Chapter 3

Foreign Developments and the American Economy

THE INTERACTION between economic developments in other countries and in the United States was again evident in 1957. In the early part of the year, foreign demand exerted a strongly expansive effect on the American economy. United States exports, which had already been rising rapidly with the growth in economic activity abroad, increased with unusual force as a result of demands arising from the closure of the Suez Canal and other temporary circumstances. These special demands subsided at the same time that the pace of economic expansion abroad slowed down, and United States exports declined from the record level of the first half of the year. United States imports varied only slightly, in total amount, from the 1956 level, though the demand for raw material imports declined in the latter part of the year, as a result of reduced industrial activity.

When economic activity contracted in 1953–54, United States demand for imports fell for a time. However, the outflow of dollars through capital investment and in other ways increased; this strengthened the foreign exchange positions of other countries and helped promote economic expansion. The continued rise in industrial production in Western Europe supported world trade and commodity prices and contributed to an upturn in economic activity in the United States.

In the months ahead, developments in the United States economy and in its external trade and financial relations will influence, and be influenced by, economic developments in other countries. It is important that policies pursued here and abroad promote economic growth and counteract strains that would lead to raising and hardening trade barriers among nations.

Changes in Production

Industrial production abroad (excluding output of countries in the Soviet bloc) averaged about 4 percent higher in 1957 than in 1956, and close to double the prewar output (Table 7). In most countries, the lead in the exceptionally rapid expansion since 1953 was taken by the metal and metal-fabricating industries, to meet strong home-investment and export demands. In the more developed countries, the demand for consumer durable goods also proved to be heavy, as incomes and levels of living rose; during 1956, textile manufactures, which had previously lagged, joined in the rise.

Table 7.—*World industrial production, 1955–57*

[Index, 1953=100]

Country	1955	1956	1957			
			First quarter	Second quarter	Third quarter	Fourth quarter
			Not seasonally adjusted			
World: [1]						
Including United States	110	[2] 115	119	120	[3] 115	[4]
Excluding United States	118	[2] 125	129	133	[3] 127	[4]
			Seasonally adjusted			
OEEC countries	119	125	130	131	131	[3] 131
Austria	133	138	144	146	147	[4]
Belgium	116	122	127	125	[5] 117	[4]
Denmark	112	111	118	116	113	[4]
France	117	[6] 129	142	143	144	[7] 151
Germany, Federal Republic	129	139	147	148	146	[7] 146
Greece	130	134	142	145	149	[4]
Ireland	108	104	102	104	100	[4]
Italy	118	128	135	137	138	[4]
Netherlands	118	124	130	127	126	[7] 124
Norway	117	122	123	128	128	[7] 128
Sweden	111	114	118	120	119	[4]
United Kingdom	114	113	113	116	116	[7] 115
Canada	107	114	117	115	114	[7] 112
United States	104	107	109	107	107	104
			Not seasonally adjusted			
India	116	126	133	149	[4]	[4]
Japan	117	142	150	164	164	[7] 159
Yugoslavia	132	145	150	165	170	[4]
Argentina	118	117	111	120	[7] 131	[4]
Chile	102	104	95	[4]	[4]	[4]
Brazil	112	112	[4]	[4]	[4]	[4]
Mexico	119	130	[4]	[4]	[4]	[4]

[1] Excluding USSR and other members of the Soviet bloc.
[2] Quarterly figures for 1956 are: for the world including United States, 114, 116, 112, 119; for the world excluding United States, 122, 128, 122, 130.
[3] Preliminary estimates by Council of Economic Advisers.
[4] Not available.
[5] Reflects July strike.
[6] Average of quarterly figures for 1956 would be 134.
[7] Partial data for quarter.

Sources: United Nations and Organization for European Economic Cooperation (except as noted).

These gains in industrial production were achieved in Western Europe generally by May 1957, and there appears to have been no further over-all increase since then. Production in the Federal Republic of Germany, after a pace-setting rise up to mid-1956 and a further vigorous increase in the first quarter of 1957, fell in the summer but turned upward again in the autumn. The revival in the United Kingdom's industrial output starting in the spring did not go much beyond the level reached at the end of 1955. In France, however, the industrial upsurge that began in 1954 continued during 1957; but it was accompanied by inflationary pressures and produced an imbalance in trade and a depletion of foreign exchange reserves.

Industrial output in Canada leveled off in the early months of 1957 and then receded. Japanese production, after a long and rapid increase, declined after July. Industrial activity in India and Yugoslavia continued to expand rapidly, but this was not typical of less developed countries as a whole. In Latin America, the total volume of mining output expanded appreciably, but manufacturing appears to have been only moderately higher than in 1956.

Although the growth of demand slackened in some countries, a slower rate of increase in output was inevitable because, in a number of cases, industrial production had begun to crowd the physical limits set by existing plant capacity or by the supply of labor. Moreover, in response to the rise of prices and wages, the monetary authorities in most of the developed economies restricted credit, thereby restraining investment outlays. In several countries, loss of foreign exchange reserves as the result of trade deficits or speculative capital movements compelled policies of restraint.

The Course of World Trade

Total world exports (excluding those of the Soviet bloc) reached an annual rate close to $100 billion during the first half of 1957. In physical terms, exports were 8 percent above those in the first half of 1956 and nearly 40 percent above the same period of 1953 (Chart 13). In recent months there has been little further expansion. Trade among the industrial countries accounted for most of the increase to mid-1957. In relative terms, however, some of the sharpest increases were in imports of certain of the less developed countries (Table 8). Most of this rise was in their trade with the United States and other industrially developed countries.

TABLE 8.—*Changes in world trade, 1955–57*

Area	Exports			Imports		
	July 1956–June 1957 (billions of dollars)	Percentage increase		July 1956–June 1957 (billions of dollars)	Percentage increase	
		First half 1955 to first half 1956	First half 1956 to first half 1957		First half 1955 to first half 1956	First half 1956 to first half 1957
World [1]	94.9	12.2	10.9	103.1	11.0	11.9
Northern North America [2]	24.1	16.8	18.7	20.7	17.9	3.5
Latin America	8.6	10.6	2.1	8.3	2.7	14.4
Western Europe (OEEC countries)	38.3	12.2	11.8	45.5	10.5	14.0
To or from other Western European countries	19.7	11.3	12.9	20.2	11.6	11.9
To or from other areas	18.6	13.0	10.7	25.3	9.7	15.7
Overseas territories of continental Western Europe	2.8	6.8	.7	3.7	2.5	18.0
Outer sterling area	12.0	5.9	4.5	12.8	7.1	7.3
Middle East [3]	2.2	24.5	3.4	2.2	11.9	1.8
Far East [3]	4.7	14.2	12.4	6.9	17.8	34.0
Other countries [3]	2.2	2.2	8.4	3.0	9.3	12.1

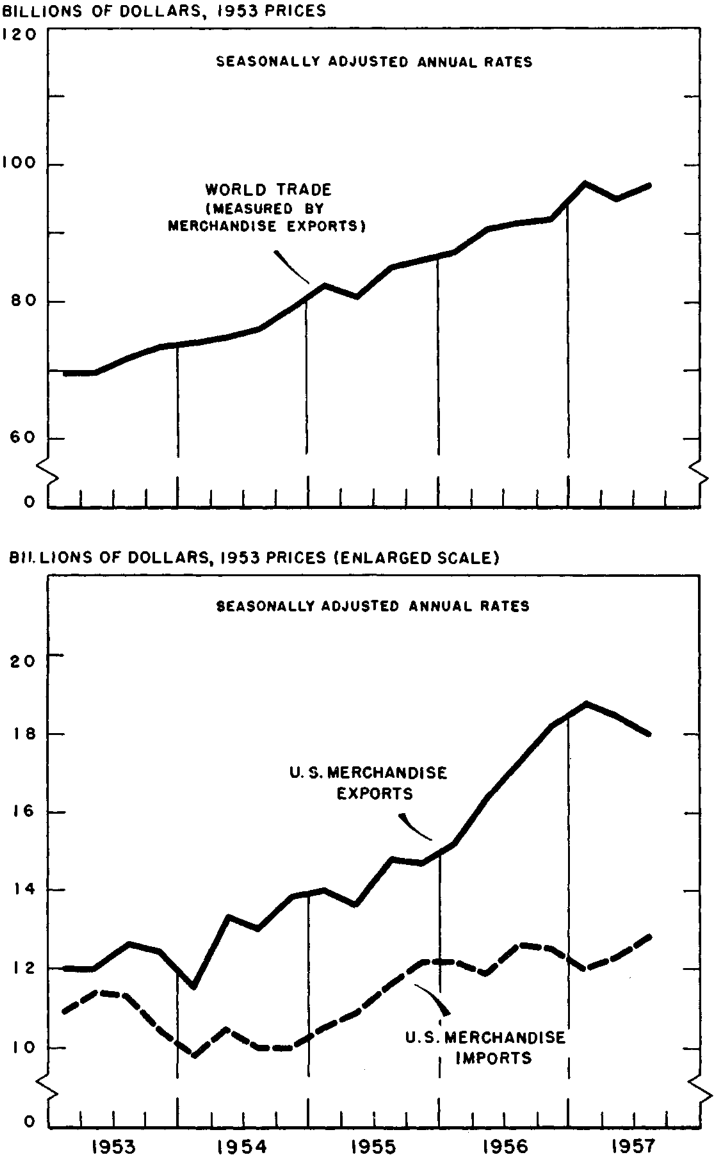
[1] Excludes USSR and other members of the Soviet bloc.
[2] Exports exclude military aid shipments by United States and Canada.
[3] Excludes countries belonging to the sterling area.

Sources: Department of Commerce, based on data from United Nations and Organization for European Economic Cooperation.

CHART 13

World and U. S. Foreign Trade

U. S. exports rose much faster than imports or total world trade from early 1956 to early 1957, but declined later in the year.



NOTE: DATA EXCLUDE U.S. MILITARY SHIPMENTS UNDER AID PROGRAMS AND EXPORTS OF USSR AND OTHER MEMBERS OF THE SOVIET BLOC.

SOURCES: COUNCIL OF ECONOMIC ADVISERS AND DEPARTMENT OF COMMERCE.

Purchases of American goods and services by foreign countries rose with exceptional vigor during the first quarter of 1957 to an annual rate of about $27 billion, 25 percent higher than a year earlier (Chart 14). They maintained this rate during the second quarter and most of the third, but declined in the autumn.

Exports of three commodities—petroleum (and products), raw cotton, and wheat—together increased by $850 million and accounted for nearly one-half of the increase in total United States merchandise exports between the first half of 1956 and the first half of 1957. The large rise in petroleum shipments resulted from the temporary disruption of traffic through the Suez Canal. Cotton shipments, which had been abnormally low in 1955–56 prior to the reduction in the United States export price to world market levels, rose to exceptionally high amounts as foreign stocks were rebuilt. Exports of wheat were unusually large, primarily because of the poor European harvest in 1956 and large special-program shipments to Asian countries.

In addition to these special circumstances, United States exports benefited from reductions achieved in trade barriers abroad and, until mid-1957, from the general buoyancy of foreign demand. Sales of both industrial materials and capital equipment rose as industrial activity expanded abroad (Table 9). Exports of many products, such as steel, scrap, and machinery,

TABLE 9.—*U. S. merchandise exports and imports, 1953–57*

[Millions of dollars]

Commodity group	1953–55 Quarterly average	1956 Quarterly average	1957 First quarter	1957 Second quarter	1957 Third quarter
Domestic exports [1]	3,248	4,286	5,043	5,089	4,437
Producers' supplies and materials:					
Cotton, tobacco, and other agricultural materials	305	366	531	433	378
Nonagricultural materials	1,055	1,474	1,847	1,847	1,625
Capital equipment	1,036	1,326	1,432	1,643	1,430
Consumer goods:					
Food	464	685	762	709	595
Other consumer goods	346	380	396	397	348
Miscellaneous	43	56	75	60	61
General imports	2,706	3,151	3,237	3,205	3,197
Producers' supplies and materials:					
Petroleum and products	219	320	360	382	406
Other materials used in production of nondurable goods [2]	514	570	580	560	518
Materials used in production of durable goods	756	918	834	884	873
Materials used in agriculture	94	84	94	101	85
Capital equipment [3]	58	92	105	108	92
Consumer goods:					
Food, beverages, and drugs	797	793	879	737	747
Other consumer goods	228	318	332	359	414
Miscellaneous	40	55	53	74	62

[1] Excludes military aid, and motion picture films exported on a royalty basis.
[2] Includes newsprint and paper base stocks and tobacco.
[3] Includes agricultural machinery.

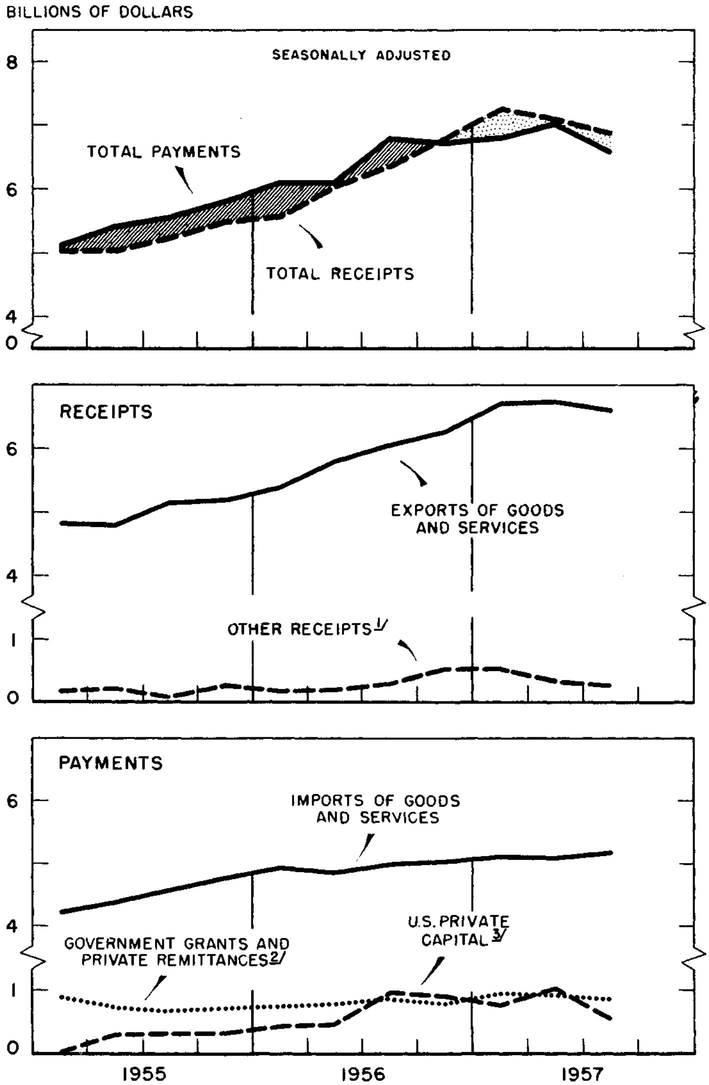
NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Department of Commerce.

CHART 14

U. S. Balance of Payments

The excess of U. S. receipts from other countries over payments to them led to reductions in foreign gold and dollar holdings in 1957.



1/ FOREIGN LONG-TERM CAPITAL PLUS ERRORS AND OMISSIONS.
2/ INCLUDES RELATED GOVERNMENT CAPITAL EXPORTS.
3/ INCLUDES EXPORT-IMPORT BANK LOANS.

NOTE: DATA EXCLUDE MILITARY GRANT-AID.

SOURCE: DEPARTMENT OF COMMERCE.

were facilitated by the possibility of obtaining delivery more rapidly from the United States than from other sources, though this entailed some additional upward pressure on United States prices of such goods. Exports of consumer finished goods, on the other hand, rose more slowly.

As the year progressed, foreign demand for United States output declined from the very high rate of the early months. Late in the year, the volume of exports had fallen to a level slightly below that of 12 months earlier and was at an annual rate markedly lower than in the first six months of 1957.

The expansion of imports into this country, though much smaller than the rise in exports, was fairly general and substantial from 1954 to 1956. Further growth of imports has been limited, with increases occurring chiefly in petroleum and products and consumer manufactures including automobiles (Table 9). Imports of industrial materials, other than petroleum, which had constituted nearly half of total imports in 1953–56, reflected the decline in domestic manufacturing production and showed some effect of reductions in prices.

International Financial Developments

Disparities between movements in exports and in imports gave rise to some exceptionally large trade deficits and consequent difficulties in international payments. In India, heavy private and public demands generated by the program for economic development caused the trade deficit to increase by an annual rate of more than $600 million from the first half of 1955 to the first half of 1957. Smaller increases occurred in some other less developed countries. Trade deficits also rose in some of the industrially more advanced countries over the same two-year period—by an annual rate of $1,550 million in France, almost $1,400 million in Japan, and $640 million in the Netherlands. These changes had their counterpart in increased trade surpluses of a few other countries. That of the United States rose by an annual rate of $4,500 million and that of Western Germany by a rate of $600 million.

The deficits and surpluses arising in international trade in the recent past were to a large extent offset by capital movements. Much of the large increase in the excess of our exports over imports of goods and services in the last few years was made possible by a rapid growth in the outflow of United States private capital. Although private American investment abroad fell sharply in the third quarter of 1957, it was still relatively high. United States Government grants and credits remained close to previous levels and continue to contribute significantly to our export surplus (Chart 14).

In a number of countries, however, trade balances were not covered by capital movements; and in several cases capital outflows, particularly of a speculative nature, increased rather than alleviated these strains. The United Kingdom achieved a surplus on current account but experienced a still larger outflow of capital. Much of this outflow was due to speculative operations, concentrated first during the period of the Suez crisis and again during the summer of 1957.

The net result of these movements on trade and capital account was a sharp fall in the gold and foreign exchange reserves of a number of countries, notably France, the United Kingdom, India, Japan, the Netherlands, and Belgium. In addition, heavy demands were made upon the resources of the International Monetary Fund, and further credits were obtained through the European Payments Union. Part of these gold and exchange resources were used in settlements with the United States. The net decline in the gold and dollar balances of foreign countries and of international institutions attributable to transactions with this country amounted to $900 million during the year ended September 30, 1957. A substantial inflow of foreign private capital played a role in these movements; some of these assets are potential sources of additions to foreign currency reserves.

Certain foreign countries, however, added significantly to their gold and foreign exchange holdings during that period. The increase amounted to $1,650 million in Western Germany. Other major increases were $800 million in Venezuela and $300 million in Canada, influenced in both cases by large capital inflows, chiefly from the United States. Australia's gold and foreign exchange holdings, mainly in sterling, rose by about $500 million.

In several countries, notably the United Kingdom, the Netherlands, and Japan, exchange positions took a turn for the better before the end of 1957. Credit policy, operating externally on speculation and internally on investments and inventories, was the major corrective measure. France, however, responded to continued losses of exchange reserves by devaluing the franc and tightening trade controls. Within the French economy, the pressure of demand remained strong and consumer prices rose further, whereas in most European countries retail prices increased much less than in other recent years.

Western Germany's strong external position and some easing of domestic demand permitted a reduction in its central bank discount rate while other countries were raising theirs. Western Germany was also able to provide some direct relief to the international payments situation by prepayments on long-term debts and by new loans.

Demand in the nonindustrial countries has continued strong, as shown by the further rise in the imports of this group of countries in the third quarter of 1957. Thus, United States exports of machinery to Latin America in that period expanded further, although machinery exports to Canada and Western Europe declined. In a number of the less developed countries, the increases in imports reflected, in part, inflationary internal conditions and resulted in continued difficulties in international payments.

The foreign exchange earnings of a number of countries heavily dependent on the export of primary products have been reduced as the result of declines in prices of certain commodities—including minerals and metals and some foodstuffs and fibres—as enlarged capacity and output encountered some slackening in export demand. The effective buying power of the primary producing countries has been further impaired by the rise in prices paid for imports of manufactured goods.

Future Problems and Policies

Although world production and trade are, for the time being, not rising at the rapid rate of recent years, the possibilities for further advance remain great. Potential demands abroad for consumer goods, for public facilities, and for other types of investments continue to be large. Most governments today recognize a responsibility for pursuing policies to promote high levels of economic activity. The industrially less developed countries are eager to push ahead with their economic development. Vigorous growth abroad will help fulfill universal aspirations for economic betterment and can result in a rising level of demand for United States goods and services.

The actual course of foreign economic developments will be influenced in significant measure by developments in our own economy and in our foreign and domestic policies. Whether potential external demands for our goods and services materialize will depend primarily upon foreign opportunities to earn dollars through exports to the United States or to obtain loans and investments. These opportunities have expanded swiftly ever since the end of the war, with only minor interruptions, and have played an essential role in world economic growth. If the outflow of dollar payments should cease to grow or should contract, the continuation of economic expansion abroad would become more difficult to achieve and measures aimed at restricting purchases from the United States might result, because of lack of dollars to pay for them. A continued rise in the outflow of dollar payments, on the other hand, would make for a mutually reinforcing economic expansion here and abroad.

The economic policies of the United States, both domestic and foreign, have an important bearing on these prospects. In the field of domestic economic policy, growth and stability are important objectives not only for this country's welfare but also for their effects on foreign countries through our imports and in other ways. In the field of foreign economic policy, our aims are expressed in programs of economic and technical assistance for promoting economic development abroad and in efforts to extend the liberalization of trade.

In all of this, we stand to benefit not only by the rise in foreign demand for our exports but also by the increase in foreign capacity to meet our import needs. The contribution made by imports to our welfare includes the satisfaction of certain essential requirements and a widening of the variety of goods available to our consumers and producers. These results are to the good of the Nation. It would be a grave loss to impede our access to needed imports or to isolate ourselves from the specializations and skills of other countries.