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The period is of course too short to give much weight to these figures, but they make sense in the light of recent developments. It is plausible that the international position of the United States economy was in these years too strong to permit foreign influences to play a significant role. In Britain direct controls were designed to isolate the economy, but it is not clear whether the greater role of counter-phases is due to these controls or perhaps to the devaluation of sterling, which brought a counter-expansion like that of 1931.

Conclusion. Our two-way classification of periods by national business cycles and by movements of world trade has proved a simple and useful tool for the analysis of foreign trade. We regard our world import cycles as highly tentative and hope that they will gradually be improved, but they enabled us to discover regularities of trade fluctuations that remained hidden as long as the framework of national business cycles alone was used. We have not tried to apply our method to activities other than foreign trade, but it is not unlikely that the method of subdividing business cycle phases would bring useful results in other fields.

V. SUMMARY AND CONCLUSIONS

Summary of Findings

Our analysis reveals, first, that the American and the British trade balances fluctuated cyclically over the last seventy-odd years. They have not shown the irregular behavior one might expect of series which measure differences between two largely independent economic activities. The balances also have not merely oscillated around their trends as they might if an adjustment mechanism worked instantaneously. Instead, the balances of both countries typically rose over extended periods of time; then reversed themselves and similarly declined.

Second, these cyclical swings of the trade balances were related to the tides of business in the two countries. Of thirty-nine comparisons between balance changes during business contractions and during the preceding and following expansions, thirty-four show conformity to business cycles. The closeness of this relationship is remarkable in view of the fact that we deal with the *difference* between exports and imports, and that foreign trade must be strongly affected by forces outside the American or British economies.

Though always close, the relations of the two trade balances to business cycles were not all of the same kind. The American balance shows inverse conformity; it rose more (or declined less) when American business con-

Table 21 *United States and Great Britain, 1881-1939*

CONFORMITY OF TRADE BALANCE CHANGES TO DOMESTIC BUSINESS CYCLES (INDEX)

	<i>United States</i>	<i>Great Britain</i>	
	1881-1938	1883-1913	1920-1938
Whole Domestic Expansion	-43	+20	-100
Whole Domestic Contraction	-54	+60	-100
Whole Domestic Business Cycle	-68	+78	-100
Co-Expansion ^a	+12	+20	-100
Co-Contraction ^a	0	0	-100
Counter-Expansion ^a	-100	—	—
Counter-Contraction ^a	-69	+67	-100

Conformity indexes are constructed by rating a rise during business expansion or fall during contraction plus 100, the opposite change minus 100, and averaging the ratings for all phases covered, see text.

Co-phases: Periods when world cycle and domestic business cycle move in same direction.

Counter-phases: Periods when world cycle and domestic business cycle move in opposite direction.

Data are seasonally adjusted and based on dollars and pounds of 1930 parity.

^aSmoothed by three-quarter moving averages with double weight for center quarter.

Source: This Table is a summary of Tables 2, 3, 11 and 14.

tracted than when it expanded in twelve of fourteen cycles, 1879 to 1938, and again 1949 to 1956 (Table 21).¹ High positive conformity to British business cycles, on the contrary, characterized the British balance in the thirty-three years before World War I. In each of the five business expansions of this period it rose more (or fell less) than in succeeding contractions. In the interwar period, however, and as far as we can tell after World War II, the reverse was true: the British balance moved opposite to British cycles like the American. The index of conformity in this case is -100.

The same relations are reflected in the rates of change of the balances in business expansions and contractions (Table 22). The quarterly American balance, 1881-1938, fell on the average by \$5.6 million per quarter

¹Since this was written some very exceptional balance changes occurred in 1957 and 1958: a spectacular rise during the later part of the business expansion and an equally large fall in the 1957-58 recession. There is little doubt that special circumstances, connected with the Suez crisis, were in large part responsible for this development. Whether it also indicates some shift in the cyclical behavior of the American trade balance remains to be seen, but all things considered, this seems rather unlikely.

during business expansion and rose by \$6.7 million in contraction. The quarterly British balance, 1883-1913, rose on the contrary by £200,000 in quarters of British business expansion and fell by £300,000 in those of contraction. From 1920 to 1938, however, the British pattern is reversed and a decline of £1.7 million in expansion contrasts with a rise of £3.3 million in contraction (in pounds of 1930 parity).

Table 22 *United States and Great Britain, 1881-1938*

TRADE BALANCE: CHANGE DURING CYCLES IN WORLD TRADE AND DOMESTIC BUSINESS

	WEIGHTED AVERAGE CHANGE PER QUARTER (in millions of dollars or pounds of 1930 parity)		
	<i>United States</i>	<i>Great Britain</i>	
	1881-1938	1883-1913	1920-1938
Whole Expansion	-5.6	+0.2	-1.7
Whole Contraction	+6.7	-0.3	+3.3
Co-Expansion	-3.3	+0.2	-2.3
Co-Contraction	+0.2	+0.2	+3.8
Counter-Expansion	-15.6	—	+0.6
Counter-Contraction	+12.5	-1.3	+2.3

Co-phases: Periods when world cycle and domestic business cycle move in same direction.

Counter-phases: Periods when world cycle and domestic business cycle move in opposite direction.

Smoothed by three-quarter moving averages with double weight for center quarter. Differences between these figures and those in Tables 2 and 11 are due to smoothing, and to differences in periods covered.

Source: This table is a summary of Tables 2, 3, 11, 14.

These basic facts indicate the great sensitivity of trade balances to domestic business fluctuations. They reveal also that — in contrast to a common belief — there is no common cyclical pattern for trade balances of all industrial countries or of all creditor countries. Britain belonged to both classes in both periods, yet the pattern of the balance reversed itself.

Our next finding is the contrast between balance movements in different stages of a given business cycle phase. In the later stages of business expansions and at the beginning of contractions, balance changes were much more closely related to business cycles than at other times. The above-mentioned high conformity of the trade balances is largely due to their systematic behavior in the neighborhood of business cycle peaks,

which must be kept in mind in interpreting this conformity. It is certainly striking that the American balance turned upward at eleven of fourteen business peaks while the British balance, on the contrary, turned downward at all five peaks before World War I.

Evidently, foreign trade was more regularly affected by the general economic situation when prosperity reached its end and turned into recession than at other times; this was true whether the balance pattern was positive or inverse.² This implies that an American business peak meant immediate deterioration in the trade balances of the world outside the United States, while a British peak before 1913 meant immediate improvement in such balances.

Inclusion of world cycles in the analysis throws further light on balance fluctuations. Some surprisingly systematic features of balance behavior emerge. Thus, when world and domestic cycles moved in opposite directions (counter-phases), conformity of both balances to domestic cycles was always high (Table 21). In the case of the American balance this regularity was of an expected nature, in the case of the British unexpected, assuming that we expect imports to move with domestic business cycles.

The American balance fell *each* time a world contraction coincided with American expansion (counter-expansions), but it fell in only seven of sixteen cases when world expansion coincided with domestic expansion. Correspondingly, the balance rose in eleven of thirteen counter-contractions, while in co-contractions rises and declines were of equal frequency. This kind of contrast between co- and counter-phases was to be expected, but the reliability with which the trade balance reflected each disagreement between American and foreign business trends is still of interest. In the decade after World War II there were two counter-expansions and one counter-contraction. Again the balance showed large declines in the former, a large rise in the latter.

The combined impact of world and domestic business cycles is well brought out by the rates of change of the American balance in the combined phases (Table 22). There is relatively little difference in the average balance change as between co-expansions and co-contractions. Thus, if American business cycles had always moved with those abroad, no balance pattern would exist. But large and opposite balance movements are characteristic of counter-phases: an average quarterly increase of \$13 million in counter-contractions against a decline of \$16 million in counter-expansions.

²O. Morgenstern's observation about American, British, French, and German money markets is of interest here: ". . . the monetary economies are much closer to each other in times of stress and even crisis than in times of low activity or when markets are at ease (which is usually, but not necessarily, the same thing)." *Op. cit.*, p. 506.

The results for Britain, 1883-1913, are similar in regard to co-phases. Here too, conformity is low and the rate of change the same in co-expansions and co-contractions. The role of counter-phases, however, is different. Counter-expansions occurred only under exceptional circumstances, i.e. after the devaluation of the pound. As a rule the British economy experienced no cyclical expansion in the face of world contraction. Thus the typical behavior of the balance in British business expansions is not affected by world contractions.

Counter-contractions, on the contrary, were frequent if brief and were characterized, as in the United States, by a high degree of balance conformity. However, while the American balance conformed inversely to American cycles in counter-contractions, the British balance, 1883-1913, conformed positively. In the United States, as one would expect, exports were stimulated by the growing world demand, imports repressed by domestic recession. In Britain, however, exports fell and imports increased. This perverse behavior is the more noteworthy since the British balance improved in half of the co-contractions before 1913.

In the interwar period, counter-contractions were also less favorable for the British balance than co-contractions. Though the balance in this period rose in all contractions, the rise in counter-contractions was about half as large as that in co-contractions. In co-phases the British balance showed perfect inverse conformity in the interwar period.

Exceptions to the various rules just mentioned occurred mostly in the 1930's. Thus the decline of the American balance in the co-contraction 1929 to 1933 was unusual for this phase. In the following counter-expansion imports failed to show the typical rise, and in the co-expansion 1935 to 1937 the balance, in sharp contrast to its typical behavior, continued to rise until the business peak. These exceptional movements, of course, greatly affect those views about the typical behavior of the American balance which are based exclusively on the interwar period.

The most important exceptional feature of the British balance in the 1930's is the rise from 1931 to 1933. This was the first British counter-expansion in the period covered by our analysis. The improvement of the British balance in this period parallels the exceptional rise of the American balance in the counter-expansion 1933-1935.

After World War II and the following readjustment period, the United States balance seemed until 1956 to be returning to pre-1930 patterns. It fell in the counter-expansion 1952 to 1953, turned sharply upward at the business downturn in that year, and rose through the counter-contraction of 1954.⁸ The steep increase in the balance in the later part of

⁸The behavior of the American balance in the readjustment period after World War II was strikingly similar to that of post-World-War-I days.

the co-expansion which ended in 1957, however, and the sharp fall in the co-contraction 1957-58 are unusual, as noted above.

The cyclical movements of the British balance in the 1950's are also similar to those of the interwar period. The balance rose in the single brief co-contraction and in the single brief counter-contraction; it rose in the counter-expansion of 1949, which was again associated with the devaluation of the pound; it fell sharply in each of two co-expansions.

Interpretation of Findings

Explanation of the cyclical behavior of the trade balances requires the breakdown of export and import values into prices and quantities, and the further breakdown of each of these by types of commodities. Such an analysis must wait, as stated earlier, until the data are available. Here we present only a few preliminary conclusions which seem warranted on the basis of our present material.

The simplest and most common assumption about the effect of business cycles on foreign trade is that imports rise in business expansions and fall in contractions. This implies that exports conform to business cycles in foreign countries, and a large part of the cyclical fluctuations of the American and British trade balances is consistent with this assumption. The outstanding example is found in American counter-phases, when the changes in the balance and its components agree almost perfectly with this theory.

But there are other features of trade balance cycles which are not explained by mere import conformity. This applies, for instance, to the regular decline of the American balance in the later, as opposed to the earlier parts of business expansions; and to the steep rise of the British balance before British business peaks, 1883 to 1913.

For an understanding of these balance movements we have to look to the effects of a country's business cycles on its exports. Business expansions may interfere with exports as rising home demand reduces incentives to push foreign sales, causes delays in deliveries, etc. Rising prices also may deter foreign buyers. In contractions, on the contrary, falling home demand may stimulate exports. Though such effects may take place only at certain cycle stages and not at others, they explain some important features of the balance patterns. Thus, if balance movements are tied not only through imports but also through exports to domestic cycles, their high conformity to the latter is more plausible. The regular decline of the American balance in the later part of business expansions, for instance, is partly explained by their unfavorable effect on exports.

On the other hand, the regular rise in the British balance in British

expansions before World War I is due to the positive conformity of British exports to British business cycles. In this case world demand must have increased sufficiently at the end of British expansions, and/or it must have been sufficiently inelastic in respect to price to bring about the increase in the value of British exports which explains these balance rises.

Import conformity and the effect of business cycles on a country's exports go a long way toward explaining trade balance cycles. However, we have also found some regular responses of the balances to business cycles which cannot be explained in this manner since they run counter to the assumption of import conformity. Thus American imports rose regularly prior to American business cycle troughs in the period before World War I, and this accounts for the cases of balance decline in co-constrictions. Again the rise of British imports after business peaks, 1883 to 1913, explains the regular decline of the British balance in the first stage of business contraction. Also, in counter-constrictions of the same period, British imports rose despite domestic contraction, British exports fell despite world expansion, and the balance thus fell when it would be expected to have its largest rise. That the British balance in the constrictions of the interwar period improved more when world trade declined than when world trade expanded is another case in point.

It is probable that at least some of these balance movements which run counter to the assumption of import conformity are due to price fluctuations. It may be hoped, therefore, that the planned analysis of prices will illuminate them.

Effects of Trade Balance Changes on Cycles in General Business

We have in this paper dealt with the impact of business cycles on trade balances. What about the opposite relationship: the effects of balance fluctuations on business cycles? A few concluding remarks on this large topic may be in order.

We distinguish two ways in which foreign trade movements may influence the path of a country's economy: via production and via monetary reserves.⁴ For the discussion of the first type of effects, i.e. direct and multiplier effects on production, employment, and income, it is preferable to decompose the balance into exports and imports, and into price and quantity movements since a given balance movement may have different effects of this kind depending on the components to which it is due. Discussion of this type of effect will therefore be deferred until exports and imports have been analyzed.⁵

⁴This distinction has been clarified and stressed by Neisser and Modigliani, *National Income and International Trade*, University of Illinois Press, 1953, Ch. 6.

⁵This does not mean that certain conclusions cannot also be drawn directly from the balance movements. See for instance T. Wilson, *Fluctuations in Income and*

The monetary effects of trade fluctuations on business cycles are appropriately treated in connection with the trade balance. For the impact of such fluctuations on monetary reserves and thereby more or less automatically on economic policies, it is precisely the movement of the balance which matters. For instance, a decline in the balance, whether due to exports or imports, will *ceteris paribus* mean a drain on reserves. This may induce the automatic or deliberate adoption of countervailing monetary policies, and thus limit expansion or contribute to contraction. Knowing in what direction the balance moved in the two countries in given periods and business cycle stages, we can therefore tell whether it tended to strengthen or to dampen the fluctuations in the British and American economies.

Though we know the direction, we do not know the *extent* of these balance effects on business cycles. The trade balance is of course only one of many factors, international and domestic, which affect monetary reserves; and such reserves in turn are only one of the factors determining economic policies.⁶ The question how large or small an influence the trade balance had on the business cycles of a given country at a given time is thus more difficult to answer and, in many cases, highly controversial. The question certainly goes far beyond the scope of this study and no attempt will be made to answer it. The few comments about the probable extent of trade balance effects made below in discussing our findings about the direction of such effects rely upon prevailing views. Thus it is generally assumed that economic policy is more sensitive to changes in monetary reserves when reserves are small than when they are large; when the change is a decline than when it is a rise; when exchange rates are fixed than when they are free; and when there are no direct trade controls than with controls.⁷

Employment, London, 1942. Wilson holds, for example (p. 99), that the business downturn of 1920 in the United States was mainly due to two factors: the reversal of government policy and the fall in the trade balance. He also considers the unfavorable balances of 1933 to 1936 as a depressing factor, and believes that the balance was one cause of the downturn in 1937.

It may also be noted that Neisser and Modigliani, *op. cit.*, conclude from their estimates that the production effects of balance changes in the interwar period were very weak.

⁶Our knowledge about the relations among monetary reserves, money supply, and business cycles will be greatly enlarged by the comprehensive investigation of the money supply in which Milton Friedman and his associates are currently engaged for the National Bureau of Economic Research.

⁷We may note Neisser and Modigliani's conclusions about measuring effects of trade balance changes on incomes. "The main reason why any attempt at utilizing the 'inverse' system had to be discarded lies in the attendant statistical errors . . . For one chosen year, 1928, we computed the various members' incomes from the actual trade balances in that year and the actual value of the other predetermined

Influence of Changes in the United States Trade Balance on Business Cycles. Our analysis reveals that any influence which fluctuations in the United States trade balance had, via monetary policy, on the United States economy was predominantly anticyclical. As the balance rose typically in business contractions and fell in expansions, it worked for the loosening of credit in the former and for tightening in the latter. Such influence was not continuous throughout a cycle phase but was at times reversed by contrary tendencies. However, in the last part of expansion the balances tended regularly to contribute to monetary strains, and at the beginning of business recession they tended regularly to ease the strains.

The direction of these trade balance effects remained the same from 1880 to 1955 but their magnitude has changed greatly. Since World War II monetary reserves have been so large as to preclude any sensitivity of the economy to their variations. In the interwar period American monetary policy seems to have been affected by reserve movements only in isolated instances and these (like the gold outflow of 1931) were due to capital transactions, not to the trade balance. Before World War I, however, the United States economy was not insensitive to changes in reserves and thus may have been influenced by trade balance movements. In view of the large balance improvements which preceded business troughs and the steep falls before peaks it cannot be ruled out that the trade balance contributed to turns in general business in this period. The following remarks, therefore, refer to the years before World War I only.

In regard to business troughs, first, one factor which argues against the stimulating effect of the balance is that its rise usually ended two or three quarters before the upturn of the economy. But this is not conclusive, since the influence of a balance rise via monetary policy must take time and will not, once it occurs, be reversed immediately by reversal of the balance. On general grounds, however, it is less likely that a rise in reserves contributed significantly to a business upturn than that a decline contributed to a downturn, since a rise in reserves does not exercise the same

variables. . . . When these computed values were compared with the actual values the outcome was found to be extremely unsatisfactory. The errors were very large, and in one case — United Kingdom — the computed income was even negative. The trouble is that exports and imports, and especially trade balances are small in comparison with the income magnitudes; hence a relatively small error in the export functions or import functions may cause an enormous error in the incomes. This line of approach had therefore to be given up." (*Op. cit.*, p. 33.)

Nevertheless, Neisser and Modigliani do present some estimates of effects of balance-induced policy changes on incomes and find them relatively large, much larger at least than the multiplier effects of balance changes. They comment: "Certainly there is no originality in the proposition that it is the necessity of equilibrating the balance of payments which is primarily responsible for the transmission of income changes through the world economy." (*Op. cit.*, p. 129.)

pressure on monetary policy as a decline. Moreover, credit policy is supposed to be more effective in terminating expansions than in lifting the economy from depression.

At business peaks a significant role of the trade balance is much more likely. The sharp balance declines which preceded eight of the ten pre-World-War-I peaks brought the balance to exceptionally low levels; so it may be that unusually low trade balances put a stop to business expansions. This is especially likely from 1882 to 1895 when four out of five consecutive business downturns came at about the same low point of the balance — a \$5 to \$10 million quarterly deficit.

Against the assumption that the trade balance was a factor in business peaks is the objection that there are some instances of sharp balance declines which did not halt business expansions. In particular, four of the five declines which characterized counter-expansions of this period were not followed by domestic peaks; in these cases world upturns caused the balance to recover before the domestic upswing was interrupted. But these declines occurred at the beginning of expansions when the economy, for understandable reasons, was not sensitive to balance changes.

One might think that depressing effects of the trade balance at American business peaks signified transmission of foreign depression to the United States. But on the contrary, seven of the eight instances of balance decline before the peak occurred in periods characterized by world expansion. Thus the United States in this period is an example of the case where a country's trade balance is a restraining force at the end of its business expansions, not because of foreign depression but despite simultaneous foreign expansion.

If it were true that the trade balance played a role in the termination of United States expansions before World War I, then this would help explain the instability of the American economy in that period. Such vague current explanations as the "youth of the country" could be replaced by specific factors such as the depressing effect of the later stages of United States expansions on exports, the high income elasticity of imports, and a monetary system which was sensitive at certain times to a foreign drain on reserves. The "singularly different rhythm of the American cycles (which) is a frequently mentioned phenomenon of considerable interest"⁸ and the tendency of United States business peaks to lead world peaks (Table 19) would then be due in part to the impact of foreign trade on the American economy. These leads of American reversals have been deemed "to support the notion that the United States exported depression" before World War I.⁹ This notion would gain a somewhat different

⁸O. Morgenstern, *op. cit.*

⁹O. Morgenstern, *op. cit.*

meaning if the United States depression was itself in a certain sense "imported."

Influence of Changes in the British Trade Balance on British Business Cycles, 1883 to 1913. The irregular behavior of the British trade balance in some stages of British business cycles implies that any effects of balance changes on business were in these stages sometimes pro- and sometimes counter-cyclical. However, the high positive conformity of the balance to British cycles shows that the former effects must have predominated.

Particularly in the last stage of business upswings, the balance contributed to monetary expansion, and at the beginning of recessions, to contraction. Thus, in contrast to the United States, the monetary effects of trade balance movements could not contribute to business downturns in Britain. Rather, business upturns may have been made easier by the rising balance which regularly preceded them by one year.

The predominantly cycle-reinforcing character of trade balance effects on British cycles implies a stabilizing effect on the rest of the world when world cycles moved with British cycles.¹⁰ At the end of British expansions, the British balance rise caused pressure on other countries' reserves; after the British turn, it brought relief. This is the opposite, of course, of the impact of the American balance on other countries and also of the British balance in later years.

On the probable extent of the above-mentioned effects we can offer only a few remarks. The amplitude of British balance movements was relatively small. The cyclical change was on the average only 1.6 to 2.0 per cent of the value of foreign trade. However, relative to the scanty reserves of the Bank of England, the balance movements were not negligible. From 1883 to 1894 the reserves of the Bank of England amounted on the average to £24 million; from then to World War I, to about £36 million.¹¹ The average quarterly variation of the reserve, including seasonal movements, was about £2.2 million; this is less than half the corresponding change in the trade balance, which was £4.8 million. Thus the possibility of an effect is not ruled out by the relative magnitudes.¹²

¹⁰This is not in contradiction to a net destabilizing effect on the world inclusive of Britain which may result when the effect on Britain is larger than that outside of Britain. The relatively highly developed British credit structure may lead to such a destabilizing world effect (see G. Haberler, *Prosperity and Depression*, Geneva, 1940, p. 422).

¹¹Data from W. E. Beach, *British International Gold Movements and Banking Policy, 1881-1913*, pp. 72-73.

¹²The effect of the trade balance on reserves may have been reinforced by that of the service balance, which seems also to have moved with British cycles (see Knapp, *op. cit.*, p. 2, note 2). Capital movements, however, may have been in the opposite direction (see Lichtenberg, *op. cit.*). Nevertheless, it may be noted that according

How sensitive British bank policy in that period was to variations in reserves is a controversial question. R. S. Sayers has shown that the Bank frequently resorted to measures designed to protect the British economy from the influence of changes in the reserve, and that the effect of these measures is reflected in the movements of the discount rate, which rose typically in business expansions despite increasing reserves and which fell correspondingly in contractions. The most important measure used by the Bank for this purpose was variation of the purchase price of gold.¹³ We may add that the cycle-reinforcing character of the trade balance movements may explain some of the Bank's reluctance to transmit their effects to the economy.

But granting considerable weight to domestic factors does not require negating all influence of foreign factors. Even if a more favorable balance was associated with a rising bank rate, this rise may well have been smaller than it would have been with a falling balance. In its attempts at counter-cyclical policy the Bank may have been hampered considerably by the movements of the balance.

Influence of Changes in the British Trade Balance on British Business Cycles after World War I. In the interwar period the effects of the trade balance on monetary reserves was counter-cyclical in Britain. A falling balance preceded the cycle peaks in 1924, 1929, and 1937. The decline was mild and relatively brief (one year) before 1929, large and protracted (two or three years) before 1924 and 1937. Two of the three cycle troughs were preceded by a sizable improvement in the trade balance. There was a large rise for a year before the 1932 business upturn, and at the 1928 trough the balance reached its highest point in four years. It is possible that these movements damped British business cycles.

In the decade after World War II, the movements of the British balance again were counter-cyclical and in this period there is no doubt about their influence on British economic policy. When the balance and monetary reserves decline, the government restricts credit and takes fiscal measures to reduce investment and consumption. "In fact, a recurrent conflict between the needs of internal capital development and external trade balance has figured prominently in British experience during the ten-year period since the war. . . . At a given level of productivity, a fully

to Beach the direction of gold flows does not indicate that effects of trade balance changes on bank reserves were offset by capital flows. He finds that gold imports conformed positively to British cycles. "In general gold imports became important during the later stages of the periods of business expansions, and at the same time the volume of currency in the hands of the public was increasing. In contractions the flows were reversed." (W. E. Beach, *op. cit.*, p. 77.)

¹³"The Bank in the Gold Market, 1890-1914," in *Papers in English Monetary History*, ed. by Ashton and Sayers, Oxford, 1953.

employed economy has no possible way of closing a deficit in its foreign balance unless it can cut down its absorption of resources for domestic purposes — that is, for consumption, investment, and government uses.”¹⁴

The influence of the trade balance on a country's economy was the starting point of economic theory and has remained a subject of great concern. This paper has tried to make a modest contribution to the problem by clarifying the historical fluctuations of the United States and British balances. We hope to learn more about the connections between business cycles and foreign trade through the analysis of the components of the balance: export and import quantities and prices.

¹⁴Ragnar Nurkse, “The Relation between Home Investment and the External Balance in the Light of British Experience, 1945-1955,” *The Review of Economics and Statistics*, May 1956, p. 121, p. 137.