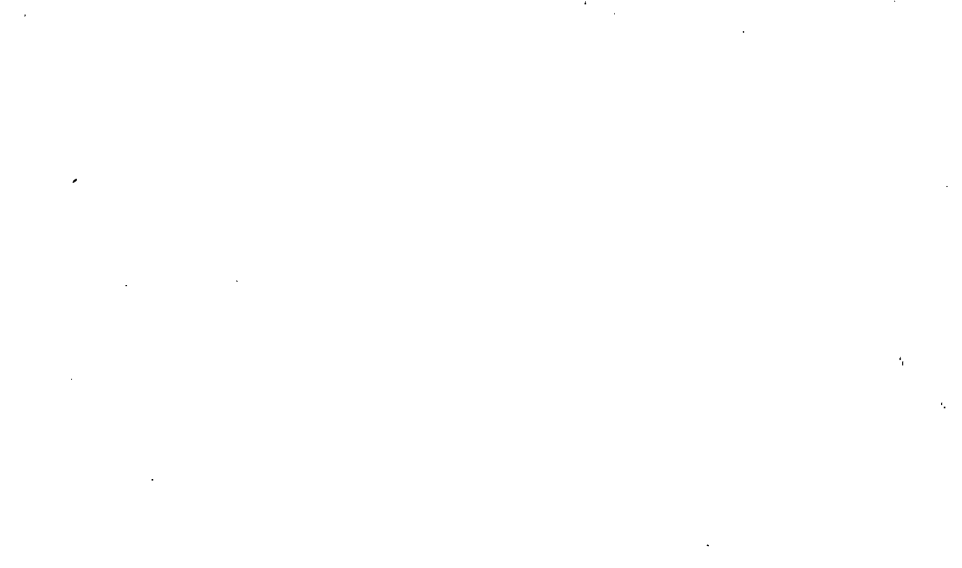
1. Balance of payments—U. S. 1. Title. (Series)

HG3883.U7L3

832.15

68-11079

MATERIAL SUBMITTED BY PUBLISHER.



This study was made possible by funds granted by the Rockefeller Foundation. The Rockefeller Foundation is, however, not to be understood as approving or disapproving by virtue of its grant any of the statements made or views expressed herein.

NATIONAL BUREAU OF ECONOMIC RESEARCH

1962

OFFICERS

Harold M. Groves, *Chairman*
Arthur F. Burns, *President*
Albert J. Hettinger, Jr., *Vice-President*
Donald B. Woodward, *Treasurer*

Solomon Fabricant, *Director of Research*
Geoffrey H. Moore, *Associate Director of Research*
Hal B. Lary, *Associate Director of Research*
William J. Carson, *Executive Director*

DIRECTORS AT LARGE

Robert B. Anderson, *New York City*
Wallace J. Campbell, *Nationwide Insurance*
Erwin D. Canham, *Christian Science Monitor*
Solomon Fabricant, *New York University*
Marion B. Folsom, *Eastman Kodak Company*
Crawford H. Greenewalt, *E. I. du Pont de Nemours & Company*
Gabriel Hauge, *Manufacturers' Hanover Trust Company*
A. J. Hayes, *International Association of Machinists*
Albert J. Hettinger, Jr., *Lazard Frères and Company*

Nicholas Kelley, *Kelley Drye Newhall Maginnis & Warren*
H. W. Laidler, *League for Industrial Democracy*
George B. Roberts, *Larchmont, New York*
Harry Scherman, *Book-of-the-Month Club*
Boris Shishkin, *American Federation of Labor and Congress of Industrial Organizations*
George Soule, *South Kent, Connecticut*
Joseph H. Willits, *Armonk, New York*
Donald B. Woodward, *A. W. Jones and Company*
Theodore O. Yntema, *Ford Motor Company*

DIRECTORS BY UNIVERSITY APPOINTMENT

V. W. Bladen, *Toronto*
Arthur F. Burns, *Columbia*
Lester V. Chandler, *Princeton*
Melvin G. de Chazeau, *Cornell*
Frank W. Fetter, *Northwestern*
R. A. Gordon, *California*
Harold M. Groves, *Wisconsin*
Gottfried Haberler, *Harvard*

Walter W. Heller, *Minnesota*
Maurice W. Lee, *North Carolina*
Lloyd G. Reynolds, *Yale*
Paul A. Samuelson, *Massachusetts Institute of Technology*
Theodore W. Schultz, *Chicago*
Willis J. Winn, *Pennsylvania*

DIRECTORS BY APPOINTMENT OF OTHER ORGANIZATIONS

Percival F. Brundage, *American Institute of Certified Public Accountants*
Harold G. Halcrow, *American Farm Economic Association*
Theodore V. Houser, *Committee for Economic Development*
S. H. Ruttenberg, *American Federation of Labor and Congress of Industrial Organizations*

Murray Shields, *American Management Association*
Willard L. Thorp, *American Economic Association*
W. Allen Wallis, *American Statistical Association*
Harold F. Williamson, *Economic History Association*

DIRECTORS EMERITI

Shepard Morgan, *Norfolk, Connecticut*

N. I. Stone, *New York City*

RESEARCH STAFF

Moses Abramovitz
Gary S. Becker
William H. Brown, Jr.
Gerhard Bry
Arthur F. Burns
Phillip Cagan
Joseph W. Conard
Frank G. Dickinson
James S. Earley
Richard A. Easterlin
Solomon Fabricant
Milton Friedman

Victor R. Fuchs
Raymond W. Goldsmith
Challis A. Hall, Jr.
Millard Hastay
Daniel M. Holland
Thor Hultgren
F. Thomas Juster
C. Harry Kahn
Irving B. Kravis
Hal B. Lary
Robert E. Lipsey
Ruth P. Mack

Jacob Mincer
Ilse Mintz
Geoffrey H. Moore
Roger F. Murray
Ralph L. Nelson
G. Warren Nutter
Richard T. Selden
Lawrence H. Seltzer
Robert P. Shay
George J. Stigler
Norman B. Ture
Herbert B. Woolley

RELATION OF THE DIRECTORS
TO THE WORK AND PUBLICATIONS
OF THE NATIONAL BUREAU OF ECONOMIC RESEARCH

1. The object of the National Bureau of Economic Research is to ascertain and to present to the public important economic facts and their interpretation in a scientific and impartial manner. The Board of Directors is charged with the responsibility of ensuring that the work of the National Bureau is carried on in strict conformity with this object.

2. To this end the Board of Directors shall appoint one or more Directors of Research.

3. The Director or Directors of Research shall submit to the members of the Board, or to its Executive Committee, for their formal adoption, all specific proposals concerning researches to be instituted.

4. No report shall be published until the Director or Directors of Research shall have submitted to the Board a summary drawing attention to the character of the data and their utilization in the report, the nature and treatment of the problems involved, the main conclusions, and such other information as in their opinion would serve to determine the suitability of the report for publication in accordance with the principles of the National Bureau.

5. A copy of any manuscript proposed for publication shall also be submitted to each member of the Board. For each manuscript to be so submitted a special committee shall be appointed by the President, or at his designation by the Executive Director, consisting of three Directors selected as nearly as may be one from each general division of the Board. The names of the special manuscript committee shall be stated to each Director when the summary and report described in paragraph (4) are sent to him. It shall be the duty of each member of the committee to read the manuscript. If each member of the special committee signifies his approval within thirty days, the manuscript may be published. If each member of the special committee has not signified his approval within thirty days of the transmittal of the report and manuscript, the Director of Research shall then notify each member of the Board, requesting approval or disapproval of publication, and thirty additional days shall be granted for this purpose. The manuscript shall then not be published unless at least a majority of the entire Board and a two-thirds majority of those members of the Board who shall have voted on the proposal within the time fixed for the receipt of votes on the publication proposed shall have approved.

6. No manuscript may be published, though approved by each member of the special committee, until forty-five days have elapsed from the transmittal of the summary and report. The interval is allowed for the receipt of any memorandum of dissent or reservation, together with a brief statement of his reasons, that any member may wish to express; and such memorandum of dissent or reservation shall be published with the manuscript if he so desires. Publication does not, however, imply that each member of the Board has read the manuscript, or that either members of the Board in general, or of the special committee, have passed upon its validity in every detail.

7. A copy of this resolution shall, unless otherwise determined by the Board, be printed in each copy of every National Bureau book.

*(Resolution adopted October 25, 1926,
as revised February 6, 1933, and February 24, 1941)*

Contents

	PAGE
PREFACE	xiii
I. INTRODUCTION AND SUMMARY: PROBLEMS POSED BY THE BALANCE-OF-PAYMENTS DEFICIT	1
1. <i>Doubts Regarding Our Competitive Strength</i>	1
2. <i>The New Balance-of-Payments Constraint</i>	6
3. <i>Some Tentative Findings</i>	7
II. SKETCH OF THE BALANCE OF PAYMENTS SINCE THE WAR	11
1. <i>The Concept and Evolution of the Deficit</i>	11
<i>Distinction Between Liquid Capital Movements and Other Transactions</i>	11
<i>The Size and Cumulative Effect of the Deficit</i>	17
2. <i>The Changing Characteristics of the Balance of Payments</i>	23
<i>Relief and Reconstruction Period, 1946-1949</i>	23
<i>Korean War Period, 1950-1952</i>	23
<i>World Economic Expansion, 1953-1957</i>	26
<i>The Swollen Deficits of 1958 and 1959</i>	29
<i>New Strains from Capital Outflows in 1960 and 1961</i>	34
<i>The Balance of Payments in 1962</i>	39
3. <i>The Selection of Periods for Comparison</i>	42

	PAGE
III. ELEMENTS OF STRENGTH AND WEAKNESS IN BASIC TRANSACTIONS	44
1. <i>The Risk of Overexplaining the Balance of Payments</i>	44
2. <i>Increase in Balance-of-Payments Burdens</i>	48
3. <i>Factors of Change in Our Competitive Position</i>	52
<i>Growth of Foreign Capacity and Elimination of</i> <i>Bottlenecks</i>	52
<i>Increased Receptivity of the United States to Imports</i>	52
<i>Foreign Technological Advance</i>	53
<i>Prices and Competition</i>	56
<i>American Investment in Foreign Manufacturing</i>	68
<i>Official Measures Directly Affecting Basic</i> <i>Transactions</i>	72
4. <i>The Comparative Performance of Exports and Imports</i>	80
<i>An Over-All View: Exports and Imports of Goods</i> <i>and Nonmilitary Services</i>	80
<i>Competitive Position in Trade in Manufactures</i>	84
5. <i>Growth and the Balance of Payments</i>	97
IV. THE SEARCH FOR WAYS OF STRENGTHENING OUR INTERNATIONAL PAYMENTS POSITION	99
1. <i>Future Uncertainties and the Need for Flexibility</i>	99
2. <i>Limitations on Lines of Action Open to the United States</i>	101
<i>Limitations on Recourse to Deflation</i>	102
<i>Limitations on Exchange Rate Policy</i>	106
3. <i>Possibilities of Improving Processes of Adjustment</i>	113
<i>Remnants of a General Mechanism of Adjustment</i>	114
<i>Other Means of Promoting Adjustments</i>	116
4. <i>The Prevention of Disruptive Movements of Liquid</i> <i>Capital</i>	117
<i>Reconciliation of Internal and External Objectives</i>	117
<i>Possibilities of Enlarging the Scope for Monetary Policy</i>	121
<i>Nature and Timing of Policies</i>	126

	PAGE
5. <i>The Need of the United States for Large Reserves</i>	126
<i>Distinctive Aspects of U.S. Payments Position</i>	127
<i>U.S. Reserves and Borrowing Facilities</i>	128
<i>Some Alternative Courses of Action</i>	132
APPENDIXES	
A. A NOTE ON ALTERNATIVE WAYS OF PRESENTING THE BALANCE OF PAYMENTS	137
1. <i>The Search for an Organizing Concept</i>	137
2. <i>The Concept of International Liquidity</i>	142
<i>Alternative Ways of Treating U.S. Liabilities</i>	143
<i>Asymmetry in Treatment of Assets and Liabilities</i>	144
<i>Shortcomings in the Liquidity Concept</i>	146
3. <i>An Alternative Concept: Sensitivity to Monetary Policy</i>	148
<i>The Strategic Role of the Basic Transactions</i>	148
<i>The Tactical Role of the Sensitive Items</i>	149
4. <i>The Question of What to Include Among the Sensitive Items</i>	152
<i>Responsiveness of Short-Term Capital to Monetary Policy</i>	153
<i>Responsiveness of Other Capital to Monetary Policy</i>	155
<i>"Compensatory Financing" and "Major Special Transactions"</i>	158
B. UNITED STATES BALANCE-OF-PAYMENTS STATISTICS	163
INDEX	173

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.

Tables

	PAGE
1. Evolution of the Deficit in the U.S. Balance of Payments on Three Concepts	12
2. U.S. Exports Grouped According to Behavior During Past Decade	31
3. U.S. Imports Grouped According to Behavior During Past Decade	33
4. Growth of World and U.S. Trade by Areas, 1953-1955 to 1960-1961	36
5. Reported U.S. Private Short-term Claims on Foreign Countries	38
6. U.S. Balance of Payments by Selected Periods, 1953-1962	41
7. Government Transactions, Private Investment and Remittances and Pensions, by Selected Periods, 1950 to 1962	49
8. Indexes of Wholesale and Consumer Prices, U.S. and Other Industrial Countries	58
9. Implicit Price Deflators for Gross National Product and Selected Components, U.S. and European Members of OECD	60
10. U.S. Export and Import "Unit Value" Indexes and Export-Weighted Indexes Derived from Components of Wholesale Price Index	62
11. "Unit Value" Indexes of Exports of Manufactures, United States and Other Industrial Countries	65
12. Percentage Change in Labor Cost per Unit of Output in Manufacturing in the United States and Other Leading Industrial Countries, 1953 to 1957 and 1957 to 1961	67

	PAGE
13. Imports of Selected Manufactures by the United States and by Members of the European Economic Community and of the European Free Trade Area, Total and from Far East, 1959-1960, Annual Average	78
14. Payments and Receipts on Goods and Nonmilitary Services and Balance on Basic Transactions, by Selected Periods, 1950 to 1962	83
15. Percentage Increase in Payments and Receipts on Goods and Nonmilitary Services	85
16. U.S. Foreign Trade in Research-Intensive Products	93
17. Exports and Imports of Goods and Services in Relation to Gross National Product, United States and Selected Foreign Countries, Average for 1959-1961	104
A-1. Summary Schemata for Alternative Ways of Presenting the Balance of Payments	140
A-2. U.S. Balance of Payments—Gardner Presentation	156
A-3. U.S. Balance of Payments—Triffin Presentation	157
A-4. Payments and Receipts Treated as "Special Transactions" in the U.S. Balance of Payments, 1959-1962	161
B-1. U.S. Balance of Payments, Annually, 1946 to 1961	164
B-2. U.S. Balance of Payments, Quarterly, 1959 to 1962	168

Charts

	PAGE
1. U.S. Balance of Payments, Annual Averages for January 1960-September 1962	2
2. Gold Reserves of the United States and Holdings of Gold and Dollars by Other Countries and International Agencies	5
3. U.S. Balance of Payments and Gold Movements, 1947 to 1961	22
4. U.S. Payments and Receipts on Basic Transactions Since World War II	24
5. Foreign Industrial Production and Exports of the United States and of Other Countries	27
6. U.S. Industrial Production and Imports	28
7. U.S. Imports and Retail Sales of Foreign Automobiles, 1955-1962	35
8. U.S. Payments and Receipts on Basic Transactions in Relation to Gross National Product	47
9. Payments and Receipts on Goods and Nonmilitary Services, 1925-1929 and 1935-1938, Annual Averages, and 1946 to 1962, Annually	81
10. World Exports of Manufactured Goods, Selected Years, 1913 to 1962	88
11. U.S. Trade in Finished Manufactures and Semimanufactures	90
12. U.S. Exports of Research-Intensive Goods by Destination, 1952-1961	96

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.”

Preface

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

Preface

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

Preface

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.

HAL B. LARY