U.S. exports have been terminated in accordance with the principles of the International Monetary Fund and the General Agreement on Tariffs and Trade, the next step is to seek the reduction of other trade barriers on a mutual basis.

Curb inflation and deflation

The importance of curbing inflation and deflation can hardly be overemphasized in any analysis of the balance of payments problem. U.S. dollars that reach the hands of foreigners through the sale of merchandise, through investment, foreign aid, or in any other way are of value, ultimately, only in the United States. The problem of the balance of payments is: Why outstanding dollars have been sluggish in returning to the United States, relative to the rate at which dollars are being paid out?

Fundamental to all economic analysis is the operation of compensatory, or corrective forces. In the absence of rigidities of one kind or another, dollars now extant will either return to the United States to purchase merchandise or services, or be accumulated in the form of dollar reserves. Clearly, there is a limit to the dollar reserves that are needed by other countries. If the forces of inflation should gather momentum the United States would become a poor place in which to buy because of high prices, and dollars would be converted into gold, even if gold reserves are accumulated to a greater degree than necessary.

Already there are signs that the forces of international economic adjustment are at work. Adjustment could be upset, however, if inflation in the United States should get out of hand or if there should be pronounced deflation with a consequent withdrawal of foreign funds.

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