

I. Introduction

The magnitude and persistence of past U.S. balance-of-payments deficits, accompanied by large gold losses, have been of increasing concern both to the public and private sectors of our country. This situation, if allowed to continue indefinitely, would endanger our international financial position. During the past 9 months there has been an improvement in our balance of payments. Since some of this improvement may be only temporary, the importance of dealing with the basic factors involved in the problem is in no way diminished.

Significantly, our balance-of-payments deficit does not arise because of any general inability to compete in international markets. Indeed, we have had a large export surplus of commercial goods and services. However, this surplus, which includes the current return from U.S. foreign investments, has not been large enough to offset our Government expenditures abroad for defense and for economic aid, together with our outflow of new private capital.

That our exports of capital—especially in the form of long-term investment—have been on a large scale is natural. The U.S. economy generates a large volume of savings. No other country has a comparable capacity to supply capital both at home and abroad. As a result, the United States has supplied much of the free world demand for capital throughout the postwar period. Returns from these investments, already a major favorable element in our balance of payments, will be even more important in the future.

Nevertheless, concentrated outflows of private capital can create severe difficulties, even for a country with the financial strength of the United States. Difficulties arise particularly when such capital movements occur at a time when the dollar is already under pressure for other reasons. The United States experienced such a combination of conditions in 1962 and early 1963. This created a situation which—had it been permitted to continue unchecked—could have imperiled the stability of the dollar and, hence, of the international monetary system.

These conditions led to a series of actions by the U.S. Government in July 1963. This program included measures to: (1) raise short-term interest rates, (2) reduce further Government expenditures overseas, (3) expand commercial exports, (4) increase foreign tourism in the United States, and (5) finance the balance-of-pay-