in the United States, evidences the growing economic strength of the free world.

The balance-of-payments problem facing the United States may be stated as follows: How serious is the current adverse balance in international payments to economic foreign policy? To what extent does it call for policy changes with respect to foreign aid, the size of the U.S. Military Establishment abroad, foreign trade and gold? What steps, if any, should be taken to narrow the excess of payments over receipts?

Gold movements and dollar balances

Although it has lost $4.7 billion of monetary gold in the past 3 years the United States still has ample gold reserves even above the 25-percent legal minimum reserve against outstanding Federal Reserve notes and deposits. The United States still has 46 percent of the free world's monetary gold and foreign withdrawals of gold were considerably smaller in 1959 than in 1958. Had it not been for speculation in gold during the latter half of 1960 and the differential between interest rates in the United States and in Europe the chances are that withdrawal of gold in 1960 would have been far less than it was. It is also probable that the country's international accounts would have been close to balance. It is significant that the governments of Western Europe have been slowing down their acquisition of gold as they have succeeded in replenishing their reserves. It is even more significant that even while withdrawing gold in 1960 foreigners have added substantially to their dollar holdings, thereby demonstrating continued confidence in the dollar. Even in 1960 when outward shipments of gold totaled $1.7 billion additions to foreign dollar balances totaled $1.8 billion.

As long as the leading countries of the world operated under the international free gold standard they were not conscious of any balance-of-payments problem because payments and receipts could not get far out of line with each other. Today, however, the correctives of the free gold standard are no longer operative and governments intervene whenever international payments greatly exceed receipts.

Although the United States has had an adverse balance in its international payments since 1950, it did not become large enough to occasion concern until 1958 when it suddenly increased from around $1 billion to $3.4 billion.

It would be misleading to compare changes in the balance of payments between 1958, 1959, or 1960, on the one hand, and 1956 or 1957 on the other because of the abnormal trade situation starting in the autumn of 1956 and extending through most of 1957. The Suez crisis occasioned such an abnormal increase in U.S. merchandise exports that in 1957 the excess of exports over imports reached a high point of $6.5 billion compared with the more normal excess in the years immediately preceding the crisis of about $3 billion. In 1958 the favorable trade balance receded to $3.6 billion. It narrowed to $1.1 billion in 1959 but recovered to $4.5 billion in 1960.

The most appropriate years for comparison are 1954 or 1955 and 1958, 1959, and 1960. The increase in the adverse balance of payments between 1954 and 1958 can be accounted for largely by increased capital outflow, while over 70 percent of the increase in the adverse