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Chapter II

Sketch of the Balance of Payments Since the War

An appraisal of our international payments position needs to take account of the way it has evolved in recent years and of the varied forces which have shaped its development. The point of central interest is the size and persistence of the deficit. Section 1 of this chapter traces the course of the deficit over the postwar period and considers some of its cumulative effects, and is also concerned with the concept of the deficit and how the deficit appears according to alternative methods of measurement.¹ Section 2 reviews our balance-of-payments experience more broadly and relates developments in our foreign trade and other transactions to the course of events in the United States economy and in the rest of the world. Section 3 discusses the problem of making valid generalizations about our balance-of-payments position and how it has altered over the postwar period.

1. *The Concept and Evolution of the Deficit*

DISTINCTION BETWEEN LIQUID CAPITAL MOVEMENTS AND OTHER TRANSACTIONS

The approach taken here reflects the view that it is useful to distinguish flows of liquid capital from other transactions in the balance of payments. In recent years, liquid funds have proved to be extremely mobile, as evidenced by the data given in Table 1 on the large recorded flows of United States and foreign private short-term capital

¹ For a fuller discussion of concepts and methods of measurement of the balance of payments, see Appendix A.

TABLE 1
EVOLUTION OF THE DEFICIT IN THE U.S. BALANCE OF PAYMENTS
ON THREE CONCEPTS
(millions of dollars)

Period	Deficit (—) on Basic Trans- actions ^a (1)	Recorded Net Outflow (—) of U.S. Private Short-Term Capital ^b (2)	Unrecorded Trans- actions (errors and omissions) (3)	Deficit (—) on Commerce Department's Definition (1+2+3) ^c (4)
1950	— 3,432	— 127	— 21	— 3,580
1951	— 717	— 65	477	— 305
1952	— 1,599	— 48	601	— 1,046
1953	— 2,608	117	339	— 2,152
1954	— 1,054	— 669	173	— 1,550
1955	— 1,461	— 187	503	— 1,145
1956	— 1,021	— 457	543	— 935
1957	— 449	— 188	1,157	520
1958	— 3,655	— 362	488	— 3,529
1959	— 4,232	77	412	— 3,743
	(— 4,667) ^h			(— 4,178) ^h
1960	— 1,900	—1,433	— 592	— 3,925
1961	— 527	—1,332	— 602	— 2,461
	(— 1,216) ^h			(— 3,150) ^h
1962 ^d	— 573	— 626	— 696	— 1,895
	(— 1,302) ^h			(— 2,624) ^h
<i>Quartersⁱ</i>				
1960 I	— 581	— 103	4	— 680
II	— 375	— 260	— 140	— 775
III	— 443	— 555	— 159	— 1,157
IV	— 501	— 515	— 297	— 1,313
1961 I	— 116	— 406	— 29	— 319
II	858	— 316	— 366	176
	(134) ^h			(— 548) ^h
III	— 868	— 235	193	— 910
	(— 793) ^h			(— 835) ^h
IV	— 633	— 375	— 400	— 1,408
	(— 673) ^h			(— 1,448) ^h
1962 I	— 268	— 314	106	— 476
II	— 110	18	— 134	— 226
	(— 186) ^h			(— 302) ^h
III ^p	— 52	— 173	— 494	— 719
	(— 523) ^h			(— 1,190) ^h
<i>Cumulative totals</i>				
1950-1962 ^k	—23,085	—5,143	2,956	—25,272
1950-1957	—12,341	—1,624	3,772	—10,193
1958-1962 ^k	—10,744	—3,519	— 816	—15,079

(continued)

TABLE 1 (concluded)

Period	Increase in U.S. Liquid Liabilities ^d to Other Than Foreign Monetary Authorities		Deficit (—) on Official Settlements Basis (4+5+6) ^e	Increase in U.S. Liquid Liabilities ^d to Foreign Monetary Authorities ^f	Gold Sales or Purchases (—) by the United States ^g
	Commercial Banks (5)	Other (6)			
1950	303	— 35	— 3,312	1,569	1,743
1951	498	345	538	—485	— 53
1952	31	193	— 822	1,201	—379
1953	— 59	107	— 2,104	943	1,161
1954	— 41	68	— 1,523	1,225	298
1955	414	— 10	— 741	700	41
1956	419	255	— 261	567	—306
1957	50	575	1,145	—347	—798
1958	48	454	— 3,027	752	2,275
1959	1,140	320	— 2,283	1,552	731
			(— 2,718) ^h		
1960	104	257	— 3,564	1,862	1,702
1961	615	587	— 1,259	517	742
			(— 1,948) ^h		
1962 ⁱ	— 60	387	— 1,689	979	710
			(— 2,418) ^h		
<i>Quarters^j</i>					
1960 I	457	— 19	— 203	153	50
II	132	203	— 556	462	94
III	5	— 47	— 1,233	596	637
IV	—490	120	— 1,572	651	921
1961 I	— 19	— 55	— 382	36	346
II	414	156	659	—329	—330
			(— 65) ^h		
III	154	80	— 675	405	270
			(— 600) ^h		
IV	66	406	— 861	405	456
			(— 901) ^h		
1962 I	429	263	230	—420	190
II	—256	246	— 322	529	—207
			(— 398) ^h		
III ^p	—218	—219	— 1,175	625	550
			(— 1,646) ^h		
<i>Cumulative totals</i>					
1950-1962 ^k	3,477	3,406	—18,480	10,790	7,690
1950-1957	1,615	1,498	— 7,080	5,373	1,707
1958-1962 ^k	1,862	1,908	—11,400	5,417	5,983

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NOTES TO TABLE I

^a Goods and services (including military expenditures), government grants and capital, and private long-term investment.

^b Less net inflow of funds through changes in foreign commercial credits to the United States (these changes being netted out in column 2 rather than included in columns 5 and 6 in order to conform to the Commerce Department's present method of calculating the deficit).

^c Equals, with signs reversed, sum of columns 5, 6, 8, and 9. But see notes i and j.

^d As defined by the Commerce Department, liquid liabilities include foreign holdings of deposits, U.S. Treasury bills and certificates, bankers' acceptances, commercial paper, and other short-term claims on the United States (and also foreign holdings of U.S. government bonds) as reported by banks in the United States, government agencies, and nonfinancial concerns (i.e., exporters, importers, and industrial and commercial firms). For the years 1950-1954 it is assumed that all transactions of foreign countries in U.S. government bonds were for the account of foreign monetary authorities; thereafter an estimated division is made between these and other accounts.

^e Equals, with signs reversed, sum of columns 8 and 9.

^f Includes changes in U.S. liquid liabilities to the International Monetary Fund.

^g Includes, beginning March 1961, changes in holdings of foreign convertible currencies by the U.S. monetary authorities.

^h Figures adjusted to exclude effects of unscheduled repayments of foreign obligations to the U.S. Government, as follows: 1959, \$150 million in first quarter and \$285 million in fourth quarter; 1961, \$724 million in second quarter, of which \$75 million was advanced from the third quarter, and \$40 million in the fourth quarter; 1962, \$76 million in the second quarter and \$471 million in the third quarter.

ⁱ First nine months (preliminary data) at annual rate, seasonally adjusted except as explained in note j.

^j Columns 1 to 4 are seasonally adjusted. (Quarterly figures in columns 5, 6, 8, and 9 add to the amounts given in column 4 before seasonal adjustment of the latter.)

^k Through third quarter of 1962.

^p Preliminary data.

SOURCE: U.S. Department of Commerce.

Sketch of the Balance of Payments

as well as by the capital movements which may be inferred from the behavior of unrecorded transactions (that is, errors and omissions).² The monetary authorities are accordingly confronted with new problems because of their ability to influence the cost and availability of credit and, hence, to affect the conditions determining international flows of liquid funds.

This is not to say that variations in the size and direction of liquid capital movements are to be explained only, or mainly, by changes in relative interest rates at home and abroad. The determining conditions are varied and variable. The steps towards external ("nonresident") currency convertibility taken by most Western European countries at the end of 1958 and subsequently by Japan were especially important both in enabling their banking and business concerns to increase working balances in the United States and in removing an obstacle to the extension of American credits to these countries. Changes in the value of several leading currencies and speculation of varying intensity in these and other currencies, including the dollar, have also been important influences, along with more usual economic forces affecting the demand for credit and the flow of funds. Moreover, changes in credit conditions in different countries will have more effect on some kinds of capital flows than on others. To allow for such factors is, however, a very different matter than to conclude that—under any given set of circumstances—a change in interest rates in the United States compared with those in other financial centers would have little effect on capital flows between them or on the relative size of their credit extensions to third countries.

Other sectors of the balance of payments are subject to a different or wider range of economic forces, as in the case of foreign trade and investment, or are determined essentially by political objectives, as in the case of economic aid and military expenditures abroad. Responsibility for policies affecting these different activities is dispersed,

² It is usual to define liquid capital movements in terms of the characteristics of the assets acquired—that is, whether or not the assets can be turned into cash quickly and without appreciable loss. The United States monetary authorities may, however, be more concerned with keeping fresh outflows of liquid funds from becoming unduly large than with the possibility of obtaining the liquidation and return of American funds which have already been placed abroad. From this point of view, one may think of liquid capital movements as embracing more or less the whole of so-called "short-term" capital movements, and some types of "long-term" capital movements as well.

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except as they are coordinated at the highest levels of government. Monetary policy has little or no effect on some of these items and influences others only indirectly and gradually through changes in incomes, prices, and profits. From the standpoint of balance-of-payments objectives, these various types of transactions tend to be slow to adjust in the desired way and sometimes act perversely. It is, however, also appropriate to describe them as "basic transactions," since their combined behavior provides a measure of the adequacy of this country's competitive strength and its ability to defend the value of its currency.

This does not mean that an even balance on basic transactions is necessarily a sufficient goal of policy. An appropriate objective in this regard would have to be determined in the light of various considerations, including views and policies with respect to the size of liquid capital flows.³ The distinguishing feature of the latter as contrasted with basic transactions is, however, that the monetary authorities have the possibility of acting quickly so as to keep outflows of liquid funds within tolerable limits and ward off excessive demands on gold arising from this source. A solution to the payments problem need not therefore require raising the surplus on goods and services by enough to cover these flows along with all the other more stubborn burdens resting on the balance of payments.

The size of the problem presented by liquid capital flows is inadequately revealed by the data provided through the reporting network of banks and business concerns in this country. Americans may, for instance, hold deposits directly in foreign banks rather than through American banks, or buy and sell other foreign assets through channels which pass outside the reporting system. Similar possibilities exist with respect to shifts of foreign capital into and out of the United States. A clue to such transfers may be found in the balance-of-payments entry for "unrecorded transactions," though this residual item registers the net effect of all errors and omissions, wherever they may arise in the balance of payments, and could not be attributed only to unreported capital movements. The play of capital movements is, however, suggested by the sudden shift in this item after 1959. Though varying in

³ The composition of liquid capital movements is also important since, depending on their nature, they may affect the availability of funds for payments on basic transactions. To take one example, further commented on below, the growth of American credits to Japan in 1960 and 1961 undoubtedly contributed to the rise in United States exports to that country.

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size from year to year, it had been regularly positive in sign, indicative of net unrecorded receipts, during the whole of the period 1951 to 1959 (Table 1), and averaged some \$500 million per year. It then shifted abruptly to a minus quantity of approximately \$600 million in both 1960 and 1961 and even more in 1962 on the basis of data for the first nine months. This turnabout of \$1.1 billion gives some reason to suppose that the large negative residuals which started in 1960 may considerably understate the amount of unreported capital outflows and their contribution to the large deficits of the last three years as measured by the Commerce Department.⁴ Philip Bell, in a correlation analysis covering the period 1952-1961, found that the entry for unrecorded transactions had, in fact, varied closely with the reported movements of United States private short-term capital, and he estimated that the amount of unreported capital flow of this nature was well in excess of \$1 billion in both 1960 and 1961.⁵

THE SIZE AND CUMULATIVE EFFECT OF THE DEFICIT

Table 1 shows the balance on basic transactions as here defined, comprising exports and imports of goods and services, government

⁴ This reasoning presupposes that the errors and omissions which accounted for the plus residuals in the 1950's (and which could represent either an underestimate of receipts or an overestimate of payments on "recorded" transactions) have persisted on into later years, but, since 1960, have been outweighed by unrecorded capital outflows. As an alternative, or complementary, explanation, it is possible that the phenomena responsible for the residuals have now been reversed. Thus, there is good cause to think that, in the earlier period, Europeans wanting to escape exchange controls or the risk of devaluation, and Latin American dictators or others wanting to hedge against the future, acquired assets in the United States, and that they may now have ceased to do so or even shifted funds from the United States to other countries. Many such transactions would have been handled through domestic names and addresses or in other ways so that both the earlier inflows and the later outflows of funds would have escaped the reports filed by American banks and businesses on their liabilities to foreigners or other records of capital movements.

⁵ Philip W. Bell, "Private Capital Movements and the U.S. Balance-of-Payments Position," in *Factors Affecting the United States Balance of Payments* (Joint Economic Committee), Washington, December 1962, pp. 395-481. Bell reports a particularly close relation between unrecorded transactions and (1) claims on Canada and Europe reported by nonfinancial concerns in the United States and (2) foreign-currency claims on Canada reported by United States banks. His study also contains a useful statement of the reasons why capital movements may fail to be caught by the reporting system. For a fuller statement of the sources of errors and omissions in the estimates, see Walther Lederer, "Measuring the Balance of Payments," American Statistical Association, *1961 Proceedings of the Business and Economics Statistics Section*, Washington, 1962, pp. 42-44.

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grants and capital, and private long-term investment. It also shows the balance including, in accordance with the Commerce Department's practice, transfers of United States private short-term capital and unrecorded transactions. When the net flow on these latter items is inward, as was generally true of the 1950's, the adverse balance on the Commerce Department's definition is smaller than that on basic transactions. The opposite result ensues when these flows are outward, as in 1960 and 1961.

Without exhausting the range of possibilities, Table 1 presents the balance according to yet another concept—that is, on the basis of "official settlements." The rationale of this concept is that changes in liquid liabilities to foreign private holders⁶ are not merely a passive consequence of the state of the United States balance of payments, as might be true of changes in the reserves of the monetary authorities, but reflect rather the positive interest of foreign commercial banks, business concerns, and other holders in increasing or, on occasion, decreasing their working balances and other liquid assets in dollars. Changes in these assets, like those in United States private short-term claims on other countries, would therefore be entered in the balance of payments before computing the deficit or surplus, leaving gold sales or purchases and changes in the liquid claims of the monetary authorities as the direct measure, with signs reversed, of the balance.

The "official settlements" measure of the balance is, however, deficient in that some central banks, in addition to their direct dollar claims on the United States, have come to hold important dollar balances through commercial banks in their own or other countries.⁷ An uncertain but apparently significant part of what appears in United States sta-

⁶ See Table 1, columns 5 and 6. In addition to nonbanking concerns and private individuals, column 6 includes foreign government agencies other than central banks and treasuries, and international organizations other than the International Monetary Fund.

⁷ Oscar Altman estimates that the central banks and monetary authorities of twenty or twenty-five countries hold deposits of dollars or sterling (mainly dollars) outside the United States and the United Kingdom, respectively. He further estimates that these official dollar deposits account for the greater part of the dollar funds employed in the "Euro-dollar market"—that is, the multibillion-dollar international money market developed during the last four or five years by commercial banks in London, Montreal, Paris, and other financial centers for deposit and loan operations in U.S. dollar funds. See Oscar L. Altman, "Recent Developments in Foreign Markets for Dollars and Other Currencies," in *Factors Affecting the United States Balance of Payments* (Joint Economic Committee), Washington, December 1962, pp. 483-523.

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tistics as liabilities to foreign commercial banks therefore really belongs to central banks. Shifts between official and private dollar accounts in the United States may occur for other reasons as well, so that it becomes difficult to assign a clear meaning to changes in these separate categories.⁸

All three concepts of the balance of payments portrayed in Table 1 are alike in showing deficits most of the time, and very large cumulative deficits, over the period 1950 through the first nine months of 1962. The cumulative deficit is largest on the Commerce Department's definition, amounting to \$25.3 billion, of which \$15.1 billion is accounted for by the last four and three-quarters years. The cumulative deficit on basic transactions is only moderately smaller for the whole of the period, but with rather more of it in the earlier part and some \$10.7 billion in the later part. As measured by official settlements, the cumulative figure for the twelve and three-quarters years is \$18.5 billion, or considerably smaller than on either of the other two bases, but that for the later part of the period is slightly larger than the deficit on basic transactions. In all cases the deficits for some of the more recent years are greater still if the figures are adjusted, as also indicated in the table, to exclude advance repayments of foreign debt to the United States Government.

As noted in Chapter I, the balance-of-payments deficits incurred prior to the Suez crisis of 1956-57 served an essential purpose in enabling other countries to rebuild their monetary reserves and in laying the basis for the subsequent restoration of currency convertibility. Under these circumstances, the deficits of that period could scarcely be regarded, even now, as early evidence of some competitive inadequacy, especially in view of the prevalence at that time of discrimination against imports from the dollar area. But they may nevertheless have contributed significantly to our subsequent difficulties by permitting the balance

⁸ This problem is illustrated by the following passage from the International Monetary Fund's *Annual Report 1962*, p. 171: "Because world reserves conventionally cover only official holdings, their size is affected by transactions between the official sector and the private bank and nonbank sectors. Shifts of this sort may reach significant proportions. In December 1961, for example, the German commercial banks converted into deutsche mark foreign assets in excess of \$600 million for seasonal requirements, including window dressing purposes. Most of this was reflected in an increase in the Bundesbank's net reserves. An even larger amount of such assets was deposited abroad by the commercial banks in the following month. If it had not been for this single factor, world official exchange holdings would have shown only a very small increase during 1961."

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of payments to assume a structure which, with the added burdens and increased foreign competition of later years, has proved difficult to correct.

Though the deficits registered since the Suez crisis have been large by any standard, they show a rather different size and evolution according to which of the three concepts is considered. They appear largest and most stubborn on the method of measurement employed by the Commerce Department. On this basis, and adjusted to exclude debt prepayment to the United States Government, the deficit reached a peak of \$4.2 billion in 1959, remained over \$3 billion in 1961, and was still at an annual rate of \$2.6 billion in the first nine months of 1962. On the basic transactions concept, and again adjusted to exclude debt prepayment, the deficit was as high as \$4.7 billion in 1959 but fell to \$1.9 billion in 1960 and to an even lower level in 1961 and 1962. Measured by official settlements, the deficit rose to a peak of more than \$3.5 billion in 1960, dipped below the \$2 billion level in 1961, but then rose again to a rate of \$2.4 billion on the average for January-September 1962.

All three methods of measurement thus show a decline in the deficit in the last two years compared with earlier levels. The improvement has not yet gone far enough, however, to preclude a further deterioration in our reserve position. The composition of official settlements given in Table 1 is of interest in this regard. Of the cumulative total of these settlements from 1950 to 1956, about 30 per cent was in gold and the remainder in the form of increases in the liquid dollar assets of foreign and international monetary authorities. For the period 1958 through September 1962, more than 50 per cent was in gold. This change seems to suggest that, as the cumulative effect of the United States' deficits and the rise in other countries' reserves, foreign monetary authorities have become more disposed to regard gold as the preferred means of receiving settlement.⁹

Evidence which runs "contrary to a so-called 'rush' to obtain gold" has been developed by Oscar Altman in an analysis of the relation

⁹ The share of gold in official settlements could also vary, without signifying a shift in foreign preferences, if in one period gains in reserves accrued chiefly to countries which hold their reserves largely in dollars and in another period to countries which hold them predominantly in gold. For an analysis of central bank practices in this regard, see a forthcoming study by Peter B. Kenen, *Reserve-Assets Preferences of Central Banks and Stability of the Gold-Exchange Standard*, Princeton Studies in International Finance No. 10.

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between United States gold movements and the size of its balance-of-payments deficit or surplus as measured by official settlements. On the basis of the relation for the period 1946 to 1961 (depicted in Chart 3), Altman found that, as long as official settlements made by the United States did not exceed \$350 million per year, other countries added these receipts to their dollar balances rather than take gold, but that each increment in official settlements above that level was effected to the extent of some 55 per cent in gold.¹⁰ It would therefore be the increased size of the United States balance-of-payments deficits after 1957 rather than a shift in foreign preferences that explains the higher proportion settled in gold.

Altman's results would not appear, however, to eliminate the hypothesis that the preferences of foreign monetary authorities have shifted toward gold. If the points for the years 1949 to 1956, designated by circles in Chart 3, are looked at in isolation from those for other years, they do not show a very clear pattern.¹¹ Six of the eight years form a cluster from which no dominant relation emerges, and the gold outflow for the whole of the 1949-1956 period was smaller, and that for 1958-1961 larger, than would be indicated by Altman's equation. Irrespective of whether or not there has been a shift in foreign preferences, however, the more important conclusion suggested by Altman's analysis is that the United States could scarcely expect to continue to run large deficits without further substantial gold losses.

¹⁰ See Oscar L. Altman, "Quelques Aspects du Problème de l'Or," *Cahiers de l'Institut de Science Economique Appliquée*, Series R, No. 7, October 1962. With the balance-of-payments deficit defined (1) by official settlements (as in Chart 3) and (2) by official settlements plus the increase in liquid dollar holdings of foreign commercial banks, the relations found by Altman for the period 1946 to 1961 are expressed by the following equations (in billions of dollars):

$$\begin{aligned} (1) \quad & \text{Gold outflow} = -0.200 + 0.566 \text{ deficit} \\ (2) \quad & \text{Gold outflow} = -0.282 + 0.543 \text{ deficit} \end{aligned}$$

If the years of large U.S. balance-of-payments surpluses (1946-1948) are eliminated, the corresponding equations for the period 1949 to 1961 are:

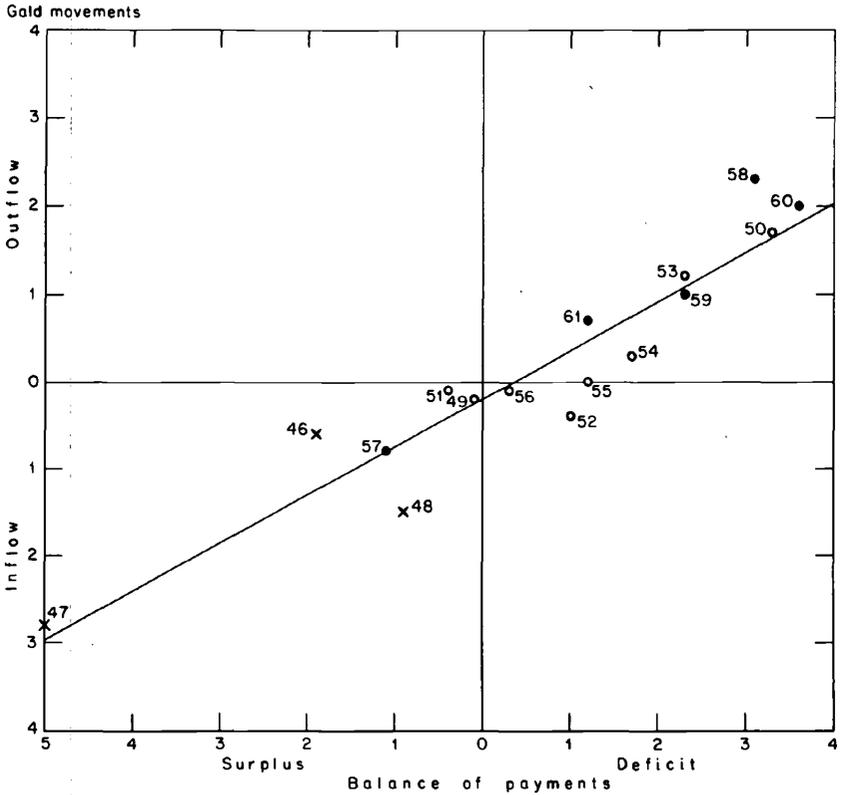
$$\begin{aligned} (1a) \quad & \text{Gold outflow} = -0.284 + 0.614 \text{ deficit} \\ (2a) \quad & \text{Gold outflow} = -0.348 + 0.580 \text{ deficit} \end{aligned}$$

¹¹ As Altman indicates (see preceding note), it may be preferable to disregard the early postwar years of large United States surpluses.

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CHART 3

U.S. Balance of Payments and Gold Movements, 1947 to 1961



NOTE: Reproduced from data supplied by Oscar L. Altman (see note 10, Chapter 2). The balance-of-payments surplus or deficit corresponds to the "official settlements" concept, adjusted (along with the data on gold movements) to exclude gold sales to the United States by the International Monetary Fund in 1956, 1959, and 1960 for the purpose of acquiring income-earning U.S. Treasury bills and notes. The data also differ in some other respects from those given on "official settlements" in Table 1.

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2. The Changing Characteristics of the Balance of Payments

RELIEF AND RECONSTRUCTION PERIOD, 1946-1949

In current perspective, the immediate postwar years are of interest chiefly as a reminder of the one-sided strength of the United States at that time, but they are of little use as a basis for judging the subsequent evolution of trade and payments. The dominant feature of this period was the huge excess of United States exports over imports of goods and services, totaling \$32 billion for the four years 1946-1949. Exports fell off sharply after 1947, as shown in Chart 4, and a rise in the value of imports also helped to reduce the disparity but was interrupted by the 1948-49 recession in the United States.¹²

This vast export surplus was made possible chiefly by various types of public financing, including final deliveries under relief and rehabilitation programs inaugurated during the war, the special loan of \$3.75 billion to the United Kingdom in 1946, Export-Import Bank loans, and the beginning of the Marshall Plan for European recovery in 1948. In addition, foreign countries liquidated gold and dollar holdings to a total of \$7 billion, two-thirds of it in 1947 alone.

The payments problems of the period were aggravated by the flight of capital from other countries on the part of those wishing to escape exchange controls or the risks of devaluation. As one indication of these capital flows, unexplained receipts (errors and omissions) in the U.S. balance of payments totaled \$3.1 billion from 1947 through the third quarter of 1949 and then, after the devaluation of European currencies, promptly shifted to a small outflow.

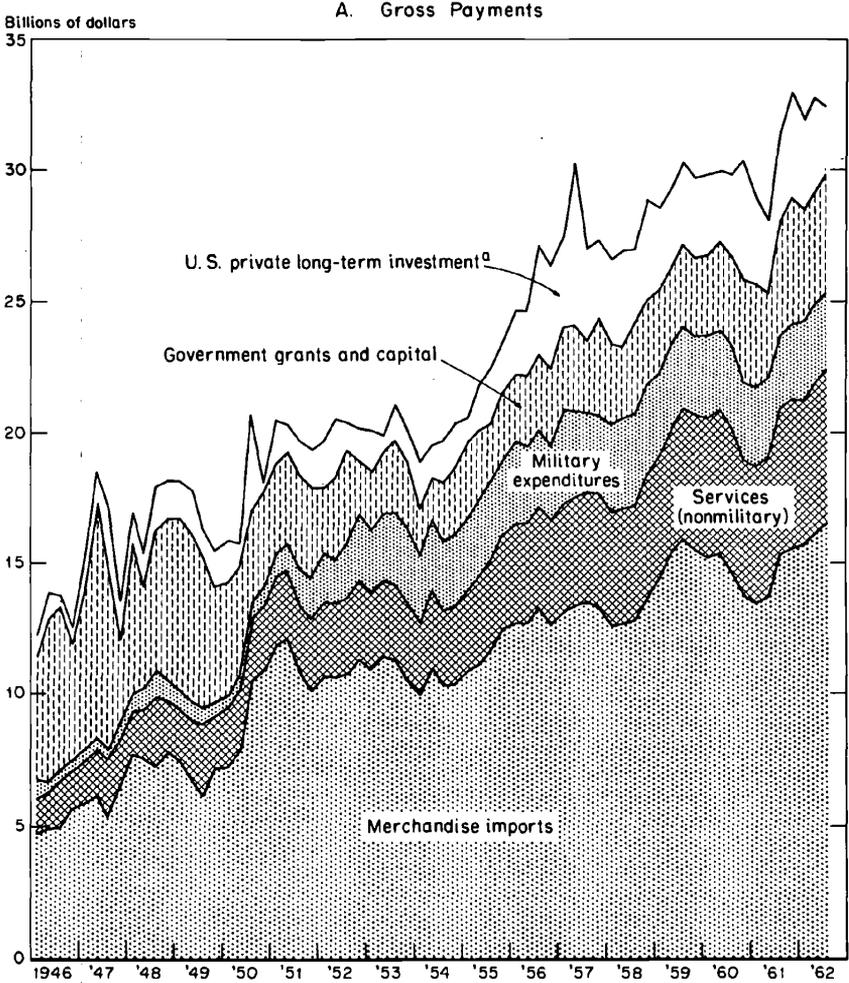
KOREAN WAR PERIOD, 1950-1952

Whether in quick response to the currency devaluation of September 1949¹³ or because of an upturn in business in this country, United States imports soon began to strengthen. The great boost came, however, with the demands generated by the Korean conflict: as the result of increases in both prices and quantities, the value of United

¹² Balance-of-payments figures for postwar years are also given in Appendix B.

¹³ The leading countries devalued as follows: United Kingdom, along with most of the overseas members of the sterling area and also Sweden, Norway, Denmark, and the Netherlands, 30.5 per cent; France, 21.8 per cent compared with the rates previously prevailing for commercial transactions; Federal Republic of Germany, 20.6 per cent; Italy, 8 per cent; Belgium, 12.3 per cent (cf. International Monetary Fund, *Annual Report 1950*, pp. 28-38).

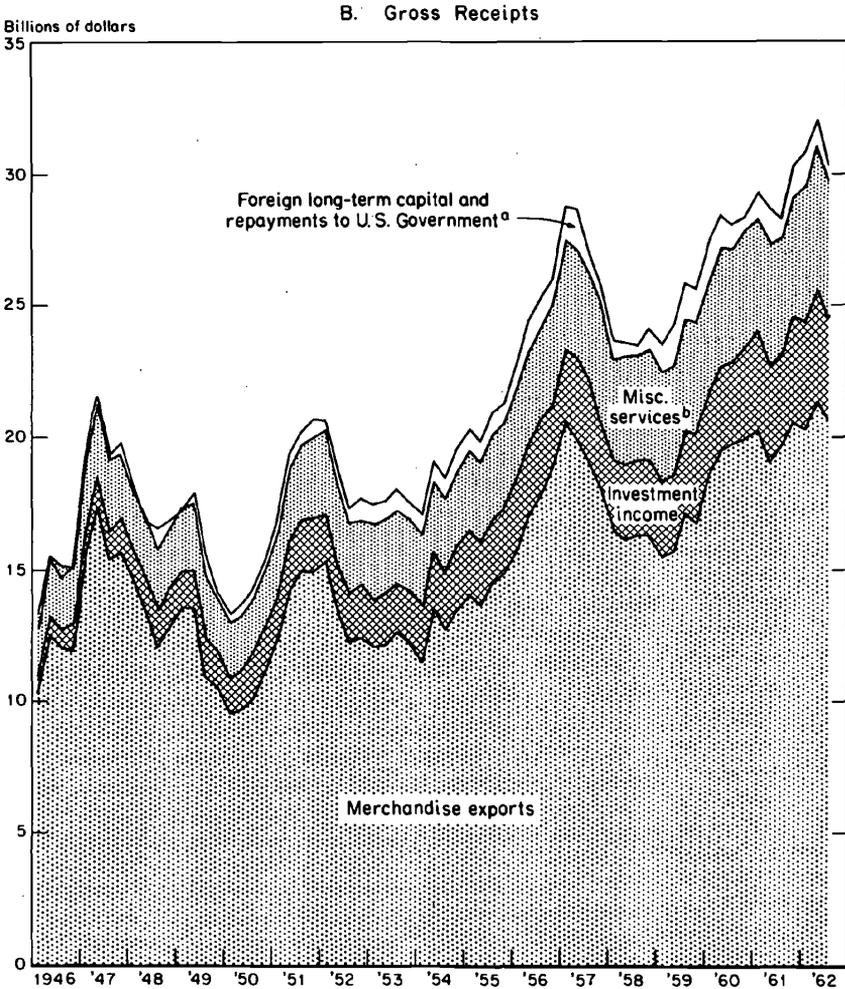
CHART 4
U.S. Payments and Receipts on Basic Transactions Since World War II



^a Includes remittances and pensions.

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CHART 4 (concluded)



^a Excludes unscheduled debt repayments to U.S. Government.

^b Includes U.S. government receipts on military transactions.

NOTE: Quarterly data at annual rates, seasonally adjusted starting with 1950.

SOURCE: U.S. Department of Commerce (see also Appendix Tables B-1 and B-2).

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States imports of goods and services rose by some 60 per cent between the fourth quarter of 1949 and the first quarter of 1951. Meanwhile, exports had risen much more slowly, and, with foreign economic aid continuing at a high level, the United States registered its first large postwar payments deficit of close to \$4 billion, on the Commerce Department's definition, during the twelve months from April 1950 to March 1951.

The position then shifted once more with great rapidity. Merchandise imports weakened both in price and in volume during 1951 just after exports had begun to respond to the accumulation of purchasing power abroad. During the twelve months to March 1952, despite a growth in its military expenditures overseas, the United States registered a small balance-of-payments surplus (again on the Commerce Department basis). By the second half of 1952, however, exports also fell back with the slowing down of economic expansion in Europe and the depletion of the extraordinary buying power acquired by some of the primary producing countries at the peak of the Korean inflation.

WORLD ECONOMIC EXPANSION, 1953-1957

After a pause in 1952, economic activity in other leading industrial countries expanded strongly for five years (Chart 5), and the value of world trade rose no less than 35 per cent. The increase in United States exports was even more vigorous—some 46 per cent—and was concentrated in 1956 and 1957 as demands on the United States stemming from the investment boom abroad were reinforced by the closure of the Suez Canal.

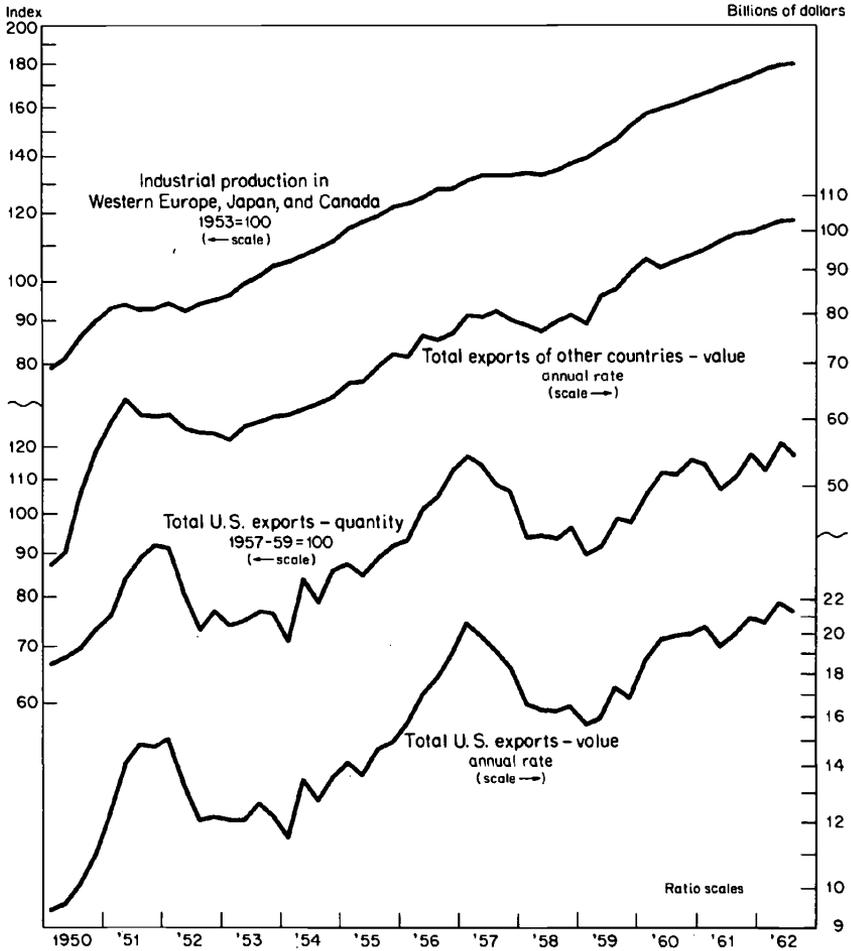
Economic activity in the United States developed more irregularly, passing into a recession in 1953-54, rising again strongly until the end of 1956, and then turning down again in the latter part of 1957 (Chart 6). Imports of merchandise roughly paralleled the course of industrial production and rose by 22 per cent in value over the five years. Inclusive of services, the rise in imports was greater, about one-third, because of the rapid growth in United States military expenditures and tourist outlays abroad but, even so, did not keep pace with the increase in exports of goods and services.

Price increases contributed something to the rise in the value of trade in both directions and were of chief significance in steel and machinery among exports and in raw materials among imports.

Sketch of the Balance of Payments

CHART 5

Foreign Industrial Production and Exports of the United States and of Other Countries

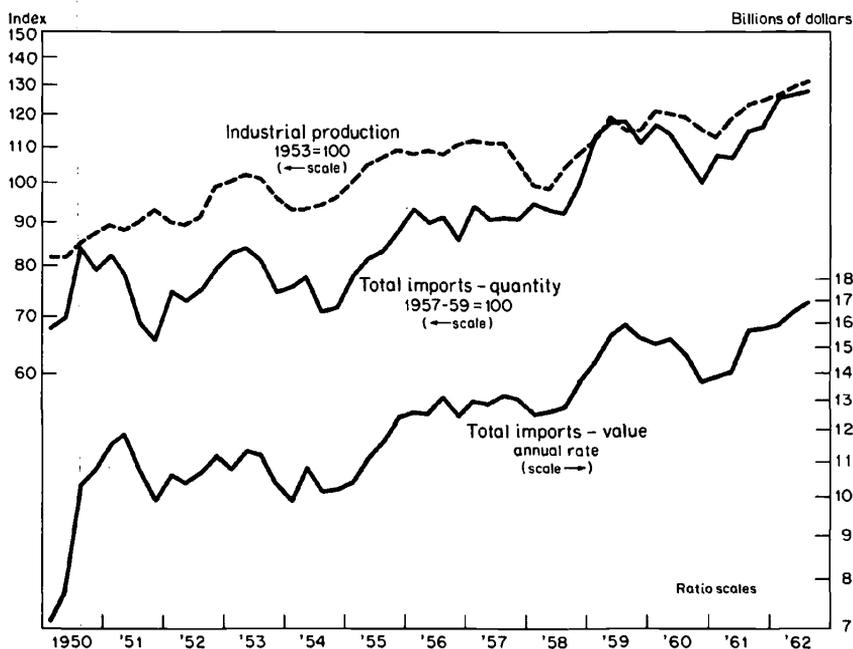


NOTE: Data are seasonally adjusted.

SOURCE: U.S. Department of Commerce, the International Monetary Fund, and the OECD.

The United States as World Trader and Banker

CHART 6
U.S. Industrial Production and Imports



NOTE: Data are seasonally adjusted.

SOURCE: U.S. Department of Commerce, Federal Reserve Board, and the OECD.

The result of these disparities was a striking increase in the export surplus on goods and services from the post-Korean low of \$400 million in 1953 to \$5,750 million in 1957. There was, however, a strong offsetting, and related, increase over the period in the outflow of capital, especially into natural resource development in Canada, Latin America, and the Middle East. The deficit in the balance of payments therefore did not disappear until the 1956-57 spurt in exports,

Sketch of the Balance of Payments

and even then only momentarily. By that time, foreign exchange difficulties were being experienced by several of the major trading countries. These difficulties stemmed in part from a steep rise in imports, as in Japan and the Netherlands, and in part from the flight of capital,¹⁴ as in the United Kingdom. In either event, policies of restraint became necessary.

THE SWOLLEN DEFICITS OF 1958 AND 1959

The second half of 1957 brought a pronounced change in the world economic climate and in United States foreign trade. In most foreign industrial countries there was only a pause or, at worst, a moderate decline in business activity as reflected in their indexes of industrial production, yet world trade reacted sharply. The fall in United States exports was especially severe from mid-1957 to mid-1958 and extended on into the following year. On the other hand, the decline in production in the United States was much more pronounced than abroad, yet its imports weakened only moderately and then, as business activity turned up earlier than in most other countries, climbed by some 25 per cent from the third quarter of 1958 to the third quarter of 1959.

Shaped first by the fall in exports and then by the rise in imports, the United States surplus on goods and services dwindled in 1958 and momentarily disappeared in the first half of 1959. The net outflow of private long-term capital fell back in 1958 from the very high 1957 level and, as credit conditions tightened in the United States, dropped still more sharply in 1959, but far from enough to offset the fall in exports. Government economic assistance, which after the end of the European Recovery Program had been going in gradually rising amounts to other areas, receded only slightly after 1957, though 1959 brought

¹⁴ The importance of speculative movements is again suggested by the behavior of the residual item (errors and omissions) in the United States balance of payments, i.e., the large unidentified receipts from the third quarter of 1956 through the third quarter of 1957:

(quarterly data, seasonally adjusted, in millions of dollars)

	<i>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>
1956	—15	—12	179	391
1957	448	377	363	—31

These unrecorded receipts contributed importantly to the balance-of-payments surplus in 1957, as measured by the Commerce Department, and the balance on basic transactions continued to show a deficit even in that year (Table 1).

The United States as World Trader and Banker

the first advance repayments of foreign debt to the United States Government. The net effect was the emergence of a deficit on basic transactions of almost \$3.7 billion in 1958 and \$4.2 billion in 1959—\$4.7 billion, in fact, exclusive of the special receipts from debt prepayments.¹⁵

These changes opened a new era of intensified competition for the United States, marked by the success of foreign manufacturers in penetrating the American market and in raising their share of third markets as well as by the disappearance of specific shortages abroad which had provided extraordinary outlets for many United States products during the earlier postwar years. The dramatic nature of the change was, however, greatly accentuated by a number of attendant circumstances which contributed to the exceptional rise in United States exports to a peak in early 1957 and to their exceptional fall over the next two years. The easing of boom conditions abroad, though moderate, was enough to dissipate the postwar atmosphere of scarcity and to provoke extensive liquidation of inventories of industrial materials along with some slowing down of investment activity, particularly in the extractive industries. At the same time other circumstances—including the Suez crisis, changes in United States export pricing policy for cotton, the changeover from propeller-driven to jet aircraft, and the steel strike of 1959—intensified the rise and fall in exports of petroleum, coal, and other major items.

The effects of these influences on exports can be seen in Table 2. It will be noted that the items in Groups I and II accounted for almost half of the increase in total exports from 1953-1955 to 1957 and for virtually all of the fall from 1957 to 1959. Since then, exports in the first group have shown little strength, but those in the second group returned in 1960 to the 1957 level, or approximately twice that of 1953-1955. Exports in Group III (including a number of capital goods and consumer manufactures as well as chemicals, some industrial materials, and food and accounting for over 60 per cent of total United States exports) were only lightly touched by the decline in 1958 and then increased in value to a level in 1961 more than 20 per cent higher than in 1957 and more than 70 per cent higher than in 1953-1955. On the other hand, the exports included in Group IV, headed by automo-

¹⁵ The deficits in these years were, however, smaller on the Commerce Department's definition (the difference being accounted for chiefly by unrecorded transactions) and smaller still as measured by official settlements (see Table 1).

TABLE 2
U.S. EXPORTS GROUPED ACCORDING TO BEHAVIOR DURING PAST DECADE
(millions of dollars)

	Half-Yearly Totals											
	1953-1955 (average)					1961					1962	
	1956	1957	1958	1959	1960	1961	1961	1961	1961	1961	Jan.-June	July-Dec.
1. United States exports, total ^a	13,011	17,183	19,316	16,202	19,401	19,819	19,871	19,871	19,871	19,871	9,948	10,532
2. Group I, total	2,267	3,173	3,735	2,320	2,274	1,941	950	950	950	950	991	953
3. Iron and steel-mill products	530	763	995	563	611	429	200	200	200	200	229	212
4. Petroleum and products	667	763	993	480	479	445	224	224	224	224	221	213
5. Coal and related products	384	745	848	534	362	350	151	151	151	151	198	173
6. Tractors, trucks, and buses	686	902	901	665	822	717	375	375	375	375	342	355
7. Group II, total	1,563	2,427	3,046	2,023	3,279	3,025	1,687	1,687	1,687	1,687	1,388	1,313
8. Cotton	596	729	1,056	661	452	884	525	525	525	525	359	315
9. Iron and steelmaking raw materials	112	359	432	138	202	427	216	216	216	216	211	111
10. Nonferrous metals and materials	254	398	429	336	707	623	350	350	350	350	273	263
11. Aircraft and engines	114	170	269	217	159	351	228	228	228	228	123	223
12. Construction and mining machinery	487	771	858	671	667	740	368	368	368	368	372	401
13. Group III, total	7,453	9,694	10,437	9,900	11,789	12,814	6,203	6,203	6,203	6,203	6,611	7,100
14. Capital equipment not separately listed	1,853	2,273	2,698	2,632	3,061	3,673	1,794	1,794	1,794	1,794	1,879	2,223
15. Electrical machinery	418	513	580	564	574	603	306	306	306	306	297	325
16. Chemicals for industrial use	601	793	879	881	1,003	1,202	592	592	592	592	610	607
17. Consumer manufactures not separately listed	456	551	573	557	648	686	331	331	331	331	355	350
18. Industrial materials and semimanufactures not separately listed	2,276	2,780	2,969	2,717	2,942	3,233	1,566	1,566	1,566	1,566	1,732	1,678
19. Food and beverages	1,849	2,744	2,738	2,549	2,796	3,352	1,814	1,814	1,814	1,814	1,738	1,917
20. Group IV, total	1,441	1,673	1,670	1,572	1,613	1,579	807	807	807	807	772	878
21. Automobiles, parts, and accessories	810	982	933	846	863	863	439	439	439	439	424	516
22. Consumer appliances	232	272	273	261	266	267	138	138	138	138	129	137
23. Textile manufactures	169	171	179	166	163	176	91	91	91	91	79	86
24. Medicinals and pharmaceuticals	230	248	285	279	287	279	139	139	139	139	140	139
25. Miscellaneous items	287	276	428	387	368	460	224	224	224	224	236	288

The United States as World Trader and Banker

NOTES TO TABLE 2

- Group I: Exports which rose strongly to 1957, fell sharply to 1959, and have not recovered earlier strength.
- Group II: Exports which behaved like those in Group I to 1959 but have since regained strength.
- Group III: Exports which were only moderately affected by the 1958 decline and have grown well over the period as a whole.
- Group IV: Exports which were only moderately affected by the 1958 decline but have not grown much since.

^aDomestic exports excluding grant-aid military equipment and supplies exported by Department of Defense under the Military Assistance Program.

SOURCE: Derived from data of the U.S. Department of Commerce.

tive products, showed little movement one way or the other over the period, and in 1961 exceeded the 1953-1955 level by less than 10 per cent.

The startling upsurge in imports in 1959 was, in large part, the result of the further penetration of the United States market by foreign manufactures and other goods, but here also the effects of temporary influences can be seen. For one thing, it is interesting to note that, of the increase of \$3.1 billion from 1953-1955 to 1959 in the growth items included in Group I of Table 3, close to half came in 1959 alone. The effects of the steel strike in that year are again visible in this development. Another major influence was the upsurge in American demand for foreign automobiles to a peak in 1959, together with the continued building up of dealer outlets and stocks ahead of retail sales (Chart 7). It will also be seen that the 1959 rise in imports of Group I was reinforced, in the effect on total imports, by the strongly cyclical behavior of the items in Group II. Over the past decade as a whole, however, neither the items in Group II nor those in Group III have exhibited any significant growth. Imports of petroleum (Group IV) grew swiftly through 1958 until restrained by the imposition of import controls—an action with important balance-of-payments effects even if motivated, as it seems to have been, by other considerations.¹⁶

¹⁶ As indicated by the data in Table 3, the import control formula adopted in 1959 did not prevent renewed increases in petroleum imports in 1961 and 1962, and apparently would have allowed a further substantial rise in 1963. On November 30, 1962, a revised formula was announced, designed to keep imports of crude oil, unfinished oil, and finished products into the United States east of the Rocky Mountains at a ratio of 12.2 per cent to domestic production (*The New York Times*, December 1, 1962).

TABLE 3

U.S. IMPORTS GROUPED ACCORDING TO BEHAVIOR DURING PAST DECADE
(millions of dollars)

	1953-55 Average	1956	1957	1958	1959	1960	1961	Half-Yearly Totals		
								Jan.-June	July-Dec.	1962
								Jan.-June	July-Dec.	Jan.-June
1. <i>United States imports, total</i>	10,824	12,615	12,982	12,867	15,207	14,654	14,449	6,837	7,612	7,989
2. <i>Group I, total</i>	2,024	2,799	3,253	3,689	5,117	5,034	4,799	2,112	2,687	2,753
3. Automobiles, parts, and accessories	66	147	337	547	843	612	375	181	194	253
4. Finished textile materials and manufactures	310	454	450	435	605	715	590	262	328	367
5. Consumer manufactures not separately listed	673	875	937	912	1,230	1,434	1,466	638	828	786
6. Meat and cattle	189	156	250	465	475	386	480	205	275	260
7. Alcoholic beverages	161	194	217	237	269	272	297	119	178	138
8. Capital equipment	234	368	412	481	618	602	720	326	394	419
9. Iron ore	131	251	286	233	313	322	250	95	155	151
10. Iron and steel-mill products	151	213	220	231	574	508	421	182	239	270
11. Chemicals	109	141	144	148	190	183	200	104	96	109
12. <i>Group II, total</i>	3,658	4,103	3,785	3,191	4,066	3,631	3,527	1,657	1,870	1,989
13. Building materials	390	487	407	435	603	541	538	548	290	300
14. Materials for durable goods production	2,303	2,652	2,421	1,927	2,350	2,087	1,988	892	1,076	1,103
15. Materials for nondurable goods production	965	964	957	829	1,113	1,003	1,021	517	504	586
16. <i>Group III, total</i>	4,102	4,194	4,120	4,009	4,075	4,002	3,988	2,006	1,962	2,083
17. Coffee	1,437	1,439	1,375	1,173	1,093	1,002	961	501	460	483
18. Other food not separately listed	1,315	1,297	1,333	1,482	1,527	1,549	1,520	765	755	809
19. Newsprint and paper base stocks	948	1,093	1,032	988	1,089	1,098	1,093	532	561	563
20. Materials used in agriculture	402	365	380	366	366	353	394	208	186	228
21. <i>Group IV (petroleum), total</i>	875	1,282	1,534	1,610	1,536	1,548	1,682	839	843	921
22. Miscellaneous items	165	237	290	368	414	438	473	223	250	243

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NOTES TO TABLE 3

Group I: Imports which have increased sharply since 1953-1955, with especially strong impact in 1959.

Group II: Imports with pronounced cyclical behavior.

Group III: Imports showing little or no growth over the period.

Group IV: Strong growth until 1958 and forcibly restrained since.

^a General imports.

SOURCE: Derived from data of the U.S. Department of Commerce

NEW STRAINS FROM CAPITAL OUTFLOWS IN 1960 AND 1961

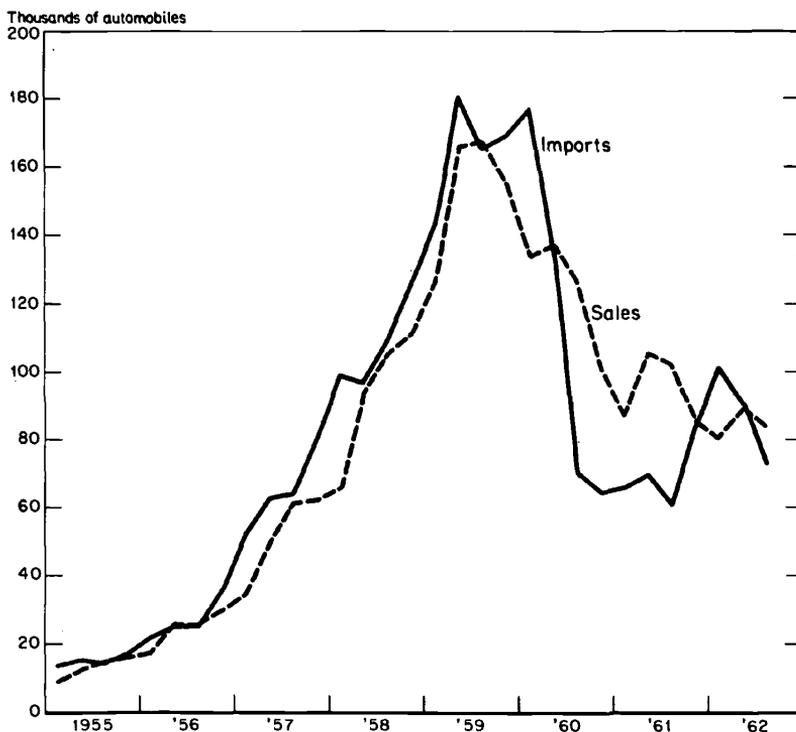
Starting in the third quarter of 1959, exports staged a remarkable turnaround and in the second half of 1961 reached a rate somewhat higher than that achieved in the exceptional circumstances of 1957 and about 25 per cent higher than in 1958-1959. Imports performed more erratically, weakening with business activity here in the second half of 1960 and then recovering strongly again in the second half of 1961 to about the same level as two years earlier.

The renewed strength of United States exports after 1959 was largely in sales to other industrial countries, which have led the rise in world trade. As shown in Table 4, the value of exports to Western Europe and Japan averaged 90 per cent more in 1960-1961 than in 1953-1955. Exports to other countries outside the Western Hemisphere also increased substantially, though this rise is attributable in good part to United States Government assistance programs to India, Pakistan, and southeast Asia. Exports to Canada and Latin America, on the other hand, grew much less during this period and in 1960-1961 were well below the levels which had been reached in 1956-1957. The heavy weight of these Western Hemisphere countries in United States exports—far greater than their share in world trade and greater still than their share in exports of other industrial countries—could therefore be regarded as something of a drag on the development of total United States exports. The table also suggests, however, that the buying power of Canada and Latin America has suffered from the poor performance of their exports to the United States, an effect largely attributable to the general weakness of prices of primary products in the world's markets, but intensified by the failure of the United States economy to operate nearer to full-employment levels.

Sketch of the Balance of Payments

CHART 7

U.S. Imports and Retail Sales of Foreign Automobiles, 1955-1962



SOURCE: U.S. Department of Commerce and *Automotive News*.

Chiefly because of the strengthening of exports and the slack in imports much of the time, the deficit on basic transactions was sharply reduced to \$1.9 billion in 1960 and to \$1.2 billion in 1961 (exclusive of debt prepayment to the United States Government). In the first half of 1961 a small surplus was even registered, on this accounting basis, but a deficit emerged again in the second half of the year as imports recovered and as government economic assistance rose abruptly.¹⁷

¹⁷ This increase was in considerable part due to capital subscriptions to international development agencies (see Table A-4).

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TABLE 4
GROWTH OF WORLD AND U.S. TRADE BY AREAS, 1953-1955 TO 1960-1961

	World	Western Europe ^a and Japan	U.S.	Canada	Latin American Republics	Other Countries
I. Growth and relative size of foreign trade turnover^b						
Index of value (1953-1955 = 100)						
1956-1957	128	130	131	131	115	118
1958-1959	127	134	129	125	110	120
1960-1961	149	169	143	131	114	134
Percentage of total world trade						
1953-1955	100	44.6	15.0	5.6	9.5	25.3
1960-1961	100	50.6	14.5	4.9	7.3	22.8
II. U.S. exports to areas specified						
Index of value (1953-1955 = 100)						
1956-1957	141	158		132	132 ^c	137
1958-1959	125	131		119	120 ^c	129
1960-1961	149	190		122	108 ^c	167
Percentage distribution						
1953-1955	100	31.6		23.6	24.9	19.8
1960-1961	100	40.4		19.4	18.0	22.2
III. U. S. imports from areas specified						
Index of value (1953-1955 = 100)						
1956-1957	120	140		119	110 ^c	114
1958-1959	133	188		126	107 ^c	120
1960-1961	137	206		128	101 ^c	126
Percentage distribution						
1953-1955	100	23.0		23.1	30.9	23.1
1960-1961	100	34.6		21.6	22.7	21.2

SOURCE: For the United States, the Department of Commerce; for Latin American Republics, International Monetary Fund (*International Financial Statistics*, September 1961 and October 1962); for other countries and country groups, OECD (*Overall Trade by Countries*, Series A, June 1962).

NOTE: Data for the United States and for total world trade exclude U.S. exports in Special Category Types I and II.

^a European members of the OECD.

^b Exports plus imports.

^c Indexes of the value of U.S. trade with the Latin American republics, excluding Cuba, are as follows (1953-1955 = 100):

	1956-1957	1958-1959	1960-1961
U.S. exports	132	121	121
U.S. imports	111	106	109

It may be noted, however, that the levels of these index numbers for 1960-1961 were affected by the shift of U.S. sugar purchases away from Cuba, partly to other Latin American countries, though partly to other areas also.

Sketch of the Balance of Payments

Despite the notable reduction in the deficit on basic transactions after 1959, the increase in foreign gold and liquid dollar holdings through transactions with the United States (i.e., the deficit as defined by the Commerce Department) remained at the high levels of \$3.9 billion in 1960 and \$2.5 billion in 1961 (or \$3.1 billion adjusted to exclude debt prepayments) because of the heavy recorded outflow of United States private short-term capital and recorded transfers.

Of the recorded outflow of United States private short-term funds, aggregating more than \$3 billion from the beginning of 1960 through the first quarter of 1962, almost 45 per cent went to Japan (Table 5), largely in the form of trade and financial credits. The steep rise in American credits to that country, accompanied by extensive credits also from European sources operating through the "Euro-dollar" market, was occasioned by its balance-of-payments difficulties, the easing of its restrictions on external borrowing, and apparently also by the keen interest of American banks in strengthening their ties with the Japanese economy.

During the second half of 1960, the spread in interest rates between the United States and leading foreign financial centers which developed as business turned down here while expansion continued abroad led to substantial outflows of liquid funds. These operations, which added to the loss of gold and appeared to mark a turn for the worse in the United States balance of payments, sparked still other transfers attributable to a weakening of confidence in the dollar.

With regard to that part of these various credits and other transfers reported by American banks and business concerns, it is difficult to say how much they contributed to the balance-of-payments deficits of 1960 and 1961. To an appreciable extent they served to finance exports which otherwise would not have been made unless the borrowers had been able to obtain funds for this purpose from sources outside the United States. On the other hand, those outflows of liquid funds which passed outside the reporting network presumably did little to promote exports and may have contributed far more to the loss of reserves than might be judged merely from the residual item for unreported transactions. According to the estimates previously noted,¹⁸ these unrecorded capital transfers may have approached in size the recorded flows in 1960 and 1961 as reported by American banks and business enterprises.

¹⁸ Page 17.

TABLE 5

REPORTED U.S. PRIVATE SHORT-TERM CLAIMS ON FOREIGN COUNTRIES
(millions of dollars)

	Increase or Decrease (—)				Amount Outstanding June 30, 1962
	1960 Calendar Year	1961 Calendar Year	1962 First Quarter	1962 Second Quarter	
<i>Total reported by banks and nonfinancial concerns in the U.S.^a</i>	1,341	1,435	312	-103	6,491
DISTRIBUTION BY COUNTRY					
<i>Major financial centers, total</i>	603	511	68	-167	2,076
United Kingdom	343	-137	-23	-38	316
Common Market and Switzerland	52	195	21	-12	666
Canada	208	453	70	-117	1,094
<i>Other countries, total</i>	738	924	244	64	4,415
Japan	491	662	255	-22	1,776
Latin American Republics	186	135	9	24	1,762
Other countries	61	127	-20	62	877
DISTRIBUTION BY CURRENCY					
<i>Payable in U.S. dollars, total</i>	931	1,349	409	-109	5,749
<i>Payable in foreign currencies, total</i>	410	86	-97	6	742
Major financial centers	371	46	-87	-17	569
Other countries	39	40	-10	23	173

^a Excludes holdings of the Exchange Stabilization Fund.

^b As reported by banks only.

SOURCE: U.S. Department of Commerce.

Sketch of the Balance of Payments

THE BALANCE OF PAYMENTS IN 1962

On the surface, the balance of payments appeared to strengthen encouragingly during the first half of 1962 and then to deteriorate alarmingly once more in the third quarter. These abrupt shifts were, however, largely attributable to short-run disturbances, including, in particular, those associated with the depreciation and stabilization of the Canadian dollar. These disturbances affected various components of the balance of payments, including the timing of merchandise exports and imports, but seem to have had an especially marked impact on recorded short-term capital movements and on unrecorded transactions. The variations from quarter to quarter were accordingly much more violent in the deficit as measured by the Commerce Department than in the deficit on basic transactions, as shown by the following figures from Table 1 (quarterly, seasonally adjusted, in millions of dollars):

	1961 ^a	1962		
		I	II	III ^b
Deficit (—) on basic transactions	—132	—268	—110	— 52
Less: Debt prepayments	172	—	76	471
Deficit on basic transactions, exclusive of debt prepayments	—304	—268	—186	— 523
Add: Recorded outflow (—) of U.S. private short-term capital ^c	—333	—314	18	— 173
Unrecorded transactions	—150	106	—134	— 494
Deficit on Commerce Department's definition, exclusive of debt prepayments	—787	—476	—302	—1,190

^a Quarterly rate.

^b Preliminary.

^c Less changes in foreign commercial credits to the United States.

In view of these wide and partly offsetting swings in the quarterly data, it is probably best to take the consolidated results for the nine months as a guide to the recent status of the balance of payments. These results, expressed as annual rates, are given in Table 6 along with annual averages for earlier periods. It will be noted that the deficit on basic transactions, exclusive of receipts from debt prepayments, was at a rate of \$1.3 billion, or somewhat less than the 1960-1961 average. There was an even larger reduction in the deficit as computed by the Commerce Department, though, at a rate of \$2.6 billion, it remained much higher than the deficit on basic transactions, for reasons partly hidden in unrecorded transactions.

Gross payments and gross receipts both rose to new high levels in 1962. Compared with the two preceding years, the principal increases

The United States as World Trader and Banker

in payments were in merchandise imports and in government economic aid. The increases in the latter contributed, however, to the rise in merchandise exports. Receipts were also buoyed up by the continued rapid growth in income from foreign investments. Another important contribution was military cash receipts by the United States Government, including foreign official funds set aside at the Treasury during the period against future orders and deliveries. Actual deliveries of military goods and services during the nine months were only about 60 per cent as large as total cash receipts, and it is still too early to judge what the future course of this item will be.

A question of major current interest concerns the effect which a higher level of employment and production in the United States would have on imports and other items in the balance of payments. It was noted above that the reduction in the deficit on basic transactions after 1959 owed a good deal to the weakening of United States import demand during the 1960-61 recession. Some ground for encouragement may be found in the fact that the further reduction of the deficit during 1962 was achieved along with a significantly higher level of business activity in this country. Reference to Table 3 shows that a marked cyclical upturn in imports of industrial materials contributed importantly to the rise in total imports. At the same time imports of consumer manufactures (other than automobiles) and capital equipment continued to make impressive gains. It is noteworthy that the impact of these developments on the trade balance was not more unfavorable than it was, all the more so since exports to Japan fell off sharply after the end of 1961 following measures taken by the Japanese authorities to protect reserves and the drying up of new American credits to Japan after the first quarter of 1962. It may be that this reduction has run its course, now that Japan has been able to register some increase in its reserves. The commodity detail given in Table 2 indicates that exports of capital equipment continued during 1962 to provide the main impetus to the growth in exports and suggests that the further growth of the export total may depend heavily on the maintenance of a high rate of investment activity in foreign countries.¹⁹

¹⁹ Exports of foodstuffs also showed large gains, part of which may be attributable to aid shipments and to temporary influences (including drought conditions affecting foreign grain supplies and efforts by exporters to land shipments ahead of the Common Market restrictions which became effective at the beginning of August 1962). The exceptionally high level of these exports may, however, be set off against the unusually low level of cotton exports, as foreign buyers awaited an expected reduction in the export price of cotton by the Department of Agriculture.

Sketch of the Balance of Payments

TABLE 6

U.S. BALANCE OF PAYMENTS BY SELECTED PERIODS, 1953 TO 1962
(billions of dollars, annual averages or annual rates)

	1953- 1955	1956- 1957	1958- 1959	1960- 1961	1962 Jan.-Sept.
I. Basic transactions					
<i>U.S. payments, recorded:</i>	<u>20.6</u>	<u>26.8</u>	<u>28.4</u>	<u>30.2</u>	<u>32.4</u>
Merchandise imports	11.0	13.0	14.1	14.6	16.1
Military expenditures	2.7	3.1	3.3	3.0	3.0
Other services	3.1	4.1	4.7	5.4	5.7
Remittances and pensions	.6	.7	.8	.9	.9
Government grants and capital outflows	2.4	3.0	3.1	3.7	4.3
U.S. private long-term capital	.9	2.9	2.5	2.5	2.3
<i>U.S. receipts, recorded:</i>					
<i>Including debt prepayments</i>			24.5	28.9	31.8
<i>Excluding debt prepayments</i>	<u>18.9</u>	<u>26.1</u>	24.2	<u>28.6</u>	<u>31.1</u>
Merchandise exports	13.1	18.4	16.3	19.7	20.8
Military sales	.2	.3	.3	.4	.9 ^a
Investment income	2.2	2.7	2.9	3.5	4.0
Other services	2.7	3.6	3.8	4.0	4.4
Repayments on U.S. Government loans					
Ordinary repayments	.5	.6	.6	.7	.6
Special prepayments	—	—	.2	.3	.7
Foreign long-term investment in U.S.	.3	.5	.4	.4	.4
<i>Balance on basic transactions:</i>	—	—	—	—	—
<i>Including debt prepayments</i>			-3.9	-1.2	-.6
<i>Excluding debt prepayments</i>	-1.7	-.7	-4.2	-1.5	-1.3
II. Private short-term capital movements and unrecorded transactions					
Recorded U.S. short-term capital ^b	— .2	— .3	— .1	— 1.4	— .6
Unrecorded transactions	.3	.8	.4	.6	.7
<i>Balance corresponding to Commerce Department definition:</i>	—	—	—	—	—
<i>Including debt prepayments</i>			-3.6	-3.2	-1.9
<i>Excluding debt prepayments</i>	-1.6	-.2	-3.9	-3.5	-2.6

NOTES TO TABLE 6

^aIncludes deliveries on military sales during the period and \$360 million (annual rate) transferred to restricted accounts with the U.S. Treasury against military purchases to be made by foreign countries.

^bLess changes in foreign commercial credits to the United States.

NOTE: Detail may not add to totals shown because of rounding.

SOURCE: U.S. Department of Commerce.

3. *The Selection of Periods for Comparison*

This brief review of the shifting postwar scene underscores the difficulty of making valid generalizations about our international payments position and how it has altered during this time. Statements about the "present" and how it has changed from the "past" are likely to be influenced by the particular constellation of forces operating at one time or another, some of which are more ephemeral than others. How, then, can one sort out from the rest the more basic changes embodied in the statistical record of our balance-of-payments experience?

A usual way of trying to meet such problems is to draw averages for some base period and some terminal period, each long enough to even out the effects of erratic influences and other abnormalities, and thus permit comparisons between them without undue risk of distortion. Such a method is difficult to apply to the relatively recent developments considered here,²⁰ especially when it is a question of characterizing the current status of the balance of payments. There is no "terminal period" marking an end to the phenomena considered, the most recent data serve as only a rough guide to the near future, and averages could not be extended back more than a few years without risk of concealing the very disturbances and adjustments of the past decade which need to be identified. This difficulty is all the greater in that one could scarcely include the developments of 1958 and 1959 without including also those

²⁰Some comparisons with prewar periods are given in the next chapter (Chart 9), but it has to be remembered that the decade immediately preceding the war was perhaps even more disturbed than that immediately afterward because of the Great Depression, exchange depreciation, trade controls, and the flight of capital to the United States.

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of the preceding year or so, to which they were in considerable part a reaction. For the current picture, it therefore seems best to concentrate on the more recent figures and to introduce such qualifications as seem appropriate for the effects of cyclical or erratic influences on them.

The choice of an "initial" or base period, on the other hand, is less circumscribed, though here also one would not wish to include any of the years 1956 to 1959, nor to go back into the distorted relations immediately following the war. One possibility would be to include the whole of the intervening period, that is, the six years 1950 to 1955. This period, starting just after the European currency devaluations of 1949, includes all of the Korean episode, with effects first unfavorable and then favorable on the United States balance of payments, as well as the 1952 pause in Europe and the 1953-54 recession and ensuing recovery in the United States. The inclusion of the Korean war experience is, however, open to question, and the shorter period 1953-1955 will therefore be used in this study as the principal base of comparison. In fact, as will be seen in the next chapter, the relative changes in the major components of the balance of payments are much the same whether one takes the longer or the shorter period as a base. Nor is there much difference in the size of the initial handicap presented by the balance-of-payments deficits during the two periods, which averaged \$1.8 billion for 1950-1955 and \$1.7 billion for 1953-1955.