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Problem of the "balance of payments" is a special case of macro-economics, of the old kind. Gresham's Law, the fact that good money goes out, is not independent of other factors.

Present day outflow of gold has nothing to do with the cash holdings because the cash doesn't flow out. One ~~xxxxxxxxxxxx~~ ^{is composed of} a special situation. The dollars go out of this country and they come back to this country in purchasing those things which represent the most advantageous bargain for the foreigners. As the situation is now, this is gold.

Bankers are administrators of other people's money. There is talk in the world that the U. S. will sooner or later stop the promise they have given to convert, to redeem dollars for foreign governments and foreign central banks at the rate of \$35 an ounce into gold.

In 1931, foreigners had deposits in the U. S. and England and one day the gold content of their deposits was reduced, leading to enormous losses. People don't want to be caught a second time in this situation. Therefore, the fact that there is discussion about the abandonment of this present day policy of the American government brings about precisely the evil about which they complain - the flight of gold. People are talking about the balance of payments in this connection.

The problem is the same as the great German reparations problem. German government officials said, "How can we pay reparations? We have no surplus of exports over imports and we could pay only if there were such a surplus." Now the fact is that paying the reparations would have created the surplus and as a matter of fact when they did in fact pay a little bit, there was a surplus.

The government's
But making gifts or loans abroad alone is not enough.
People now say that foreign aid influences unfavorably the balance of payments. [^] If the government were not to borrow anything from the commercial banks, if there were no inflation, no expansion of the currency, the foreign aid could be paid only by taxing the Americans and then paying this to the foreign ~~government~~

governments. This would force the taxpayers of America to restrict their purchases either of consumers' or producers' goods and what they ~~are~~^{were} not buying ~~can~~^{could} be bought by foreigners. Therefore, there is no special situation needed to make such a transfer as it was called to make the German reparations possible.

On the other hand, if some action of the government, higher tariffs, quotas, or complete embargoes were to make it impossible for foreigners to sell in the U. S. then the foreigners would also be forced to restrict their purchases of U. S. commodities. You cannot "improve," as it is said, "the balance of payments." The balance of payments always balances. The balance of trade can have a surplus or a minus if in the balance of payments, this is compensated for. An unfavorable balance of payments, a surplus of exports over imports, is not necessarily something which has to be considered with anxiety. In the greater part of the 19th century, Great Britain, the richest country of the world at that time, had a great surplus of imports over exports because of the payments of interest and dividends on the part of countries in which Great Britain had foreign investments.

The Ricardian Law of comparative costs. If all countries abroad were to prohibit all imports ~~xxx~~ especially from the United States and the U. S. were to remove all barriers, then the U. S. couldn't import either because the only way for the U. S. to pay for imports would be through exports and the other countries would be prohibiting imports.

If the domestic currency ~~is~~^{not} effectively exchangeable for gold increases, then one can expect that ~~the~~^{its} value expressed in gold will drop.

The outflow of gold is intentional. The foreigners have dollars and the U. S. government is prepared to give them ^{this} \$35 in gold. ~~and~~ One doesn't know whether they will do this tomorrow, ~~then~~^{so} they think gold is the best value they can ~~make~~^{get} in the U. S.