There is danger that solutions might be applied that go unnecessarily beyond the area of money and finance into the area of foreign policy. In particular, there is danger that the larger objectives of foreign policy will be sacrificed because of preoccupation with the relatively superficial problem of maintaining balance between international monetary payments and receipts.

The balance of payments problem consists of two parts: The first an explanation of what is happening with respect to the flow of dollars into and out of the country, and the second an explanation of why receipts have failed to increase so as to balance the increased dollar outflow. Credit money (as opposed to the precious metals) is of ultimate value only in the country that issues it and there is a tendency for money to return to its home base. Thus, U.S. dollars tend to return to the United States, British pounds sterling tend to return to Great Britain, and so on.

An analysis of international dollar payments and receipts, in and of itself, does not constitute an explanation of why receipts are lagging behind payments. Under the old free gold standard, the unimpeded international movement of gold would have brought about adjustment of prices between countries, thereby effecting balance in international payments fairly quickly. In the absence of an automatic adjustment mechanism there is fear in almost every country that the adjustment of its economy to the economies of other countries will have deflationary effects which all are loathe to face.

After World War II European countries were unable to generate sufficient exports to balance the aid payments that the United States was making to them under the Marshall plan. Indeed, it was because Europe lacked this capacity that the Marshall plan was necessary in the first place. The monetary reserve positions of the European countries were weak and it was necessary for them to acquire gold or build up their dollar balances in the United States. The fact that the United States maintained parity between the dollar and gold made it a matter of indifference to them whether they accumulated gold or dollars. The dollar had become the world's major international reserve currency.

All through the period of the "dollar shortage" the United States was incurring a deficit in its balance of payments of about $1.5 billion a year, the amount by which other countries were increasing their dollar reserves. Unilateral dollar payments by the United States for maintenance of its Military Establishment abroad and for nonmilitary grant aid, remained fairly constant between 1949 and 1960 at $4 to $5 billion a year.

By 1958 Western Europe and Japan had become competitive in world markets and able to generate exports in volume. According to the theory of adjustment, the steady unilateral outflow of funds from the United States should have stimulated a return of dollars in the form of demand for U.S. exports. Merchandise exports, in fact, did increase, relative to merchandise imports between 1950 and 1958, increasing 64 percent, compared with an increase of 44 percent in merchandise imports. Because of the sharp increase in imports in 1959, however, the increases in exports and imports in the 1950–59 period were 63 and 71 percent, respectively.

If services and merchandise trade are considered together, dollar receipts in the period 1950–58, including interest and other earnings