

FOREIGN TRADE POLICY IN THE FRAMEWORK OF THE BALANCE OF INTERNATIONAL PAYMENTS

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Expert opinion in the area of international finance ranges from those who believe there will be an international calamity if the United States fails to bring its international accounts promptly into balance, all the way to those who think that continuing deficits are a normal characteristic of the international accounts of a country that has been selected by other countries to serve as their central banker, and who have been using its currency for a long time for both monetary reserves and to carry on trade.

Notwithstanding this wide range of opinion, there is general agreement that it would be desirable for the United States to bring its accounts into closer balance. It is agreed, furthermore, that by "balance" is meant, not the achieving of temporary equality between the inflow and outflow of funds through such restrictive means as curtailing merchandise imports and capital exports, but the attaining of self-sustaining equilibrium. There is general consensus that equilibrium will be the more likely to prevail as countries become willing to allow their economies to adjust to each other.

The effectiveness of capital movements, as an equilibrating force, in response to changes in rates of interest, is generally recognized. What is not always recognized is the importance of the free movement of goods and services as an instrument for maintaining equilibrium. Although the movement of goods and services is not as sensitive a force as international short-term capital movements, the magnitude of international trade is much greater than the magnitude of capital movements and, if not interfered with by governments, can be a potent force for adjustment.

Merchandise trade is the largest single item in the international accounts. Although the borrowing and lending of funds and payments for such services as shipping and insurance are also important, their magnitude is dwarfed by merchandise exports and imports. With respect to the United States, merchandise exports account for close to three-fourths of all receipts from abroad, while merchandise imports account for more than half of its payments abroad—receipts and payments being on both government and private account.

The United States has had deficits in its international accounts every year, with only one exception, since 1950. Unlike Western Europe after World War II and unlike the situation prevailing in the less-developed countries today, the United States has ample productive capacity to make up the difference between its expenditures abroad and its receipts from foreigners. It is obvious from the magnitudes

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