The Dollar Crisis

There is increasing alarm among competent observers on the shaky position of the dollar as a result of America's continuing balance of payments deficit. Although our exports exceed our imports by nearly $6 billion annually, our balance of payments has been running in the red to the tune of about $4 billion a year. This deficit is caused in large part by our military spending and foreign aid program, as well as the flow of capital overseas in search of higher interest rates.

Our continuing position of running in the red on the international balance sheet has caused us to lose our reserves of gold at a distressing rate. They have fallen from $24.4 billion in 1943 to $18 billion in 1960. And foreigners hold dollar claims of around $20 billion, which could completely exhaust our gold supply.

Our Government has, of course, recognized the danger and has taken some initial steps to try to remedy the situation. The first step was the announcement by President Eisenhower of a curtailment of the number of service men's families allowed abroad, plus other related measures which, taken together, are calculated to save around a billion dollars in the coming year. However, almost simultaneously it was announced by the Ford Motor Company that they were going to buy out their English subsidiary lock, stock, and barrel for the sum of almost two-fifths of a billion dollars. This could have the effect for the first year, at least, of nullifying the black ink entry expected from the curtailment of service men's families abroad.

The next step was the sending of our traveling salesmen, Secretary of the Treasury Anderson and Undersecretary of State Dillon, to Bonn to try to get the West Germans to pick up the tab for the maintenance of our occupation forces in their country, amounting to $600 million a year, as well as to try to get them to assume a larger share of other phases of free world international obligations. It would seem at this point that our team, in rejecting the Adenauer Government's offer to make immediate repayment of a $600 million debt to us, together with an increased one-year foreign aid program and big purchases of arms in the United States, was perhaps cutting off our nose to spite our face. They were reported as unsuccessful on their mission to persuade Bonn to assume the cost of maintaining our troops there. Perhaps final judgment of their efforts should be withheld until further conferences take place.

There are several alternatives open to the U.S., short of outright devaluation of the dollar. We could put restrictions on money spent by Americans abroad, place restrictions on the flow of American capital out of this country, and we could establish a more rigid form of import quotas or raise tariff rates. These measures, however, are in the direction of greater governmental restrictions and decreased economic freedom and could boomerang on us in a further decrease of our prosperity and international good will.

Then there is the possibility of drastically curtailing our military and foreign aid programs. This would certainly tend to relieve our balance of payments difficulty, but may not, in view of the critical condition of the cold war, be considered advisable in responsible circles.

Another alternative which we might follow would be to revise our tax structure so as to encourage our own capital to stay at home as well as lure foreign capital to seek investment in this country. This would involve reducing or removing taxes on earnings and investments of business and industry. A logical alternative would, of course, be to shift these taxes to the value of natural resources and community-produced land sites.

In regard to restrictions on international trade, strange as it may seem, any easing of them (such as tariff reductions or the lowering of quota restrictions) would operate to encourage exports as much as, if not more than, imports. This is so because trade is a "two-way street." And we cannot, in the long run, encourage imports without encouraging exports. Furthermore, nothing we could do would go farther toward creating international good will and encouraging our allies to assume more of the global burden of the free world. The lowering of trade barriers would be far more effective than sending government missions to European capitals to beg for a crumb now and then. Or, when they did go, they would be in a much better position of achieving success.