

on foreign investment, increased 70 percent, compared with an increase on the payments side of 54 percent. Thus, until 1958 there was a tendency for dollar receipts on current account to increase more rapidly than dollar payments.

However, the increase was not substantial enough to offset the unilateral transfers of approximately \$5 billion a year, together with the large increase in U.S. foreign investment after 1955. The excess of dollar payments over dollar receipts loomed large in 1958 and 1959 because other countries did not spend enough dollars for U.S. merchandise and services. Instead, they chose to add to their monetary reserves in the form of dollar balances and, in 1958 as in 1953, to replenish their gold holdings. Commodity prices, interest rates, and national monetary policies all played a role. In 1959 they chose to curtail purchases of gold and again to add to their dollar balances.

In 1960 the balance of payments of the United States improved greatly. The merchandise export surplus increased to \$4.5 billion from its \$1.1 billion level in 1959, a net improvement of \$3.4 billion. There was only a small decline (\$300 million) in net income on account of services, while U.S. military expenditures abroad and nonmilitary foreign aid remained unchanged. On the other hand, the net outflow of capital, a substantial proportion of which was short-term, increased by \$1.5 billion. On balance, therefore, there appears to have been an improvement with respect to these principal items of slightly over \$1.5 billion and one would expect the deficit of \$3.7 billion of 1959 to have been reduced by something between \$1 and \$2 billion in 1960. Instead, the deficit decreased merely to \$3.5 billion, of which \$1.8 billion was in increased foreign-held dollar balances and \$1.7 billion in gold outflow.

Had it not been for speculation in gold during the latter half of 1960, the international payments of the United States probably would have been close to balance. At least, the deficit would have been reduced to approximately its pre-1958 level. The balance of payments deficit, which in 1958 coincided with intensified foreign investment and in 1959 with a failure of merchandise exports to keep pace with increased merchandise imports, has become largely a problem of speculation in gold. Gold movements in 1960 appear to have been an active, rather than merely a passive, factor in international payments.

Proposed solutions to the balance of payments problem range all the way from those that would be inconsistent with major foreign policy objectives, such as drastic cutbacks in the U.S. Military Establishment abroad and in foreign aid, to those that would assist the forces of adjustment within the framework of existing foreign policy, such as the encouragement of better exporting methods and by taking action to curtail speculation in gold.

AREAS IN WHICH ACTION HAS BEEN PROPOSED

Suggestions with respect to gold and the international payments system

(1) *Devaluation of the dollar in terms of gold.*—Many foreign countries maintain their reserves in both gold and dollars with the result that the United States has become a major banker for the free world. International confidence in the dollar, therefore, is vital. Unless at least 13.71 grains of fine gold can continue to be obtained from the