FEDERAL RESERVE BULLETIN

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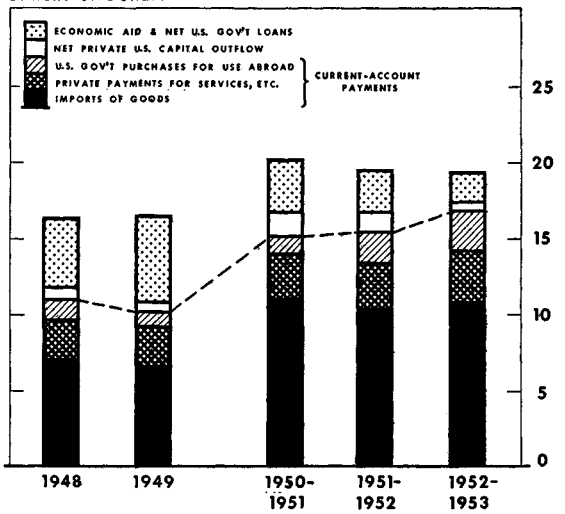
# UNITED STATES BALANCE OF PAYMENTS IN 1952-53

During the fifteen months since mid-1952, current account transactions between the United States and other countries have been roughly in balance. Except for a brief period just after the Korean war began, this is the first time since 1945 that payments to other countries for goods and services, together with private gifts, have equaled the value of exports of goods and services outside the military assistance program. Capital movements and economic-aid grants, although smaller than before, have continued to finance part of foreign purchases in the United States. As a result, foreign countries were able to increase their gold reserves and dollar holdings nearly 3 billion dollars over the 15-month period.

The world-wide increase in production after the summer of 1952 was accompanied by renewed expansion in world trade. While the import trade of most countries remained smaller in the year ending June 1953 than in the preceding year, payments by the United States for its purchases from other countries were larger than ever before. This reflected high economic activity in the United States, increased demand for foreign manufactures, and rising Government expenditures for military goods and services used abroad. The resultant replenishment of monetary reserves of foreign countries has been an essential element in the progress that has been made toward the goal of ending recurrent threats of international financial crisis.

**DOLLAR PAYMENTS FROM THE UNITED STATES**

Billions of Dollars




NOTE.—After 1949 years ending June. Based on Department of Commerce data; for definitions of certain items see footnotes 2 and 3 to the table on p. 1042.

Preservation of balance-of-payments equilibrium and maintenance of United States export sales at a high level will depend in large part on further growth in United States commercial imports, especially when a reduction of military purchases abroad eventually becomes possible.

Under the Trade Agreements Extension Act of 1953, approved by the President early in August, a commission of members of Congress and Presidential appointees was established to study import policy and other aspects of the foreign economic policy of the United States. The President has referred

to this commission a report by Mr. Lewis Douglas following up discussions with representatives of the United Kingdom concerning the related problem of freer convertibility of currencies.

## Dollar Payments from the United States

The dollar funds accruing to foreign countries to cover their purchases in the United States, or to augment their reserves, come from transactions of many kinds. Most of these transactions may be grouped in five major classes, as shown in the chart on the preceding page: (1) imports of goods into the United States, (2) private payments for services received from abroad, together with private gifts, (3) Government purchases of military and other goods and services for use abroad, (4) the outflow of United States private capital, and (5) United States Government loans and grants of aid. Payments in these five major classes amounted to 19.4 billion dollars in the 12 months ending June 1953. This excludes grants of military supplies and services, which exceeded 4 billion.

Payments to foreign countries for current transactions—the first three of the groups—totaled 17 billion dollars in 1952-53; as the chart indicates, these payments were more than 50 per cent larger than in 1948 when they were already considerably above wartime levels. Other payments in 1952-53 were 2.5 billion dollars. The outflow of United States private capital has fluctuated without showing any upward trend in recent years, and since 1948 and 1949 there has been a large reduction in economic-aid grants and Government loans. This reduction has offset part of the increase in payments for goods and services.

Of the 6 billion dollar increase from 1948 to 1952-53 in the annual rate of payments for current transactions, 3.8 billion was provided by increased expenditures on imports brought into the United States. This represents an increase of over 50 per cent in the value and nearly 30 per cent in the physical volume of imports. The increase in volume was somewhat greater than that in United States manufacturing output, which rose about one-fourth over this period.

The value of United States imports rose very rapidly in 1950 and early 1951, reflecting sharp price advances at that time as well as increased volume. Since then many import prices have declined but further increases in the physical volume of imports have occurred, particularly for manufactured products. The quantity of manufactures imported in 1952-53, as the table shows, was 55 per cent greater than in 1948.

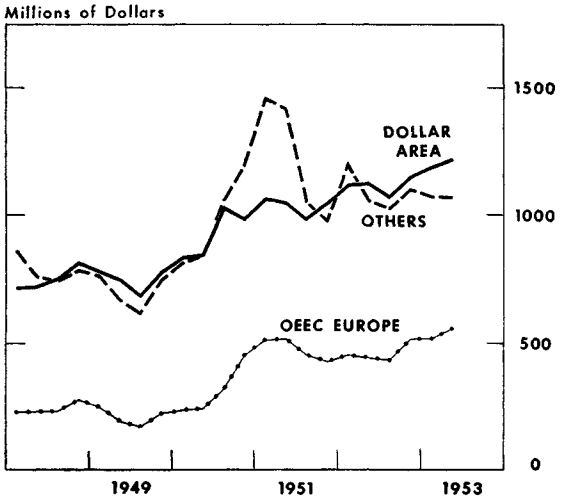
Composition of United States Imports
July 1952–June 1953

| Economic class | Value (in millions of dollars) | Percentage increase from: | |
|---|---|---|---|
| | | 1951 | 1948 |
| Dollar value: | | | |
| Crude foodstuffs | 2,104 | 1 | 65 |
| Manufactured foodstuffs | 1,119 | 9 | 53 |
| Crude materials | 2,677 | −20 | 25 |
| Semimanufactures | 2,801 | 14 | 72 |
| Finished manufactures | 2,187 | 15 | 67 |
| Total | 10,887 | 1 | 54 |
| Quantity (indexes eliminating price factor): | | | |
| Crude foodstuffs | ..... | 1 | 10 |
| Manufactured foodstuffs | ..... | 9 | 46 |
| Crude materials | ..... | 6 | 8 |
| Semimanufactures | ..... | 15 | 55 |
| Finished manufactures | ..... | 19 | 55 |
| Total | ..... | 10 | 29 |

Note.—Department of Commerce data on imports for consumption. Dollar figures do not add to total because of rounding.

As a result of developments in import trade since 1948, annual dollar earnings of Europe from sales in the United States have more than doubled. United States imports from Canada and from Latin American dollar area countries have increased by more than 50 per cent. Imports from other areas rose to a sharp peak in the spring of 1951.

**UNITED STATES IMPORTS**
**FROM SELECTED AREAS**




NOTE.—Quarterly figures. Based on Department of Commerce data for general imports. Delimitation of the "dollar area" is necessarily arbitrary in part; included here are Canada and the Latin American Republics except Argentina, Brazil, Chile, Paraguay, and Uruguay.

With the return of more normal demand conditions for wool, rubber, tin, and various other commodities, the total value of imports from these other areas has remained fairly stable in the past two years at a level only one-third higher than in 1948.

The growth of imports has been paralleled by a rise in payments to foreigners for ocean freight and other transportation costs. Increases have also occurred in tourist expenditures abroad and in payments for various types of business and financial services. The flow of private gifts abroad, however, has become somewhat smaller than it was in 1948. Altogether, the annual amount of transactions classed as private payments for services and gifts has increased by about 30 per cent, or 800 million dollars, since 1948.

Finally, there has been a considerable rise in Government expenditures for goods and services to be used abroad. From 1.2 billion dollars in 1948 and 900 million in 1950, such expenditures increased to 2.6 billion in the year 1952-53. Until very recently the increase in these expenditures was largely for supplies, equipment, and services purchased for the direct use of United States forces, including local expenditures by troops from their own pay. Under the program of offshore purchases for military aid, however, large amounts of materiel are being procured abroad by the United States Government for use by the forces of allied countries. Contracts made before June 30, 1953, for such procurement amounted to about 2.3 billion dollars, but deliveries and payments in 1952-53 were relatively small.

## Balance on Current Account

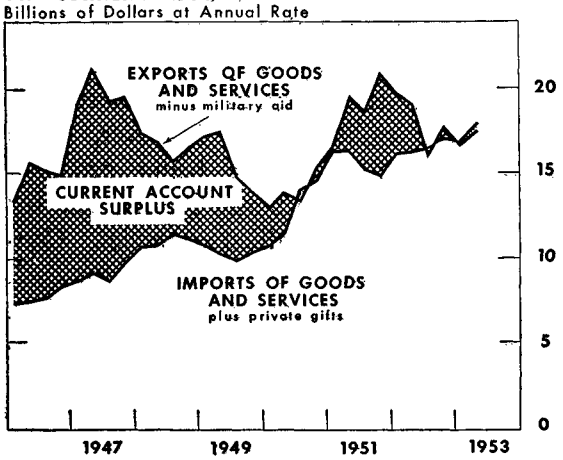
United States exports of goods and services have shown large fluctuations since the end of the war, and these fluctuations have been reflected in changes in the size of the United States surplus on current account. The primary factor in reducing the surplus since 1948, however, has been the steadier increase in imports of goods and services.

From an early postwar peak in 1947, when overseas demands were swollen by reconstruction and relief requirements, exports declined until 1949-50. A new peak was reached in 1951-52, reflecting world-wide fears of shortages after the outbreak of fighting in Korea, inflationary conditions of demand in many countries, and special circumstances affecting world supplies of fuels and grain.

In 1952 inflation was brought to a halt in most countries, and world demand in 1952-53 was more stable than before. United States exports (apart from shipments of military-aid equipment and supplies) were smaller than in the preceding year. The reduction reflected some tightening of trade controls in certain countries, as well as readjustment of world supply and demand for many commodities.

**UNITED STATES BALANCE OF PAYMENTS ON CURRENT ACCOUNT**

Billions of Dollars at Annual Rate




NOTE.—Quarterly figures at annual rate. Based on Department of Commerce balance-of-payments data.

At the 1952-53 levels of export and import trade and of other transactions, the United States current account showed a very small deficit. Since many exports were financed directly or indirectly by outflows of economic aid and of capital, this close balance between current account expenditures and receipts permitted a large increase in the aggregate gold reserves and dollar holdings of foreign countries. A somewhat similar development had occurred just after the Korean war began. In the recent situation, however, conditions of demand were more stable.

Exports of goods and services (excluding military-aid exports) amounted to nearly 17 billion dollars in 1952-53, no less and indeed slightly more than in 1948. The disappearance of the surplus on current account, which in 1948 had amounted to 5.5 billion dollars, could therefore be regarded as due entirely to the growth in United States imports of goods and services between those years, including the considerable rise in United States military expenditures abroad.

Without the 1.7 billion dollar rise between 1950 and 1952-53 in Government expenditures for military and other goods and services used abroad, the world dollar supply would have been much tighter this past year. Foreign countries would have been unable to replenish their gold and dollar holdings by anything approaching the 1952-53 increase of 2.3 billion dollars, unless they had greatly stiffened restrictions on buying from

UNITED STATES BALANCE OF PAYMENTS

[In billions of dollars]

| Item | Year ending June— | |
|---|---|---|
| | 1952–53[p] | 1951–52 |
| **Current account receipts:** | | |
| Merchandise exports reported monthly[1] | 12.0 | 14.4 |
| Military aid exports and other adjustments | 4.2 | 1.8 |
| Private investment income | 1.7 | 1.8 |
| Other exports of services | 3.2 | 3.2 |
| Total exports of goods and services | 21.1 | 21.3 |
| Deduct: Grants of military supplies and services | 4.2 | 1.8 |
| Total current account receipts | **16.9** | **19.5** |
| **Current account payments:** | | |
| Merchandise imports reported monthly | 10.9 | 10.4 |
| Private payments for services and gifts[2] | 3.4 | 3.1 |
| U. S. Gov't purchases of goods and services used abroad[3] | 2.6 | 2.0 |
| Total current account payments | **17.0** | **15.5** |
| **Balance on current account** | **−.1** | **+4.0** |
| **Other transactions (net receipts, +; payments, −):** | | |
| Private U. S. capital | −.4 | −1.3 |
| Foreign capital other than dollar holdings | +.3 | +.1 |
| Miscellaneous unidentified | +.1 | +.7 |
| U. S. Gov't economic aid and loans | −2.0 | −2.8 |
| Total other transactions | **−2.1** | **−3.2** |
| **Net transfers of gold and dollars** | **+2.1** | **−.8** |
| Gold (U. S. sales, +; purchases, −) | +1.0 | −1.7 |
| Increase in foreign dollar holdings[4] | +1.1 | +.9 |

[p] Preliminary.

[1] After deducting reported exports by Department of Defense under Mutual Security Program.

[2] Includes also adjustments on private merchandise imports and Government unilateral transfers other than for aid.

[3] Includes offshore purchases for military aid. Figures represent Government payments for miscellaneous services plus the difference between balance-of-payments and monthly reported data for merchandise imports, minus the adjustments applying to private imports.

[4] Federal Reserve data. Holdings of international institutions (except Bank for International Settlements) are excluded. Dollar holdings include reported holdings of short-term U. S. Government securities and also certain long-term U. S. Government securities held for foreign official accounts.

NOTE.—Department of Commerce data, except dollar holdings. Details may not add to totals because of rounding. Increases in foreign gold reserves cited in the text include additions from foreign gold production not shown here.

the United States. The rise in American military expenditures abroad has thus been an important element contributing to stabilization of international financial conditions and relaxation of exchange and trade controls.

Even in the absence of large military expenditures abroad, the contribution made by growth of import trade to the narrowing of the surplus on current account would have been impressive. Thus it has become evident that, with postwar reconstruction largely accomplished, the so-called "dollar gap" is not an entirely intractable problem.

Potential foreign demand for United States goods does seem to exceed current earnings of dollars by foreign countries, for many countries still place restrictions on purchases of dollar goods. Without a further increase in United States imports or in other current dollar payments, relaxation of those restrictions might lead to new or larger deficits in the balances of payments of some countries. In the longer run—so long as inflation is avoided and exchange rates between currencies are at appropriate levels—it should not be impossible for foreign countries to earn their way internationally by producing and selling, to the United States and to other countries, those things in the production of which they have a comparative advantage.

Balance-of-payments statistics that include grant-financed military exports from the United States are sometimes taken as evidence of continuing large dollar deficits for foreign countries. However, statistics that exclude such supplies provide a more useful measure of the balance between foreign countries' normal purchases (as affected by existing trade controls) and their ability to pay with earnings from their own production.

ALTERNATIVE MEASURES OF THE BALANCE OF PAYMENTS POSITION

[In billions of dollars]

| Type of data | Year ending June 1953p | Calendar year | |
|---|---|---|---|
| | | 1948 | 1947 |
| Including grant-financed military supplies and services: | | | |
| U. S. export surplus on goods and services | 4.8 | 6.7 | 11.5 |
| Excluding grant-financed military supplies and services: | | | |
| U. S. export surplus on goods and services | .5 | 6.3 | 11.4 |
| U. S. surplus on current account[1] | −.1 | 5.5 | 10.7 |

p Preliminary.
[1]As used in this article. Differs from preceding line by deduction of net payments for private unilateral transfers (gifts) and Government unilateral transfers other than aid (pensions, etc.).
NOTE.—Based on Department of Commerce data.

On the foreign earnings side of the balance, both sets of statistics include United States military expenditures abroad. These purchases by the United States are in most cases quite different from dollar aid, in that they require direct use of foreign productive resources. Large amounts of military expenditures in foreign countries will continue for some indefinite period, giving time for adjustments that will help to draw additional resources into normal export production.

As to the United States export side of the balance, it is generally recognized that grant-aid military supplies, while providing net additions to foreign military strength, have for the most part not altered greatly the general export-import position with which the monetary authorities of a recipient country would have had to deal in the absence of aid. This is particularly so in the case of military supplies produced within the United States and then transferred to other countries. By far the greater part of military-aid supplies in 1952-53 were of this sort, rather than transfers of supplies procured abroad, which sometimes involved cash payment for military production already planned by a foreign country.

## Role of Capital in the Balance of Payments

The balancing of international payments over the longer term need not depend on permanent elimination of the United States surplus on current account. When monetary reserves abroad have been sufficiently augmented, a surplus in the international current accounts of the United States might be entirely consistent with world economic balance if such a surplus of exports were covered by investments of United States capital abroad.

In recent years the outflow of private capital on the average has not exceeded one billion dollars annually, and most of this flow has been directed to countries where investors find minimum obstacles to realizing their earnings in dollars. Moreover, as the table on page 1042 shows, there have also been inflows of foreign investment capital to the United States, as well as miscellaneous unidentified transactions, which have tended to offset the outward flows. Under conditions of more general interconvertibility of currencies, however, a larger outflow of investment capital from the United States might occur.

At present, United States Government loans and grants-in-aid are continuing not only to cover large amounts of military assistance but also to finance, directly or indirectly, some part of United States exports of nonmilitary goods and services.

## Postwar Economic Aid

The postwar outflow of United States Government economic-aid grants and loans reached a peak in 1947. In the fiscal year 1948-49, the first year of the European Recovery Program, it amounted to nearly 6 billion dollars, net of repayments. Nearly 5 billion of this amount went to Western Europe. In subsequent years there has been a steady reduction in economic aid to Western Europe, and in 1952-53 the net flow of aid to this area, other than for military supplies and services, amounted to about 1.2 billion dollars. This included grants in support of defense efforts and special assistance to certain countries that still had serious difficulties with their balance of payments.

In the current fiscal year funds already committed or newly available for these types of assistance, together with funds appropriated for support of military operations in Indochina, will provide a further flow of dollar assistance to Western Europe on a scale somewhat smaller than last year. This

United States Government Grants and Loans

[In billions of dollars]

| Category and area | Year ending June— | | |
|---|---|---|---|
| | 1952–53[p] | 1951–52 | 1948–49 |
| Grants of military supplies and services | 4.2 | 1.8 | .4 |
| Other grants and loans | 2.0 | 2.8 | 5.7 |
| *Western Europe, total* | *1.2* | *1.9* | *4.7* |
| Grants and ECA–MSA loans[1] | 1.4 | 2.1 | 4.7 |
| Other loans, net of repayments on outstanding loans | −.2 | −.2 | (2) |
| *Other areas, total* | *.8* | *.9* | *1.0* |
| Grants: | | | |
| Economic and technical assistance | .3 | .3 | .2 |
| Relief: Korea, Palestine, etc. | .2 | .2 | .1 |
| Civilian supplies in occupied areas | (3) | .1 | .6 |
| Philippine war damage | (3) | (3) | .2 |
| Loans: | | | |
| Export-Import Bank, net | .2 | .1 | −.1 |
| India grain loan | (3) | .2 | ..... |
| Other loans, net | .1 | .1 | −.1 |

[p] Preliminary.
[1] Excludes ECA–MSA loans for strategic materials production.
[2] Net repayments less than 50 million dollars.
[3] Less than 50 million dollars.

Note.—Based on Department of Commerce balance-of-payments data. Grants are net of reverse grants received, and loans are net of repayments on outstanding loans. "Other loans" include also certain small changes in U. S. Government assets not classed as aid. Western Europe includes all OEEC countries and, for 1951–52 and 1952–53, Finland, Spain and Yugoslavia. Details may not add to totals because of rounding.

reduction in receipts from aid will probably be offset by increased earnings from offshore purchases made by the United States.

Economic aid in the postwar period to areas outside Europe has taken a variety of forms including provision of civilian supplies in Japan under occupation, war damage rehabilitation in the Philippines, assistance to India and Pakistan in meeting emergency needs for foodstuffs, Export-Import Bank loans, and economic and technical assistance under the Point IV and Mutual Security programs.

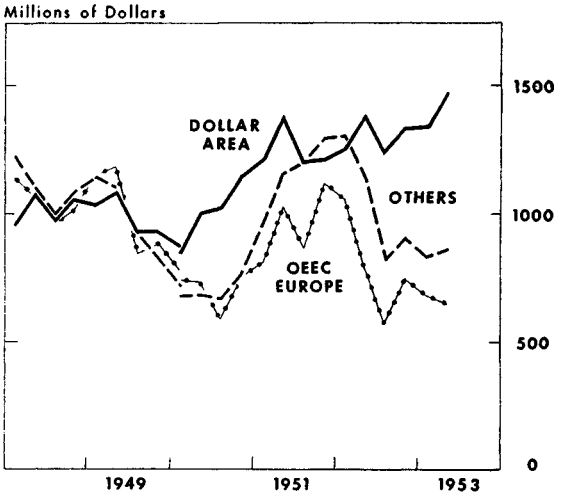
Funds available in the current fiscal year for nonmilitary-grant assistance outside Western Europe are somewhat larger than a year ago. Grant aid actually extended during the year 1952-53 amounted to about 500 million dollars. In addition, Government loans provided dollar finance to countries outside Europe amounting to about 300 million dollars, net of repayments.

### Progress toward Convertibility

Relatively complete convertibility of national currencies into foreign currencies now exists in the United States, Canada, and other countries of the dollar area, and in very few countries elsewhere. The fairly consistent upward trend of United States exports to the dollar area, which the chart exhibits, is partly a result of the relative freedom which importers of these countries enjoy in placing orders abroad. The consistency of the trend also reflects the greater degree of internal monetary stability in these countries in recent years.

In contrast, the declines in United States exports to nondollar areas in 1949-50 and again in the first half of 1952, after the 1951 boom, were intensified by changes in many countries in import licensing policies and the administration of exchange controls. Since mid-1952 exports to these areas have shown little change. Although several European countries now permit importers more freedom in buying from the United States, increased supplies of agricultural, mineral, and manufactured products from other sources have tended to limit the demand for United States goods.

**UNITED STATES EXPORTS TO SELECTED AREAS**




Note.—Quarterly figures. Based on Department of Commerce data for exports including re-exports. "Special category" exports are excluded for 1950-1953. For definition of "dollar area" see note to chart on p. 1041.

Closer balance in international trade has improved the prospects for broader interconvertibility of currencies. Further measures to this end were the principal subject of discussion at the Commonwealth Conference in London in December 1952, which was followed by discussions in March 1953 in Washington between representatives of the United Kingdom and of the United States and later in Europe among member countries of the Organization for European Economic Cooperation.

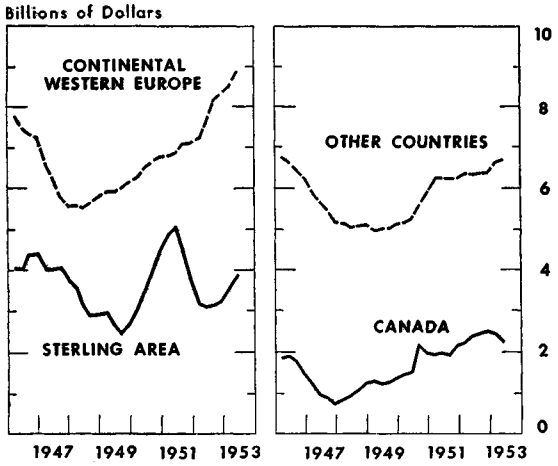
Many uncertainties, however, remain to be resolved. These relate in part to the establishment of conditions under which countries could undertake the risks of making

their currencies more widely convertible. Other questions relate to the degree of convertibility that would be given—by way of relaxation of import restrictions and exchange controls—to national currencies in the hands of national *residents,* at the same time that *foreign* users would be given broader privileges of converting their holdings of a country's currency into United States dollars.

Fuller convertibility of currencies, especially if accompanied by further liberalization of trade, would help to promote desirable flows of investment capital. Liberalization of trade, particularly if pursued without discrimination among currencies, would allow greater play for market forces. Importers and consumers in each country could more readily buy in the most economical markets, and production in each country could be geared more effectively to the satisfaction of world demands.

The willingness of countries outside the dollar area to undertake permanent liberalization of their trade or to broaden the convertibility of their currencies depends not only on their balance of payments but also on the adequacy of their reserves of gold and dollars. The rise in gold and dollar holdings of the sterling area by 800 million dollars and in those of the continental Western European countries by 1.3 billion dollars during 1952-53, as shown in the chart, represents a moderate, and for some countries a significant, improvement.

**FOREIGN GOLD RESERVES AND DOLLAR HOLDINGS**
**SELECTED COUNTRIES AND AREAS**




NOTE.—End-of-quarter figures. Federal Reserve data; gold reserves partly estimated. For coverage of dollar holdings see footnote 4 to the table on p. 1042.

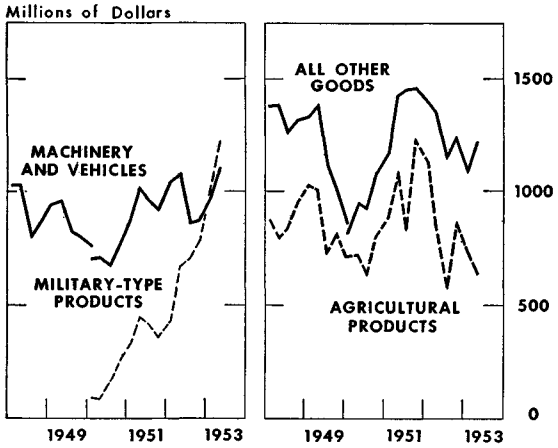
This improvement in reserve positions was made possible by a better balance in the trade of Europe and the sterling area with the United States, and by an increase to about one billion dollars in United States Government expenditures on European goods and services for use in Europe.

### Impact on United States Economy

The narrowing of the postwar excess of United States exports over imports of goods and services reflected a rise in United States demand for the products of other countries and increased ability of foreign suppliers to meet demands in their own countries and abroad. Despite the gains in foreign production, demand for United States exports has remained high. Machinery exports, in particular, were well maintained in 1952-53. The sudden upsurge of world demand after the outbreak of war in Korea had led temporarily to increased agricultural exports, but restoration of financial stability throughout the world in 1952 was accompanied by a drop, largely in wheat and cotton exports, that was relatively greater than the declines in most other exports.

Despite declines in 1949-50 and in 1952, total exports of goods and services were actually a little higher in 1952-53 than in 1948. In the 12 months ended June 1953, the total (after deduction of grants of military supplies and services) amounted to 16.9 billion dollars, as against 16.5 billion in 1948. Mer-

**COMPOSITION OF UNITED STATES EXPORTS**




NOTE.—Quarterly figures. Based on Department of Commerce data for exports of domestic merchandise. Military-type products are the "special category" exports; these are somewhat larger than military-aid shipments. For 1950-1953, other groups of exports shown here exclude any special category exports.

chandise exports (excluding military-aid shipments) were valued at 12.1 billion dollars, as compared with 12.4 billion in 1948. Continued foreign buying of United States products at this level, after reduction of intergovernmental dollar aid, was made possible by the great rise in dollar payments from the United States for imports of goods and services.

During the postwar period while these developments were taking place, there was heavy pressure from many sides upon the productive resources of the United States. High exports added to these pressures; high imports facilitated the satisfaction of domestic consumer demands and of defense and industrial needs.

A year and a half ago, when the second downward adjustment occurred in the demand for United States exports, many foreign countries were experiencing mild recessions in industrial activity. After the summer of 1952, a renewal of growth in European industrial and construction activity became evident, and this development has indirectly exerted a sustaining influence upon incomes and commodity prices throughout the world. Meanwhile the enlargement of foreign gold and dollar reserves diminishes the danger of a future contraction of foreign buying of United States products.

The approach to world economic balance is of great importance to the United States. The tendency now visible in Europe to remove direct governmental controls of foreign transactions, using instead more flexible measures of monetary and fiscal policy, will tend to increase the efficiency with which productive resources are used and to allow importers and consumers greater freedom of choice. Continued progress in this direction will strengthen the economy of the free world and help to assure its cohesion.