process of monetization of the Federal debt, the ratio of money supply to goods and services to be exchanged has more than doubled. There are far-reaching consequences from such extensive monetary inflation.

One is the increase in prices. In the postwar years, two dollars (one good dollar and one "printing press" dollar) have been coming to the marketplace to bid for a dollar's worth of goods. Since the market couldn't tell one from the other, prices have been bid up to twice prewar level. In fact, the price index indicates that the dollar is only worth 43 cents in terms of 1939 purchasing power. Not only have prices of products been bid up, but also wages. The price of labor has gone up along with, in fact a little more than, the price of goods.

This monetary inflation has had important consequences for our balance of payments. The basic difficulty becomes evident when we examine the exchange equation:

$$\begin{array}{c} \text{GOLD} \\ \upharpoonleft\!\downharpoonright \\ \text{GOODS \& SERVICES} \leftrightarrows \text{DOLLARS} \leftrightarrows \text{GOODS \& SERVICES} \end{array}$$

Normally, when foreigners sell us goods or services or by whatever means get dollars, they would spend these dollars for our goods and services. If this balanced out, there would be no distortion. As a result, however, of our monetization of Federal debt, the prices of our goods and services have more than doubled. There is one economic good however—gold—that still has the same price as was fixed in 1934; namely, $35 an ounce. Thus, gold is the cheapest commodity that we offer to the world. It is not surprising that foreigners prefer to trade our dollars for gold or to hold these dollars against the day when they might wish to trade them for gold. So long as confidence remains, the advantage of holding dollars in the form of Treasury notes or bills is that they pay interest. When dollars are cashed in for gold, not only is there no interest payment, but there is in fact a storage charge.

The monetary inflation and its consequent higher labor costs and prices is the basic reason why our products are not more competitive in world markets. To be sure, the foreign aid dollar outflow has aggravated the problem, but fundamentally our unit costs have advanced higher than that of our aggressive competitors in the Common Market and Japan. We cannot hope to get back to a permanent balance in our foreign accounts until we recover our competitive position. The straightforward and simple way to do this would be to establish a free exchange rate or at least widen the limits for fluctuation so that supply and demand forces can make some real adjustment. In this way, the relative value of the currencies of different countries would again truly reflect the average wage level divided by productivity, and hence, the average price level in each country.

FUTURE TRADE POLICY

First, in looking at the question of future trade policy, we need to recognize that trade is not an isolated event but only part of our total foreign economic relations. We need to develop a policy that covers and coordinates all of the economic relations between other