GOLD AND THE U.S. BALANCE OF PAYMENTS DEFICIT

Introduction and Summary

Rather suddenly, in 1958, the American public became conscious of the "deficit" in the Nation's balance of international payments. They seemed little aware that there had been an adverse balance in the international accounts every year, except one, since 1950. They probably still would not be greatly concerned over the recurring deficits of $3.4 billion, $3.7 billion, and $3.5 billion in 1958, 1959, and 1960, respectively, if it were not for substantial exports of gold. They certainly would not be concerned to the extent that they are.

Net outward shipments of gold totaled $2.3 billion in 1958. In 1959 they dropped to $700 million, but during the first 11 months of 1960 they amounted to the annual equivalent of $1.7 billion. The situation has been aggravated by widespread speculation in gold starting during the second half of 1960, in all probability a result of hoarding in anticipation that the dollar will be officially devalued.

To conserve dollars, the Secretary of the Treasury in 1959 announced that, henceforth, the proceeds of all dollar loans disbursed by the Development Loan Fund for economic development must be spent in the United States and the Secretary of State subsequently announced that some of the development loans of the International Cooperation Administration are to be transferred to the Development Loan Fund so as to make them expendable only in dollars. For the same reason the Secretary of the Treasury and the Under Secretary of State sought unsuccessfully to persuade the Government of West Germany to assume some of the cost of maintaining the U.S. Military Establishment abroad. At the same time the President announced that the families of some American troops stationed abroad would be brought back to the United States.

To stem speculation in gold the President issued an order early in 1961 forbidding Americans to hold gold abroad as they have been forbidden to do within the United States since 1934.

Because of the economic recovery of Western Europe and Japan, and because certain countries, particularly in Europe, are now in a strong enough position to replenish their gold reserves the United States has been losing some of its monetary gold. In consequence, there has been talk of raising the dollar price of gold, of curtailing foreign aid programs, and of cutting back the U.S. Military Establishment abroad to "preserve the integrity of the dollar."

Also, there continues to be some anxiety over the extent to which the United States is being "priced out of world markets," as evidenced by the failure of merchandise exports in 1959 to increase as rapidly as merchandise imports. Some of this fear has been allayed, however, by the large increase in exports in 1960 which widened the export surplus from $1.1 billion to $4.5 billion.

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