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THE BALANCE OF PAYMENTS OF THE UNITED STATES

THE recent proposals for financial and economic agreements with the United States have raised doubts in many quarters on two largely distinct matters. The first relates to our capacity to achieve an adequate increase in the volume of our exports. The second relates to America's capacity to accept goods and services from the rest of the world on a scale adequate to secure a reasonable equilibrium in her overall balance of payments. Both these issues relate to the position of ourselves and of the United States respectively in relation to the rest of the world taken as a whole. On the assumption, however, that the International Monetary Fund and other supporting arrangements will be successful in establishing multilateral clearing of current transactions over a wide area, bilateral equilibrium will be achieved between the United Kingdom and the United States, if the two conditions are fulfilled that British exports of goods and services to the rest of the world as a whole reach an appropriate level and that American imports of goods and services from the rest of the world as a whole reach an appropriate level. If these conditions are satisfied, there will be no necessity for a strictly bilateral balance between the two countries taken in isolation.

This article is solely concerned with the available statistics relating to the second of these two problems—namely, the balance of payments of the United States. It is dangerous in this, as in many other contexts, to project pre-war statistics into the so greatly changed post-war world. But some current conclusions on the matter may be based too much on general impressions and too little on an examination of the details, with the result that the problem is not seen in the right perspective, that the orders of magnitude involved are not rightly apprehended, and, as a result, that the difficulties ahead of us are exaggerated. The object of this article is not to make definite predictions, but to bring out some of the data which are required for an informed judgment, as the prospects of the future gradually unfold themselves.

Let us begin with the figures of the pre-war position. The favourable balance of the U.S. year by year from 1930 to 1938 on all current transactions ran as follows :—

	$ million.		$ million.
1930	+735	1935	−156
1931	+175	1936	−218
1932	+159	1937	− 31
1933	+108	1938	+967
1934	+341		

Thus it is a mistake to suppose that the United States had an enormously favourable balance on current account. If the nine-year period is broken up into three-year periods, the average favourable balance works out at \$356 million, \$98 million and \$239 million. The average for the whole period—namely, \$231 million—is very much the same as it was for the latest triennium. Moreover, if the first and last years of the period are left out, it will be seen that during the intervening seven years, which included the slump, the United States current balance of trade broke about even. Even with the inclusion of the first and last years the average favourable balance of the United States on current account before the war was much less than the favourable balance earned by the United Kingdom (at a much lower price level) at the time when we were building up our overseas investments; and it was about the same as our own favourable balance as recently as 1923–29, when our own average surplus was \$374 million. The general impression to the contrary is based partly perhaps on the figure of the most recent pre-war year—namely, 1938—but mainly, I think, on a confusion between current movements and capital movements. The pressure on the rest of the world from 1930 onwards was due to a large-scale capital movement from Europe to America being superimposed on a substantial, but not unwieldy, balance on current account. The serious consequences to the rest of the world flowed from the anomaly of a country with a substantial favourable balance being simultaneously the recipient of investible funds from abroad. Most countries, however, have now armed themselves with precautionary powers against the repetition of undesirable and useless capital movements of this character. The influence of the Bretton Woods plan is, of course, against a future repetition of this experience. Surely we now have means to avoid it.

Nor is it the case that in times of depression in America imports always fall off on a great scale relatively to exports. The statistics of the decade before the war show that, on the whole, industrial production, exports and imports tend to move together. The common opinion on this matter is based too exclusively on the experience of 1938 (1939, being a war year for the rest of the world, cannot be used as a basis for the argument) compared with 1936 and 1937. The movements are shown in Table I.

All that can be said on the other side is that these figures do not show what would happen in a period of slump in the United States and of full employment in the rest of the world. This, however,

TABLE I

Indices of U.S. Industrial Production, Imports and Exports

(1935–39 = 100)

	1930.	1931.	1932.	1933.	1934.	1935.	1936.	1937.	1938.	1939.
Industrial production . .	91	75	58	69	75	87	103	113	89	109
Imports . .	129	89	56	61	70	87	102	130	83	98
Exports . .	134	85	56	59	74	80	86	117	108	110

Notes.—Figures for industrial production are the Federal Reserve Board unadjusted index (1935–39 = 100). The import and export indices have been calculated on the same basis.

involves an *a priori*, not a statistical, argument, which would lead us on to the question just what difference in such circumstances the proposed financial and economic agreements would make. I am limiting myself here to the statistical evidence and to conclusions purporting to be based on it.

Perhaps the most mistaken and most prevalent delusion relates, however, to the creditor position of the United States to-day in relation to the rest of the world. It is commonly believed that the end of the war has left the United States in a strong creditor position, in addition to her large gold reserves. How many people are aware that apart from her gold holdings, which do not, of course, represent an undischarged claim on the rest of the world, the United States was a debtor country on balance at the end of 1945 ? The details are as follows :—

TABLE II

International Investment Position of the United States, December 31, 1945.(1)

		$ billion.
Assets (United States investments abroad) :		
Long-term :		
Direct	7·0	
Foreign dollar bonds	1·9	
United States Government (3)	2·7	
Miscellaneous private	1·0	
Total long-term		12·6
Short-term :		
Private	0·3	
Official	0·1	
Total short-term		0·4
Total assets		13·0

TABLE II—*continued.*

		$ billion.
Liabilities (foreign investments in the United States) :		
Long-term : (2)		
Direct	2·3	
Preferred and common stocks	3·7	
Corporate and Government bonds	0·9	
Miscellaneous	0·6	
Total long-term		7·5
Short-term :		
Private	4·5	
U.S. Government (4)	3·1	
Total short-term		7·6
Total liabilities		15·1
Net creditor (+) *or debtor* (−) *position of the United States :*		
On long-term account		+5·1
On short-term account		−7·2
Net position		−2·1

Notes.—(1) Preliminary Estimates. The preceding table, prepared by the U.S. Department of Commerce, appears in Part 2 of the Eighth Report of the U.S. Congressional Committee on Postwar Economic Policy and Planning dated February 7, 1946.

(2) Basis of valuation : Direct investments at book value; all other at market values where available, otherwise par or estimated values.

(3) Includes estimated amounts due under Lend-Lease credits and Military civilian supply programmes; outstanding Export-Import Bank Loans and the R.F.C. Loan to the U.K.; and the $650 million due by the U.K. under the Lend-Lease Settlement of December 6, 1945.

(4) Includes holdings of United States currency and of short-term Government securities as well as certain foreign deposits within the U.S. Treasury.

TABLE III

U.S. Gold Holdings

($ million)

	U.S. gold reserves at end of period.	Net gold import.	Decrease or increase (−) in ear-marked gold on foreign account.
1938	14,512	1,974	−333
1939	17,644	3,574	−534
1940	21,995	4,744	−645
1941	22,737	982	−408
1942	22,726	316	−458
1943	21,938	69	−804
1944	20,619	−845	−460
1945 Jan.–Nov.	20,030	−125	−352
1945 Oct.	20,036		
1945 Jan.–Dec.	20,065		−357

Note.—Source : ***Federal Reserve Bulletin,*** Jan. 1946.

Table IV

Short-term foreign liabilities reported by Banks in U.S.	$ million.
End of December 1938	1,997
" " 1939	3,057
" " 1940	3,785
" " 1941	3,482
" " 1942	3,987
" " 1943	5,154
" " 1944	5,269
End of October 1945	6,397

Of the amounts outstanding on Oct. 31, 1945, $3,748 million represented official balances and $2,649 million other balances.

Notes.—(1) Other capital movements in the period December 1941 to October 1945 were comparatively small and partly equalising in effect, as follows:

(i) Decrease in U.S. banking funds abroad . . .	$84 million.
(ii) Return of U.S. funds in foreign securities . . .	150 "
(iii) Inflow of foreign funds invested in securities . .	168 "
(iv) Inflow of brokerage balances	33 "

(2) Source: *Federal Reserve Bulletin.*

Table V

Analysis by Countries of short-term Foreign Liabilities reported by Banks in U.S.A. at Oct. 31, 1945

	$ million.	
I. *Europe*		
U.K.	740	
France	360	
Netherlands	228	
Switzerland	284	
Belgium	196	
Norway	183	
Sweden	213	
Other European	341	
		2,545
II. *Canada*		1,552
III. *Latin America*		
Brazil	179	
Cuba	145	
Mexico	164	
Argentine	77	
Colombia	83	
Panama	64	
Chile	90	
Venezuela	40	
Other Latin America	248	
		1,098
IV. *Asia*		
China	592	
Netherlands East Indies	104	
Other	312	
		1,008
V. *All other Countries*		194
		6,397

Note.—Source: *Federal Reserve Bulletin.*

After she entered the war, the net short-term position of the United States deteriorated substantially; so much so that by October 1945 she had dissipated by far the greater part of her large gains from ourselves and others in 1939, 1940 and 1941 before she entered the war, and was only very slightly stronger, after deducting her increased foreign liability from her increased gold reserve, than at the end of 1938, an increase of $5,524 million in gold holdings and of about $200 million in currency holdings abroad being offset by an increase of $5,175 million in foreign liabilities, as is shown in Tables III and IV.

Gold held under ear-mark for foreign account at December 31, 1945, represented $3,994 million.

The fact that the U.S. Administration blocked the resources of a number of foreign countries during the war, and that these assets remained blocked throughout the war-period, has made available fairly accurate statistics of the very large dollar holdings of the countries in question, which stood at the end of the war as follows :—

TABLE VI

Distribution of Blocked Property by Nationality of Owner (as of June 14, 1941)

Netherlands, including Netherlands (East) Indies	$1,800,000,000
Switzerland	1,500,000,000
France and Monaco	1,400,000,000
Belgium	400,000,000
Sweden	600,000,000
China	300,000,000
Norway	100,000,000
Japan	150,000,000
Germany	150,000,000
Italy	100,000,000
All others	750,000,000
Blocked nationals resident in the United States (other than business enterprises owned abroad)	500,000,000
Holdings of American citizens in blocked enterprises	750,000,000
Total	$8,500,000,000

Distribution of Blocked Property by Type of Property (as of June 14, 1941)

Short-term funds, including ear-marked gold	$4,000,000,000
Securities	2,000,000,000
Direct investments and miscellaneous	2,000,000,000
Holdings of blocked nationals resident in United States	500,000,000
Total	$8,500,000,000

Note.—The above tables appear on page 223, Report on Hearings before the Subcommittee of the Committee on Appropriations, House of Representatives, Seventy-ninth Congress, First Session on the Treasury Department Appropriation Bill for 1946.

At the same date (June 14, 1941) a general census was taken of all foreign-owned United States assets, showing a grand total of $12,739 million, exclusive of ear-marked gold, which has been brought up to date in Table II above. A detailed analysis of this census was published by the U.S. Treasury in 1945 under the title "Census of foreign-owned assets in the United States."

If the figures are restricted to the more or less liquid reserves of foreign countries held in the United States at the end of the war in the shape of ear-marked gold, bank balances and market securities, the aggregate is of the order of $15 billion, and has *increased* since the end of 1938 by some $9 billion. This huge movement, most of which represents a gain by foreign countries at the expense of the United States, has been largely overlooked by commentators in this country.

TABLE VII

	$ billion.
(*a*) Short-term assets held in the United States (Table IV)	6·4
(*b*) Ear-marked gold (Table III)	4·0
(*c*) Market Securities (Table II) (compared with $3,825 billion at the end of 1938)	4·6
	15·0

So far we have been concerned with firm statistics relating to the present position and the most recent pre-war experience. How materially has this been changed by what there is good reason to expect in the immediately ensuing period?

The sterling prices of goods entering into foreign trade are running at the present time at not much less than double pre-war. This ratio is rather too high for dollar prices. But for convenience of calculation an assumption of double pre-war prices will be used in what follows. The results can be easily adjusted to alternative assumptions. (A lower figure for prices would probably ease the eventual problem on balance.)

On this price assumption the average level of imports immediately before the war would be worth rather less than $5 billion. American experts are expecting a considerably higher figure than this after the war, even as much as 50% higher, on account of the greatly increased activity of the American industrial machine and its increased consumption of imported raw materials as soon as they are available in the required volume. The American view may perhaps be regarded as in part a reflection of the vivid consciousness of the need for maintaining domestic prosperity currently in evidence in the United States; for, as appears from Table I above, an index of imports shows annual changes in the period 1932–38 as a magnified reflection of changes in the level of U.S. industrial production, or rather, as it should be read in this context, in the level of internal prosperity. Whatever vicissitudes one may foresee for American prosperity, it is certain that the public demand for vigorous Government action to meet any serious or prolonged unemployment will be intense. When the outside world has recovered its capacity to supply, imports of $6 to $8 billion on the above price assumption would seem quite reasonable. U.S. imports averaged $4 billion in the decade 1920–29 at the prices and level of national income *then* prevailing. They are running currently in the neighbourhood of $5 billion at present prices.

Exports, at the average level immediately before the war, on the same price assumption would be a little more than $6 billion. Here also the American experts expect a higher figure, various estimates up to as high as $10 billion being current. In the second half of 1945 American exports, which were still dominated by Lend-Lease, were running at an annual rate of $8 billion. The U.S. Secretary of Commerce, Mr. Henry Wallace, in his evidence to the Senate Banking Committee during the hearings on the British Loan on March 12, 1946, estimated the total foreign requirements from the U.S. in 1946 at $10,728 billion. A figure of $10 billion might well be reached in the early years, when overseas lending by the United States in the shape of tied loans is on a large scale; for the loans in many cases create, and are the necessary condition of, the exports. It is not clear, however, that this figure will be easily reached without the assistance of tied loans or subsidies, in view of the fact that the prices of American agricultural produce and raw material now stand over a wide field above world prices. Moreover, industrial wages in the United States are already two and a half times the British level, and are rising more rapidly. There is certainly a potential danger from a policy of export subsidies. But extensions of this policy are frowned upon by the State Department, and will be strictly regulated if the proposals of the projected International Trade Organisation come into operation.

Perhaps the reader may be left for the moment to form his own judgment, in the light of the above, of the most probable order of magnitude of the American favourable balance of visible trade in the post-war environment. An average of $2 to $3 billion a year over a period of years beginning in 1947 looks to me fully high on the basis of present expectation.

What about the invisible items other than interest (which it will be convenient to deal with separately)? Apart from interest charges and dividend income, the United States had before the war an adverse balance in excess of $500 million, the principal items of which are given in the following table :—

TABLE VIII

U.S. Balance of Payments on Invisibles (Other than Dividends and Interest)

(Average 1936–39)

	Receipts.	Payments.	Net.
Shipping and freight	241	321	− 80
Travel	129	309	−180
Personal remittances	31	159	−128
Institutional contributions (net)	—	—	− 35
Government aid and settlements	2	22	− 20
Other Government items	34	83	− 49
Silver	10	131	−121
Miscellaneous adjustments and services (net)	—	—	+85
Net total	—	—	−528

American statisticians are expecting a substantial increase in this adverse balance, and rely on this, more than on any other factor, for the maintenance of equilibrium. The pre-war adverse balance in respect of shipping may be reversed, but not perhaps by as much as some people think. The great increase of American-owned tonnage is mainly concentrated in a few specialised types, and a very great part of it will, according to present plans, be scrapped, laid-up or otherwise disposed of. American costs, both of building and of running ships, are very high compared with our own. Overseas Government expenditure, on the other hand, will certainly be much greater.

American forecasters are, however, mainly influenced in reaching their conclusion by the expectation of a very great increase in tourist expenditure. Before the war their gross payments out on this ground were of the order of $300 million. It is believed that after the war this expenditure will reach at least $1 billion, and even such figures as $2 billion are spoken of. Those who know the present state of hotel accommodation here and in Europe are likely to consider these figures greatly over-estimated in the short run. But in the long run, if we take adequate measures to develop the tourist industry up to its full potentialities, this source of overseas income, both here and in Europe, may be very great. Moreover, even in the short run American tourist expenditure nearer home in Canada, Mexico and the West Indies may be substantial.

An important item to complete the balance-sheet of current receipts and expenditure still remains for examination—namely, the growth of income from the new foreign loans now in prospect. We start off with an estimate of net receipts of $300 million at the end of 1945 in respect of interest and dividend receipts.* It is the prospective increase in this item which looks most alarming to the outsider, and it is therefore particularly important to clear our minds about its possible order of magnitude in relation to the other figures in the balance-sheet.

An estimate of American commitments, actual and prospective, up to date has been given in the January Bank Letter of the National City Bank of New York as follows :—

TABLE IX

	$ million.
U.S. subscription to the International Monetary Fund	2,750
Ditto to the International Bank	3,175
Authorised lending power of the Export–Import Bank	3,500
Proposed British credit—new money	3,750
Ditto for Lend-Lease settlement, etc.	650
Credit for Lend-Lease settlement with France	575
Ditto with Russia	400
First contribution to U.N.R.R.A.	1,350
Second proposed contribution	1,350
	17,500

This table is, of course, a very imperfect guide to the final situation. But it may help to give us a clue to the orders of magnitude involved. In the first place, this table covers only those commitments already approved by Congress or recommended to Congress by the Administration. In this respect, therefore, the total of the ultimate commitment is presumably under-estimated. In particular it may be noted that in a message to Congress on March 1, 1946, President Truman endorsed the recommendation of the National Advisory Council on International Monetary and Financial Problems that the lending authority of the Export–Import Bank be increased by $1·25 billion. In the second place, on the other hand, it looks some way ahead. It assumes, for example, that the whole of the American subscription to the Bretton Woods Fund has been drawn upon. It also

* That this is a positive, and not a negative, figure, in spite of U.S. being a net debtor on capital account, is explained by the large amount of her external liabilities held at short-term at a very low rate of interest. It follows that this figure will be increased correspondingly less when foreign countries begin to draw on their dollar balances.

assumes that the whole of the present resources of the Export–Import Bank have been utilised. Nor does the amount of the American subscription to the International Reconstruction Bank accurately measure what really matters in this context—namely, the volume of loans which the new Bank will be able to raise in the American market, a figure which may, in the long run, either exceed or fall short of the amount of the American subscription as a member. Moreover the contributions to U.N.R.R.A. can be neglected for our present purpose; for they are a free gift which will help to preserve equilibrium in 1946 but will have no effects on the balance of payments in later years.

The actual, as distinct from the potential, state of commitments as at the end of January, 1946, was stated by the President in his Budget statement at that time as follows:—The loans and commitments of the Export–Import Bank then stood at \$1·3 billion out of its total authorisation of \$3·5 billion. The President "anticipated that net expenditures of the Export–Import Bank and expenditures arising from the British credit and the Bretton Woods Agreement will amount to \$2,614 million including the non-cash item of \$950 million for the Fund in the fiscal year 1946 and \$2,754 million in the fiscal year 1947."

What is the annual burden of interest which the rest of the world will have undertaken on the basis of the present programme? Current interest receipts from the International Monetary Fund will depend not only on the amount drawn upon, but also on the dividend policy of the Fund. It is not yet possible to enter any figure under this head. The Export–Import Bank rates of interest have varied between $2\frac{3}{8}\%$ and 3%. The Lend-Lease settlements with France and Russia are at $2\frac{3}{8}\%$. The British credit is at 2%, beginning on December 31, 1951. The terms on which the International Bank will be able to borrow are quite uncertain. To fix a base for our impression of the order of magnitude, let us leave out U.N.R.R.A. and the subscription to the I.M.F. and assume that the rest costs 3% on the average (which one may hope is an outside estimate). The result is an annual interest burden of \$360 million. It will be seen, contrary perhaps to expectation, that the total is small compared with the other main items in our calculation. Treble it, and you have only just exceeded \$1 billion. And if you treble it the corresponding increase of new loans would be sufficient to clear the overall position for another decade or two. Moreover, it should be repeated that the figure of \$360 million looks some way ahead. For we have included interest on the British credit which does not begin to fall due for nearly six years, and the calculation assumes loans of \$3,175 million on the American market through the International Bank, which will take some doing.

In addition to the interest payment, there is the annual amortisation of capital. The British credit is spread over fifty years, the Export–Import Bank and other Lend-Lease credits over twenty to thirty years. But it is easiest to assume, what is not unreasonable, that new American loans hereafter will be at least equal to the annual amortisation payments. If not, of course the aggregate interest payments will, after a time, fall off appreciably. In their statement of Foreign Loan Policy of the United States Government published on February 21, 1946, the National Advisory Council on International Monetary and Financial Problems assert that the annual interest *and* amortisation on the entire present and contemplated Export–Import Bank programme (that is, presumably, including the proposed additional \$1·25 billion), the British Loan and the International Bank Loans floated in U.S. markets would be less than \$1 billion.

There are far too many uncertainties in the position to allow of any clear-cut summing up. I am content to leave the reader to reach his own tentative conclusion in the light of the above. Very broadly, however, it looks as if the invisible balance of the United States on current account, including interest, is more likely to be adverse than favourable, and, if tourist traffic fulfils expectations, substantially adverse. For visible trade to assume an excess of exports over imports by as much as \$2 to \$3 billion as an average over a period of years allows, from the point of view of the outside world, a considerable, one should hope an excessive, measure of pessimism. If American Commercial Policy is successful in directing itself with any degree of conviction to the preservation of equilibrium in the overall balance of payments, the final outcome might be appreciably better than the above.

It may be worth while to record the experience of the United States after the last war. The U.S. balance of payments from 1924 to 1930 inclusive showed a merchandise excess of almost \$800 million a year on the average. But shipping and travelling expenditure cut the above favourable balance almost in half whilst cash remittances from the United States (no longer relatively so important to-day) almost eliminated the remainder; with the result that the next annual balance on capital account was not more than \$100 million.

It is obvious that no country can go on for ever covering by new lending a chronic surplus on current account without eventually forcing a default from the other parties. The above estimates show, nevertheless, that the United States can continue foreign lending on a substantial scale for many years to come before the interest due becomes a major and burdensome element in the balance of payments taken as a whole. Anyway, the above estimates are certainly not, for better or for worse, going to continue valid for an indefinite time. Much will happen which we cannot foresee. It is sufficient to cast one's prognosis a moderate distance forward. If we look forward a moderate distance, what resources will the outside world possess to discharge what, in the light of the above, it may find itself owing to the United States on annual current account?

These resources fall under three headings :—

1. *Existing Resources in the U.S.*

We have seen above that foreign-owned liquid resources in the United States in the shape of ear-marked gold, bank balances and market securities amount to at least $15 billion. It appears from Table V that the more liquid resources are well spread between a number of countries. Nevertheless, the countries most needing dollars are not necessarily those holding the largest balances; and some of the countries with the largest amounts regard their dollar balances as part of their ultimate reserves (*e.g.*, Canada) and are not likely to draw upon them fully except in extreme circumstances. Thus only a portion of the above aggregate can be regarded as easily available to cover a balance of payments favourable to the United States.

2. *The New Projected Loans Themselves.*

If we omit from Table IX the contributions to U.N.R.R.A. and the credits for Lend-Lease settlements which have been already, or shortly will be, spent, we are left with a total of $13 billion; this will rise to $14·25 million if the Export–Import Bank's lending powers are increased, and it is presumably not the end, if we are looking five or ten years ahead.

3. *Gold Reserves and Current Production.*

The 1937–40 average output outside the U.S.S.R. was in excess of $1 billion a year. In 1942–45 this fell to about $700 million, on account of shortage of man-power and material. A large increase is now expected in Canada, and an increase, rather than a decrease (perhaps a substantial increase a little later on), in South Africa. Moreover, Russia presumably intends to make some use some day of her presumed large reserves and current output. The most recent report of the Bank for International Settlements estimates the gold reserves of Central Banks and Governments other than the United States (excluding gold in the United States ear-marked on foreign account of which we have already taken account above) at about $10·4 billion. $2·7 billion of this was accumulated in 1942–45; whilst the total increase in gold stocks outside U.S. after America came into the war was considerably greater than this. It would seem, therefore, that the rest of the world could, if necessary, spare upwards of $1 billion a year, for a time at any rate, without suffering great embarrassment.

Putting one thing together with another, and after pondering all these figures, may not the reader feel himself justified in concluding that the chances of the dollar becoming dangerously scarce in the course of the next five to ten years are not very high? I found some American authorities thinking it at least as likely that America will lose gold in the early future as that she will gain a significant quantity. Indeed, the contrary view is so widely held, on the basis (I believe) of mere impression, that it would be a surprising thing if it turns out right.

In the long run more fundamental forces may be at work, if all goes well, tending towards equilibrium, the significance of which may ultimately transcend ephemeral statistics. I find myself moved, not for the first time, to remind contemporary economists that the classical teaching embodied some permanent truths of great significance, which we are liable to-day to overlook because we associate them with other doctrines which we cannot now accept without much qualification. There are in these matters deep undercurrents at work, natural forces, one can call them, or even the invisible hand, which are operating towards equilibrium. If it were not so, we could not have got on even so well as we have for many decades past. The United States is becoming a high-living, high-cost country beyond any previous experience. Unless their internal, as well as their external, economic life is to become paralysed by the Midas touch, they will discover ways of life which, compared with the ways of the less fortunate regions of the world, must tend towards, and not away from, external equilibrium.

Admittedly, if the classical medicine is to work, it is essential that import tariffs and export subsidies should not progressively offset its influence. It is for this reason that one is entitled to draw some provisional comfort from the present mood of the American Administration and, as I judge it, of the American people also, as embodied in the *Proposals for Consideration by an International Conference on Trade and Employment.* We have here sincere and thoroughgoing proposals, advanced on behalf of the United States, expressly directed towards creating a system which allows the classical medicine to do its work. It shows how much modernist stuff, gone wrong and turned sour and silly, is circulating in our system, also incongruously mixed, it seems, with age-old poisons, that we should have given so doubtful a welcome to this magnificent, objective approach which a few years ago we should have regarded as offering incredible promise of a better scheme of things.

I must not be misunderstood. I do not suppose that the classical medicine will work by itself or that we can depend on it. We need quicker and less painful aids of which exchange variation and overall import control are the most important. But in the long run these expedients will work better and we shall need them less, if the classical medicine is also at work. And if we reject the medicine from our systems altogether, we may just drift on from expedient to expedient and never get really fit again. The great virtue of the Bretton Woods and Washington proposals, taken in conjunction, is that they marry the use of the necessary expedients to the wholesome long-run doctrine. It is for this reason that, speaking in the House of Lords, I claimed that "Here is an attempt to use what we have learnt from modern experience and modern analysis, not to defeat, but to implement the wisdom of Adam Smith."

No one can be certain of anything in this age of flux and change. Decaying standards of life at a time when our command over the production of material satisfactions is the greatest ever, and a diminishing scope for individual decision and choice at a time when more than before we should be able to afford these satisfactions, are sufficient to indicate an underlying contradiction in every department of our economy. No plans will work for certain in such an epoch. But if they palpably fail, then, of course, we and everyone else will try something different.

Meanwhile for us the best policy is to act on the optimistic hypothesis until it has been proved wrong. We shall do well not to fear the future too much. Preserving all due caution in our own activities, the job for us is to get through the next five years in conditions which are favourable and not unfavourable to the restoration of our full productive efficiency and strength of purpose, of our prestige with others and of our confidence in ourselves. We shall run more risk of jeopårdising the future if we are influenced by indefinite fears based on trying to look ahead further than any one can see.

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[Invaluable help has been given by Mr. David McCurrach in the preparation of the above tables.]