

The problem of the deficit is blurred by confusion as to the meaning and significance of the "balance of international payments." Before one can understand the present situation it is necessary to distinguish between three quite different concepts: (1) the balance of international payments, (2) the balance of trade, and (3) a theoretical balance sheet of the U.S. economy.

The balance of international payments is a statement of the number of dollars entering and leaving the country for any reason whatsoever over a stated period of time. International payments and receipts arise from merchandise imports and exports, from payments made and received for services of many kinds (such as shipping and insurance), from international movements of capital, from payments of interest and dividends on investments, from tourist travel, and from one-sided (unilateral) transfers in the form of support of the Military Establishment abroad, foreign aid and private gifts. The figures shown in the balance of international payments are not the summation of transactions that have been recorded on some sort of giant cash register. Rather, they are estimates compiled by the U.S. Department of Commerce on the basis of questionnaires and other information.

The balance of trade is that part of the balance of international payments which compares merchandise exports and merchandise imports. It is frequently confused with the balance of international payments itself.

A balance sheet of the U.S. economy would list changes in the assets and liabilities of the country in terms of real wealth as distinguished from monetary payments.

The fact that its international payments and receipts are in balance signifies neither that a country is strong or weak, economically. The international accounts of poor and rich countries alike are in balance when payments for imports, together with all other money outflows, are roughly in balance with total money inflows. Attainment of international balance does not signify that a poor country has become rich, nor does an adverse balance indicate that a rich country has become poor. A country can be in financial balance with other countries whether it is rich or whether it is poor; it is primarily a matter of adjustment of international money flows to levels of economic activity.

The adverse balances in the international payments of the Western European countries in 1947-48, when the Marshall plan was inaugurated, were accompanied by economic weakness. Europe had been devastated by war and was not able to generate sufficient exports to pay for the imports that were so urgently needed for its economic recovery.

The present balance of international payments position of the United States is quite different. The United States is economically strong. However, for some time it has had an adverse balance in its payments resulting from the steady unilateral transfer of between \$4 billion and \$5 billion for the support of its military establishment abroad and for economic aid to underdeveloped countries together with new foreign investment in industrialized countries. In recent months there has been a drain on gold for speculative purposes. Meanwhile, the economies of Western Europe and Japan have become important competitors in world markets. The excess of U.S. dollar payments over dollar receipts, far from evidencing economic weakness