One study showed that a given sum of money invested on December 13, 1948, would have the following real value in 1958 in 1948 dollars: Cash, a loss of 16.7 percent; U.S. Treasury 2½s of 1967–72, a loss of 29 percent; preferred stocks, a loss of 25 percent; common stocks, railroads, a gain of 106 percent; industrials, a gain of 225 percent; public utilities, 125 percent; fire insurance, 19 percent; and New York City banks, 81 percent. The selling price for a typical one-family residence, a gain of 0.8 percent; farm real estate, a rise of 28 percent.

SOME INTERNATIONAL ASPECTS

The dramatic change in the balance of payments to the United States has occurred since 1957 and has again raised the question of the relationship between inflation and the balance of payments. It is generally known that a rise of prices tends to bring about an increase of imports and a reduction of exports and, therefore, an unfavorable balance of payments. In 1958 we lost about $3 billion in gold and dollar claims to foreigners and in 1959 the losses might very well rise to $4 billion additional. There is great concern about this dramatic reversal in the balance of payments.

What is the explanation? Unudoubtedly, we have had a little inflation in the last 3 years but the amount of inflation as compared to other countries has not been large. In fact, since the beginning of the postwar period our record has been unusually good as compared with that of other countries. Indeed, to some extent, other countries correct for their rise of prices by devaluation, though generally the devaluation follows the price rise and if devaluation proceeds under full employment conditions, prices rise rapidly to a point suggested by the new external value of the currency.

I would emphasize especially the improved competitive position of foreign countries that might be expected after a devastating war as the major explanation of our adverse balance of payments—not inflation here. I would also stress especially the large foreign payments for military establishments abroad, foreign aid of other kinds, private capital movements and the like. With an excess of exports of $3 billion and payments of this nature of about $9 billion obviously international difficulties may arise.

What is the solution to this problem? Clearly, a great deal of inflation would damage our balance of payments position. I am not inclined to believe that a 1 or 2 percent inflation would be a very serious matter in view of the inflationary trends in the rest of the world, especially with their large investment and development programs. One solution is, of course, for foreign countries to reduce their barriers to American goods. Another is for military aid abroad that is not necessary to be cut, and also to stop encouraging excessive exportations of private capital. Insofar as our competitive position has deteriorated too much, as it has in some industries, the solution would lie partly in reduced barriers abroad to our goods and partly in improved methods of production here.

CHAPTER 2. THE PROBLEM

My task is largely to discuss the effects of inflation on the economy, on the shares going to different groups of the population, on