Recent and Impending Developments
in the World Economic Situation and U.S. Foreign Trade

Remarks by Bradley Fisk
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before the Agricultural Outlook Conference, November 16, 1959

I have been asked to discuss before this Annual National Agricultural Outlook Conference, as a keynote for this opening session, major and current developments in the world economy as they bear on business conditions abroad and on our domestic outlook for the next year or more.

You are hearing a separate discussion of the outlook for the U. S. domestic economy at large. That must include, along with consideration of the major domestic economic determinants, an estimate of the nature and degree of influence on domestic economic trends which may be anticipated from our transactions with the outside world.

Without knowing in advance of today's meeting just what that discussion contains along these lines, let me make a brief preliminary comment on the influence which our foreign trade transactions seem likely to have in, say, the next 6-12 months on general economic trends within the U. S. domestic economy.

I anticipate for 1960, as compared with 1959, a stimulus to U. S. production and income from rising foreign demands for U. S. goods which will outweigh any dampening effects from the directing of more expenditure to imported merchandise.

Some further rise in imports next year may be anticipated after the large annual gain clearly indicated this year, but there are reasons for thinking it will be much smaller. On the other hand, for reasons which will become apparent in my discussion of developments in world production and trade, I look forward to a considerable rise in our total exports next year.

It is beyond my competence and proper scope of analysis for this occasion, of course, to go further and attempt to gauge the near-term outlook of our agricultural exports, even as a total. My own discussion will be confined to a look at the world economy, with particular reference to key foreign areas, and a consideration of the main developments--primarily abroad although those at home here in the U. S. are of course very important--which are influencing international demand as a whole and the total demand abroad for U. S. products.

Foreign demand upturn boosting U. S. exports

My optimism regarding our near-term export prospects is based on the renewed strength evident both in our own export trade this summer and in total world trade.

The upturn in foreign demand for U. S. goods in recent months reflects a rather general strengthening of international demand during 1959. This in turn largely reflects new production gains in all the industrial regions of the world.

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To some extent, moreover, those gains themselves derive from buoyancy of demand for imports in certain areas, with the United States and its rapidly growing purchases of foreign manufactured goods the notable case in point. Accompanying these developments, a new uptrend in total demand abroad for imports of all kinds seems to have been setting in lately. Our goods are apparently sharing in this new expansion of import demand abroad, and I think they will continue to do so.

In considering the outlook for, say, the next year, for demand abroad for all imports and for U. S. goods, perspective is useful both as to just where we were at the takeoff point for the new trade uptrends which seem to have begun this year and as to the course of change in total world trade and in U. S. foreign trade over the last few years. Next year's fortunes for our export trade will reflect both what they have been very recently and how rapidly they can be expected to change.

Export peak in early 1957 followed by slump

As you all know, our total exports have been at rather considerably reduced levels in 1958 and 1959, after several years of rapid expansion which culminated in the abnormal peak to which our exports rose in early 1957.

From $12.3 billion in 1953, in the wake of the Korean War boom in world trade, our nonmilitary exports had risen to $19.5 billion in the entire year 1957. In the latter part of that year, however, they fell off rapidly, and last year they totaled no more than $16.3 billion. A further decline set in about a year ago, and exports fell off to an annual rate of less than $15½ billion in the first quarter of this year.

When allownace is made for the influence of certain special and temporary factors which boosted our export total in 1957 but allowed it shortly to fall off again, our export experience in 1958 and 1959 does not look too unfavorable on the basis of our experience in the previous several years.

To some extent the extraordinary peak to which our exports rose in 1957 and the subsequent relapse resulted from abnormal demand factors abroad which had their impact peculiarly on U. S. products.

A rush to buy U. S. cotton got under way in the fall of 1956 and reached its peak in the first half of 1957, as a result of long-anticipated developments in the pricing of our cotton for export. At the same time a surge of importing developed in Japan, with the accelerating industrial growth there. Much of the increment in Japanese imports went into stockpiles. Superimposed on these developments came the effects of the Suez crisis with the resultant soaring exports of U. S. petroleum and products.

With the passing after mid-1957 of these necessarily temporary gains in our exports, under normal conditions their total was sure to fall off considerably.

However, there were other influences on demand abroad for our goods. The foremost of these was the passing of the crest in the world economic boom of the period 1953-57, marked by downturns in production in a number of countries and declining prices of numerous primary commodities.

Another explanation has been widely advanced, to the effect that U. S. prices allegedly had risen to such an extent that our goods were being "priced out of foreign markets." I will have more to say about this supposition later, after discussing the recent courses of total international trade and of foreign demand and the associated fluctuations in our exports.

Export uptrend of 1953-57 reflected booming world economy

I have already mentioned the world economic boom of 1953-57. This period was marked not only by rapid increase in total U. S. sales abroad, but also by a strong and persistent uptrend in international demand as a whole. In four years, world trade rose by nearly one-third in volume, so that by 1957 world exports attained a record peak of $100 billion.

The mainspring of this rapid growth of international demand from 1953 to 1957 was the vigorous growth of production and income, principally in the industrial regions of the world.

Expansion was most rapid in the economies of West Germany and Japan, as those countries made their greatest strides of the entire postwar era in economic reconstruction. Economic gains were also especially strong in France and Italy.

Growth preceeded at a more or less normal rate in the United States and was comparatively rapid in Canada. There was also some expansion in the United Kingdom, but at a relatively slow rate, as was true also of several of the smaller Western European countries.

Increasing success in selling goods in international markets played a vital role in stimulating internal economic expansion. This was particularly true of Japan and of West Germany, and increasing opportunities for international business were also exceptionally important stimuli for other continental European countries.

The general effects on international trade arising from this dynamism of the industrial regions were varied, both by types of goods and by regions.

The needs of the industrial areas for materials to supply their manufacturing industries grew more or less in step with their total outputs of manufactured goods. This growth of import demand was stronger for non-agricultural materials than for those of agricultural origin. Comparatively slow growth also characterized industrial areas' imports of foodstuffs.

Generally speaking, exchange of manufactured goods between and within the industrial regions grew more rapidly than did industrial regions' total imports of primary products, particularly those of agricultural origin.

Nevertheless, even apart from cotton, U. S. agricultural exports to foreign industrial regions were around one-half greater in value in 1957 than they had been in 1953, and were nearly as large a fraction of our total exports in 1957 as in 1953.

Reflecting the relatively slow growth of industrial countries' imports of primary products, the aggregate earnings of countries in nonindustrial areas from their exports rose by 20 percent from 1953 to 1957, as compared with a 50 percent rise in the corresponding total for the countries in industrial areas.

The concurrent expansion in import demand on the part of nonindustrial areas much exceeded that in their export earnings. Their aggregate imports rose 38 percent, reflecting extensive financing through increased aid, principally from the United States, and through drafts on foreign exchange reserves, new borrowings from private sources in industrial areas, and increased inflows of private capital for direct investment.

Trade reduced by industrial downturns of 1957-58

Just as the prime movers of the trade gains in 1953-57 were the industrial countries, these were the main source of the new instability of world trade which appeared last year.

Manufacturing output declined from mid-1957 to early 1958 in the United States, Canada, and Japan. Industrial production leveled off or dipped temporarily throughout Western Europe. While the overall output index for that region as a whole merely showed a much smaller annual rise than in preceding years, there were sizable declines, on an annual basis, in European output of basic metals and of textile products. These were more than offset by continued expansion in chemicals, advanced durable goods, and food processing.

Particularly in North America, liquidation of industrial inventories triggered by weakening production trends accelerated the production downturn, and contributed to reductions in both the volume and the prices of industrial materials imported.

With reduced export earnings in primary-supplying regions abroad forcing curtailments in their imports as well, there was a moderate general contraction in international demand last year. World trade, as measured by the aggregate exports of all non-Communist countries, fell off from $100 billion in 1957 to $95 billion in 1958.

Since U. S. imports dipped only slightly, the decrease in total import demand outside of the United States was a little greater than that in world trade as a whole. Exports to the world outside the United States from all non-Communist countries registered a decline of 6 percent in value.

In the aggregate, the decrease in demand abroad for goods from countries other than the United States was relatively small. Their total exports to the foreign world decreased by only about $2\frac{1}{2}$ percent as compared with the 16 percent decline experienced by our own country.

Exports from the nonindustrial areas alone, however, fell off by considerably more than those from countries in foreign industrial areas. Total foreign exchange earnings of nonindustrial areas from export trade declined by 5 percent from 1957 to 1958. In terms of average tendency, this decrease stemmed entirely from lower prices, since losses in volume for some goods were fully offset by gains in volume for others.

Our own agricultural exports dropped by 14 percent in value from 1957 to 1958, although apart from the large drop in shipments of cotton the decline amounted to no more than $7\frac{1}{2}$ percent.

Our exports of foodstuffs and raw materials to Western Europe, which represents around two-fifths of our entire foreign market for agricultural products, fell off by nearly 10 percent in value. It is noteworthy that this did not much exceed the 7 percent decline in that area's total imports of all products from the nonindustrial areas (exclusive of the Communist bloc).

In contrast to nonindustrial areas last year, the export earnings of foreign industrial areas held virtually steady from 1957 to 1958. Increasing sales of advanced manufactures to the United States was one of the stabilizing influences.

In consequence, the gold and foreign exchange reserves of European countries rose substantially in 1958. These reserve gains led to the establishment by most European countries at the end of last year of full exchange convertibility for nonresidents. This was a step toward which U. S. policies had been aimed ever since World War II.

U. S. share in total foreign market in 1958 approximated 1953-55 level

Despite the slump in total U. S. exports last year, they actually kept pace with the net rise from 1953 to 1958 in total demand abroad for imports from all sources.

The United States had supplied a disproportionate amount of the increase in foreign import demand from 1953 to 1957. While total exports of all non-Communist countries to the world outside the United States rose by nearly $24 billion, to a total of about $87 billion, the United States, which ordinarily supplies about one-fifth of all goods supplied by non-Communist countries to the foreign world, furnished nearly one-third of that increase.

This very large share of the increase caused our proportion of all goods supplied to the entire world outside the United States to rise to 22.5 percent in 1957, as compared with a steady 20 percent in the three year period 1953-55.

The disproportionate rise to 1957 in the U. S. share in the total market for imports abroad was reversed last year. Our exports registered a 16 percent decline in value, and our share of the total market abroad declined considerably. It did not fall any lower, however, than its 20 percent level of the years 1953-55.

This was despite the fact that the considerably greater-than-average reduction in Canadian import demand had its incidence almost entirely on the United States. The U. S. share in the total market abroad outside of North America, although reduced from its most recent peak, actually remained a little above what it had been early in the recent world boom.

United States and Canada lead industrial upturn

The world recession has proved fairly short-lived, even though international trade remained rather lacking in buoyancy, after its downturn in the latter part of 1957, until this spring.

With automatic stabilizers in the United States and Canada helpful in maintaining consumer incomes and with credit policies favoring increased investment, particularly in housing, the industrial recession in North America was quickly arrested. After leading the downturn or leveling off of production in the industrial areas, North American manufacturing output also led the upturn.

Recovery in U. S. and Canadian industrial activity got under way a year and a half ago, at about the time the previously strongly upward industrial trends in Europe were leveling out or showing signs of turning downward. By this summer, U. S. manufacturing activity, as measured by the Federal Reserve Board seasonally adjusted index, had risen from a low of 128 in April 1958 to 158 in June, the last full month before the steel shutdown. This level was about seven percent above the previous record monthly peak two years earlier. Canadian factory production by the second quarter this year mounted above that of any earlier quarter.

The output of Japanese manufacturing production also was in an early upturn, and by last fall was again rising in a trend which accelerated in the first half of this year.

Monetary and credit ease in Europe, greatly aided by reduced import prices and resultant boosts to reserve accumulation, has contributed to the renewal of economic growth in that key area for world demand and for U. S. foreign agricultural marketing prospects. The generally optimistic atmosphere there and the stimulus of new investment opportunities stemming from the establishment of the Common Market have also been expansionary factors.

In Europe, industrial activity had displayed a lack of buoyancy throughout last year. This year, however, vigorous economic expansion there has set in again. By the second quarter, the index of European industrial output (seasonally adjusted) rose to 139, as compared with 132 in the second quarter of 1958 and 135 as late as January-March this year.

In June, European factory output, on a seasonally adjusted basis, was 8 percent above its lowest monthly value in 1958, and exceeded by about 4 percent its record monthly value prior to 1959. Late reports indicate that this new advance has been continuing since midyear.

The new European output gains have been strong not only in West Germany and France, whose economies expanded most rapidly in 1953-57, but also in the United Kingdom. Increases have been registered, moreover, in nearly all other industrial countries of Western Europe.

In the area as a whole, chemical industries have led the output gains. The total output of food, beverage, and tobacco processing industries was the highest on record in the first quarter this year, but that of textile industries on the other hand, at least until midyear, persisted at a reduced level.

World trade in lagging recovery

Broadly speaking, the effects of the reinvigorated dynamism of the industrial economies on world trade have appeared with some lag.

Total world exports, seasonally adjusted, had dropped from 1957 to 1958 as output fell off here and leveled out in Europe, and as inventories were reduced here and in Canada and Japan and to some extent in Europe also. The low in world trade was reached, as in industrial output, in the earlier part of last year.

Although there was some immediate rebound, world export totals for several quarters failed to indicate any clear recovery trend in total international demand, apart from expected seasonal changes. An apparent upward tendency in trade between industrial areas was offset by a downward tendency in total exports from nonindustrial areas. The aggregate export earnings both of industrial areas and of nonindustrial areas in January-March this year were at about the same levels as twelve months earlier.

The principal area of continued weakness in import demand was in the nonindustrial areas--consistent with the general tendency of import changes in those regions to lag behind changes in their exports. Their aggregate imports in the first quarter this year were somewhat below 1958 levels, after allowance for seasonal change. The weakness was rather general among the various major areas, though particularly evident in Latin America.

The imports of industrial areas in January-March 1959 showed no net change from their reduced total in early 1958. A sizable increase in U. S. imports was partly offset by lower European imports. Europe's imports from the outside world were no higher in volume than they had been in the first quarter of 1958, and in total value were actually somewhat reduced, owing to lower prices.

Since the early months this year a fairly strong upturn has appeared in world trade. In the second quarter, world exports rose considerably, and third quarter export data for industrial countries indicate a continued uptrend.

In addition to the strong rise in U.S. imports this year over levels of 1958 or of any earlier year, imports of most other important industrial countries this spring and summer showed sizable percentage increases over levels of the second and third quarters of 1958.

Almost entirely reflecting these gains, the increase in total world exports amounted to about $7 billion, in terms of annual rates, from April-June 1958 to the corresponding months this year.

In volume terms, the rise in world exports brought them up distinctly above their previous peak quarterly levels in 1957, and in April-June they exceeded those of two years earlier by about 7 percent. This two-year advance, however, represents a materially slower average annual rate of expansion thus far in the renewed growth of trade than that characterizing the boom period ending in 1957.

The latest trade gains appear, on the average, to have entirely reflected changes in volume, at least to midyear. The general level of international prices seems to have remained, in the first six months, close to the lowest position reached in its entire downward drift since 1957.

Since U.S. imports bulked large in the world trade rise, the increase in total demand in the foreign world was substantially less than that in international demand as a whole. Exports of all non-Communist countries to the world outside the United States were up $4 billion in rate in the second quarter.

However, a somewhat greater rise from a year earlier will probably be recorded for the third quarter. Total demand abroad for exports is now at about $85 billion annually. This is about as high in value terms as in 1957, and compares with about $80 billion annually twelve months ago.

Expanded foreign demand in prospect in 1960

Further gains over the next 6-12 months in world trade and in total demand abroad for imports seem fairly certain.

Total U.S. imports are expected to increase by a considerably smaller amount next year than they have this year, but higher levels of manufacturing activity are anticipated here, with some increase in U.S. imports of industrial materials therefore likely.

Production trends in most other industrial countries are expected to continue upward at least well into 1960. An annual gain of 5 percent would not be surprising in factory production in the Common Market countries, with GNP there expected to rise nearly as much as industrial output. This year's expansion in output and total demand in the United Kingdom is expected to continue for the time being despite some retarding effect anticipated from lower fixed investment by private industry there.

Canada, following this year's strong gain in its factory output and total GNP, should show further economic gains in 1960. With Japan's export sales up strongly this year, that country's output and domestic demand seem likely to keep on rising for a while.

Nonindustrial areas, moreover, should also furnish improved markets next year. Their export volumes are already up, reflecting increased demands in industrial areas, and presumably some upward tendency in the prices of primary products will appear.

Decreased prices have prevailed this year for coffee, cacao, linseed oil, rice, tea, and also for petroleum. On the other hand, substantial price advances over average 1958 levels have already been evident this year for rubber, beef, copra and coconut oil (until this summer), hemp, and also for copper, lead, and tin. Next year, the export earnings of nonindustrial countries seem likely, on balance, to be augmented somewhat by improved prices.

Moderate optimism, therefore, seems justified for import markets in nonindustrial areas, although a new import boom in those areas of proportions approaching that of 1957 is altogether unlikely.

All major signs seem to point, therefore, to expanded international demand in 1960, continuing the gains which appeared this spring and summer.

U. S. exports to share in world trade expansion

Confidence is justified, if my analysis of current trends in the world economy is sound, that foreign marketing opportunities for U. S. exporters will continue to increase, as they have begun to do during the course of 1959.

These opportunities seem particularly assured in foreign industrial areas, where the greater part of our total foreign market for agricultural products is located. Simply on the basis of production and income trends alone, we should experience good sales of our farm products in foreign industrial areas next year. This is without reference to supply factors peculiar to individual commodities, such as specific shortages of local production through drought, etc.

Apart from aid programs, expanding markets in nonindustrial areas do not seem as likely to benefit our agricultural producers. Gains in market opportunities there in the immediate future, much more than in foreign industrial areas, will apply mainly to nonagricultural products, primarily manufactured goods.

As for the influence of our aid programs on the trend of our agricultural exports to nonindustrial areas, this is a subject which will doubtless be given authoritative attention this week in the discussions of the outlook for various particular agricultural commodities.

Our total foreign marketings next year, and those of agricultural products as well as other U. S. goods, should benefit somewhat from the removal of discriminatory restrictions against our goods in the control of imports for balance-of-payments reasons by foreign countries.

Our own government and international financial agencies have lately spoken out strongly for elimination of these now anachronistic discriminatory provisions. External convertibility of the major European currencies since the first of this year has made discrimination against dollar goods without point in many areas. Important new steps have been taken already by the United Kingdom to remove most remaining discriminations against our goods, and similar steps have been announced for the very near future by several other foreign countries.

Removal of discrimination against dollar goods will no doubt be of some benefit in the foreign marketing of our farm products as well as of other U. S. goods. Particularly for farm products, however, the increase in sales to be hoped for under nondiscriminatory import controls abroad may not be large. For the last several years, most U.S. agricultural products which were effectively in demand in Europe, to cite the most important area from the standpoint of our agricultural exports, in general have been liberally licensed for importation.

Exports to Canada and Europe already increasing

The rebound in foreign demand has already been registered in our non-military export totals. Exports rose from less than $15½ billion in annual rate in the first quarter this year to about $\$17\frac{1}{2}$ billion, on a seasonally adjusted basis, in the summer quarter.

Despite exceptionally low sales abroad of both cotton and steel, coupled with the slump this year in the Latin American market, exports in the third quarter exceeded their total in the third quarter of 1958 by some 6 percent.

The renewed impetus to exports came from industrial areas abroad. Renewed economic expansion in Canada, after its mild recession in 1957-58, has brought considerable recovery in our sales there. With vigorous expansion reappearing also in Europe and Japan, exports to those areas in the third quarter mounted above their levels in the corresponding period last year. The trend of exports to Europe, however, was still dampened this summer by persisting low levels in shipments there not only of cotton and steel but also of coal and aircraft.

In contrast, demand for our goods continued to sag in Latin America. That area's foreign exchange earnings had been curtailed by low prices, particularly for coffee, and by reduced world demand for some of its other important products. Our sales there, which had shown relatively little decline until around mid-1958, fell off rather severely thereafter.

Our exports to nonindustrial areas of Asia and Africa, on the other hand, have been relatively stable at about last year's levels.

These developments seem to indicate that foreign marketings of our goods are picking up more or less in line with trends abroad in total import demand. This is consistent with experience in 1953-58, which affords some basis for anticipating that our share of the total foreign market should be fairly well maintained in a general upswing.

There seems to be widespread belief, on the other hand, that we are being increasingly outcompeted in foreign markets. The export upturn of recent months does not, of course, preclude such a possibility. Close analysis of the latest trends in our participation in markets abroad cannot be made until the necessary data become available.

U. S. share losses limited in foreign markets for manufactures

I should like, in any event, to venture a few comments on the behavior of our market shares in recent years. The latest valid information on this subject is certainly relevant to a discussion of the outlook for our export trade.

It is my belief that competitive conditions in foreign markets have not turned so much against us as has been widely alleged. Far too much significance for the long term has been inferred from short-term elements in the 1957-58 export slump.

Some of my associates in the Department of Commerce have made a careful examination of extensive statistics showing changes, over 5 years ending with 1958, in U. S. percentage shares of individual regional markets abroad for exports of particular classes of manufactured goods. Their findings indicate that strictly competitive losses in the 1958 downswing were neither as pervasive nor as large as popular alarm would suggest.

This evidence deals with the actual performance of our exports in comparison with those of principal competing countries. It reveals a great diversity in market-share behavior for various product categories in particular regional markets.

For several important categories, the supposition of sharp shrinkages in our market shares is confirmed by the data. For a very wide range of other manufactured products, however, numerous smaller losses and almost equally numerous gains virtually counterbalance each other in the aggregate.

The statistical evidence to which I have just referred lends support to a moderately optimistic view of our export prospects in most lines as the renewed expansion of world trade proceeds. Even with respect to fields in which our market shares abroad have shrunk, competitive reactions of U. S. businessmen may well recapture some of the lost ground.

With respect to near-term foreign market prospects for our agricultural products, it may be asked just what significance, if any, is to be found in this relatively optimistic viewpoint concerning prospects for selling our factory products abroad.

Now, we can recognize that the export prices of our manufactured goods reflect a myriad of internal U. S. prices--for farm products, for transportation which moves farm products as well as other goods to our ports for shipments abroad, and for farm machinery, fertilizers, fuels, and other supplies, for domestic as well as foreign agricultural production. Therefore the viewpoint I have suggested as to the general competitiveness of our factory products abroad has considerable significance for gauging the comparative level of many cost prices underlying the supply and pricing of U. S. agricultural products. These, in turn, are among the elements of importance in gauging the foreign market outlook for farm products.

The analysis of foreign market shares for our manufactures, to which I have referred, seems to afford little basis for pessimism as to the competitive level, in broad terms, of cost prices to farmers for a good many non-agricultural products and services which are used in farm production and which also enter into the prices of manufactured goods sold abroad.

Import rise slackening

In my opening remarks I ventured a comment that our total imports next year should increase by a rather smaller amount than they did in 1959. The rise in imports this year has been strong, but the uptrend seemed to be flattening out this summer.

Imports rose from an annual rate of about $12-3/4 billion around the middle of last year to more than $15½ billion, on a seasonally adjusted basis, by the second quarter of 1959. This rise was spurred in part by continuation of the long uptrend in U.S.demand for automobiles and other foreign advanced manufactures. It also reflected rising demand for various foreign industrial materials responsive to the upswing in U.S. industrial output, along with exceptional demands for steel arising from anticipation of shortages.

Since the spring, however, the import uptrend seems to have leveled off considerably. The third quarter level differed little from that of the second. If the flatter trend of the last several months continues, our imports seem likely to total around $\$15\frac{1}{4}$ billion for the entire year.

Next year the import uptrend, unlike that from the latter part of 1958 and the first half of 1959, should be tempered by several factors. With expansion of domestic manufacturing production smaller next year, after the sharp rise of 1958-59, purchases of foreign industrial materials will probably rise much less than they did this year.

Moreover, we should experience higher output in 1960 of steel and of meats, products which have been imported in unusual amounts this year. Also there is a possibility that the advent of the U. S. automobile industry's new "compact" cars will divert some U. S. demand from European automobiles. The rapid increase in our purchases of European cars has contributed greatly to the persistent uptrend in the last few years in our total imports of advanced manufactures.

Despite the improvement lately in our exports, they are currently expected to total only about $16 billion for the year, exclusive of military-aid shipments. With the effects of the steel shutdown likely to persist for several months, some lag in export of products such as vehicles and machinery in the final quarter is inevitable. Gains are anticipated for the current quarter, however, in exports of agricultural products, especially cotton.

Trade balance down sharply in 1959

It now looks as if our annual export surplus in merchandise trade will be under $1 billion for 1959, as compared with $3.4 billion in 1958. With a large excess of payments over our receipts from abroad for non-trade transactions, the transfer of gold and dollars to foreign countries may exceed $4 billion for the entire year.

The currently large payments deficit in our international accounts has generated much concern, both governmental and private. I believe, however, that material improvement lies ahead, through rising exports, once the effects of the steel shutdown are overcome and on the assumption of no other crippling interruptions of production or of transportation.

Even with the strongest improvement in our balance of merchandise trade which can realistically be expected next year, we will still experience a sizable deficit in our international transactions as a whole. If we are to approach balance in our international accounts while maintaining our military expenditures abroad, our private capital flow to foreign countries, and our governmental aid to them, at around recent levels, we shall have to sell considerably more goods in foreign markets. The needed additional sales will have to come either from sufficiently rapid growth of general import demand abroad, or from expansion in our shares of foreign markets, or from some combination of these.

To attain the export levels needed will require the utmost exertion by our producers of exportable goods to reduce or hold down their costs and foreign selling prices. It will require, further, the continuing and intensified cultivation of markets abroad with all appropriate tools, including not only customer relations and servicing but also market research, sales promotion, credit facilities, etc. Beyond these, it demands that our government pursue, energetically and faithfully, both those domestic policies which are calculated to foster economic efficiency at home and those which will restrain undue upward tendencies of prices and costs. Each type of policy must be applied to such an extent that enough of our goods, whether of factory, farm, or other origin, will be kept fully competitive price-wise in foreign markets.