(excess of exports over imports) actually increased by $900 million. Meanwhile, the cost of the U.S. Military Establishment abroad increased $800 million.

In 1959 the situation changed markedly. Comparing it with 1954, the net outward flow of capital increased by only $600 million but the favorable merchandise trade balance was narrowed by $1.6 billion. Thus, whereas the proximate cause of the increase in the balance-of-payments deficit in 1958, compared with 1954, appears to have been the increase in the outflow of capital, over 70 percent of the increase in the deficit in 1959 (over 1954) seems to have been occasioned by a narrowing of the favorable merchandise trade balance.

In 1960, because of favorable changes in merchandise trade, what should have been an improvement in the net balance of something like $1.6 billion was an actual improvement of only $200 million. There is a strong presumption that other forces were at work in 1960.

Merchandise Exports and Imports

It has frequently been asserted that contraction of its merchandise export surplus in 1959 indicated that the United States was being "priced out of world markets" either because of rising labor costs or because of the increased competitiveness of European and Japanese industry. Tending to support this assertion were figures showing that the $6.5 billion excess of exports over imports in 1957 had shrunk to $1.1 billion in 1959.

Which years to compare?

There is always danger in concentrating on changes between any two consecutive years. This is outstandingly so with respect to exports and imports between 1957 and any other year. When statistics over a period of years are considered, it is evident that 1957 was "abnormal." The crisis over the Suez Canal which developed in the autumn of 1956 caused a temporary spurt in exports, particularly to Western Europe and the Far East. The excess of exports over imports in 1957 was more than double the excess in any year between 1950 and 1955.

It is misleading to draw conclusions from a comparison of foreign trade in 1957, the year in which the export surplus was at its highest point at any time during the past decade, with trade in 1959 when the surplus was at its lowest point. The fact is that over the past 10 years the excess of merchandise exports over imports has averaged almost $3 billion annually. Historically, the United States has experienced an export surplus since 1889. In the early postwar years the large export surpluses were financed by the foreign aid program and supplied needed food and other material to Europe.

Table 3 shows the trend in exports, imports, and gross national product for the decade 1950–60, together with data for the first 10 months of 1960 converted to an annual basis. Only in 1959 did the increase in exports fail to exceed the increase in either imports or gross national product over 1950. In 1960 exports were 93 percent higher than their 1950 level, while imports were 66 percent higher and the gross national product 77 percent higher. There were two bulges in exports—the first in 1951 during the Korean war and the second in 1956–57 following the Suez crisis.