

Here is the trend of trade from 1955 to 1958:

TABLE 12-2.—*North America's trade in manufactures and total, 1955-58*

[In billions]

	Total manufactures		Grand total	
	Exports	Imports	Exports	Imports
1955.....	\$8.86	\$5.77	\$17.55	\$15.64
1956.....	10.14	6.88	21.01	17.75
1957.....	11.20	7.07	23.36	18.18
1958.....	10.40	7.14	20.33	17.49

Source: "International Trade, 1957-58," pp. 100-101.

Striking is the very large decline of about \$3 billion in exports in 1958 and reduction of imports of only \$0.7 billion.

The situation has continued to deteriorate in the first half of 1959. In the year 1958, the increase in foreign gold and liquid dollar assets at the expense of the United States was roughly \$3.4 billion, and this figure reflects the adverse balance of payments of the United States. In the first quarter of 1959 the loss was almost \$900 million and in the second quarter almost \$1 billion.²⁵

These large losses of gold and dollars are indeed serious, and if they are not stopped or greatly reduced strong measures would have to be taken. Though the total gold reserves of the United States are large, the excess, once one allows for the dollar reserves of foreign banks and the like, is not large. At the end of 1958, against \$20.5 billion of gold, foreigners held claims in dollars of \$12 billion, and by August 1959 we had lost an additional billion of gold.²⁶ Obviously, under these conditions there would be some pressure to restrain price rises. Unfortunately, any serious restrictive monetary policy would also have a serious effect on the economy and may not bring about the increase of exports and the reduction of imports that the policy is supposed to induce. Part of the explanation of this fact is, of course, the relative rigidity of prices and costs.

The Government might use three different approaches to the problem of trying to solve the balance of payments. Assume we are losing \$3 billion of gold and dollars a year. If we pay out \$9 billion a year for military outlays and civilian expenditures abroad, for Government loans and grants and private capital expenditures, an obvious way out is to reduce these claims in dollars. Another approach is, of course, to cut down on our imports; and finally, a third approach is to increase our exports. The last way requires anti-inflationary policies and may also involve increases in efficiency and the discovery of new products, and, through all these measures, the greater penetration of foreign markets.

In conclusion, I am not inclined to argue that the small inflation we have had in the last few years has been a decisive factor in our deterioration. Rather it has been the reestablishment of the competitive positions of the rest of the world, that we must take into account.

²⁵ See Survey of Current Business, September 1959, p. 90.

²⁶ Federal Reserve Bulletin, September 1959 and IMF, International Financial Statistics, April 1959.