Factors Affecting the United States Balance of Payments

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THIS VOLUME of 24 papers by 20 authors is a timely exploratory analysis of the U.S. trade and balance of payments problem. The wide attention our balance of payments has received since 1958 is the result of record payments deficits. A loss of monetary gold reserves totaling $6 billion and a buildup of dollar assets abroad now totaling over $25 billion resulted. Even with the improved payments position in 1962, the

United States is still faced with the problem of considering domestic policies in terms of how they affect the external value of the dollar.

Balance of payments trends are analyzed in depth by Seymour E. Harris and Edward M. Bernstein. Capital movements and the Euro-money market's significance to the U.S. payments position are discussed by Philip W. Bell and Oscar L. Altman, respectively. Walter Lederer's paper explores some of the more difficult conceptual problems of the balance of payments. One problem is the definition of a surplus or deficit. The most useful definition, Mr. Lederer believes, is measuring the changes in our capability to defend the exchange value of the dollar. Because this defense is the responsibility of U.S. monetary authorities, measuring the change in our financial resources and the liquid claims against our assets is the most meaningful institutional measure of the Nation's external liquidity position.

In his paper, Charles P. Kindleberger points out that U.S. trade policy is developing along lines previously adopted by France and Britain. This policy is one of exporting to protected markets through tied loans, shifting military procurement from low-cost sources abroad to high-cost firms at home, and using high-cost surplus farm commodities as part of our foreign aid. In terms of long-run U.S. economic growth, he suggests financing be furnished directly to less developed countries to buy goods in Europe and Japan; these countries would then buy other goods from the United States.

Robert E. Baldwin finds the United States in the position wherein no adjustment process for righting the payments problem appears politically acceptable. But like several other authors, he further suggests that in maintaining our "international economic viability" we should not only move toward freer trade but prepare to change our exchange rate. James E. Meade suggests that Western countries should make freer use of alterations in the rates of exchange between their national currencies under a reformed system for international payments. George N. Halm advocates the introduction of a system of flexible exchange rates because such a move would greatly reduce the need for high international reserves.

James C. Ingram believes the payments position could be strengthened through a closer degree of financial integration within the Atlantic Community. He sets out several prerequisites for attaining a closer integration of capital markets. These are rigidly fixed exchange rates, removal of all legal restrictions on international transactions, and taking steps to remove market imperfections which inhibit international capital transactions.

Fritz Machlup reviews past and present plans for the centralization of the world's monetary reserves. George N. Halm's review of the supranational bank issue includes an informative analysis of how the International Monetary Fund has gained strength in the international financial world through concluding special borrowing arrangements with the industrial countries.

Under Secretary Roosa has conveniently stated prior remedial proposals and in turn presents the objection to each. Dollar devaluation through increasing the price of gold would be a temporary expedient because this action would certainly be followed by similar actions on the part of other countries. A dollar guarantee on the other hand merely assures the rest of the world that devaluation will not occur, but such a guarantee would mean greater control of domestic policies by foreign interests. Lastly, the supranational bank, advocated to increase the world's liquidity, would generate the "most high-powered" money ever created by a man-made institution; however, it would have no super government to insure the validation of claims among nations.

Part 2 of this volume should be of particular interest to those following developments in the Common Market. Lawrence B. Krause in analyzing the effects on U.S. agriculture concludes that prospects for agricultural exports are not encouraging, due to the Common Market's move toward self-sufficiency for a wide range of crops and higher internal prices coupled with greater trade barriers to outside countries. In the aggregate, he estimates that the loss of agricultural export values might well reach 30 percent of current levels of U.S. agricultural trade with these countries.

This volume provides a penetrating analysis on the Nation's payments difficulties. While many of the proposals made are not new, their inclusion and evaluation in one volume makes an extremely valuable reference book for those interested in the

U.S. trade and payments problem. The reviewer feels that this volume provides the general public and students of international trade and finance with the most provocative information of its type available.

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