

CHAPTER 12. SOME INTERNATIONAL ASPECTS

It is well known that in 1958-59 the United States experienced a drastic reversal in its trade or its balance of payments position. From 1950 to 1957 foreigners acquired short-term claims of \$10.3 billion on the United States, but they only converted \$2.6 billion into gold. But in 1958 total accumulation of foreigners was \$2.3 billion of our gold and \$1.3 billion additional of short-term dollar assets. In other words, whereas in the preceding 7 years they had taken only about one-quarter of their dollar assets in gold; in 1958 they took more than two-thirds. This suggests that the large outflow of gold and the accumulation of dollars by foreigners by 1958 reflects some doubts on the dollar.

Actually, foreign countries have been building up their gold and dollar balances since 1950. From 1950 to 1958 U.S. gold sales amounted to \$3,712 million and foreign banks and official institutions increased their dollar holdings by \$7.5 billion or total losses of \$11 billion, an average of \$1.2 billion per year. Only in 1957 was this movement reversed, and this resulted in part from the Suez crisis.¹⁷

It is a matter of common knowledge that rising prices in one country not offset by rising prices elsewhere would tend to result in reduced exports and in increased imports for the country that experiences the larger rise of prices. It is not, therefore, surprising that Chairman Martin of the Federal Reserve Board and others have brought home the point that if our balance of payments is not to deteriorate further it is important to stop the inflation. In other words, inflation in this country is held responsible for the adverse balance of payments of the United States.

In an analysis of the situation by GATT,¹⁸ the conclusion was drawn that rising manufactured prices in the United States had helped contribute toward the decline in the exports of the United States. The point was also made that the leveling off of activity in other industrial countries resulted in a large fall of exports of crude materials, fuels, and metals from the United States. And when the recession came, there was not the expected drop in prices that generally accompanies a recession. In other words, an inflation may be more costly in international position these days because prices seem to respond less than they have in the past in recession periods. Hence, as exports fall and imports rise and gold leaves the country, the usual price correctives may not operate. Particularly where prices are largely administered, the effect is likely to be a greater stability of prices and, therefore, a failure to get the downward adjustments of prices that are expected from a loss of gold and dollars to foreign interests.

The GATT report concludes as follows:

* * * In view of such factors as the influence of commodity composition on the unit-value index, the long-term structural changes, and the fact that some markets were hit more severely by the recession than others, the evidence seems to be insufficient to claim that the price development in the United States is the single most important cause of the relative and absolute decline in the country's exports of manufactured goods. Nevertheless, the United States has lost much of the superiority it had in productivity during the years immediately following

¹⁷ Joint Economics Committee, hearings on "Employment, Growth, and Price Levels, Pt. 5: International Influences on the American Economy," 1959, p. 967.

¹⁸ "International Trade, 1957-58," July 1959, pp. 107-108.