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Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

July 17, 1951

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RECENT DEVELOPMENTS IN UNITED STATES FOREIGN TRADE

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The high levels of income here and abroad, and the expectations that these would continue, have contributed during the past year to a marked increase in foreign trade both for this and other countries. Hence, it is not surprising that our exports have risen since last August. But, contrary to expectations entertained last autumn, one of the most important sources for this export boom has been in metals and their products, even excluding shipments under the Mutual Defense Assistance Program (MDAP). It was thought by some that the impact of our own defense program would be so severe that supply shortages would soon appear, thus curtailing the availabilities for export orders other than mutual defense. So far only a few signs have been evident that such is the case, the most conspicuous example being a non-metallic raw material, sulphur, although the possibility of future shortages is still present, and thus a factor which may tend to reduce exports in the latter part of this year.

Rising U. S. imports means more dollars for supplying areas, thus aiding a relaxation of their own restrictions on imports, as well as boosting their domestic incomes. Hence, much of these additional earnings have returned and will continue to return to this country as increased orders for our goods, particularly from those foreign markets wherein our technical superiority or proximity have won us a commanding position.1/

Since the outbreak of the conflict in Korea, and, to some extent, since the end of the 1949 recession in this country, prices have been rising, particularly those of our major imports. This has been most evident among the raw materials used in further production--rubber, tin, and wool, for example. Yet, contrary to popular belief, this price rise during the past year cannot be attributed to a sudden upsurge of U. S. buying as a result of the increased defense program during the past fiscal year. Actually, for many commodities, the quantity we have imported has been less or little changed from the preceding fiscal year.2/ What is nearer the truth is that our strategic materials imports have for several years been relatively high, the effects of such increases on prices having been delayed by the deflationary uncertainties generated by our 1949 recession. It is highly probable, even in the absence of the Korean conflict, that raw material prices would have risen in the latter half of 1950, and, indeed, prices had started to move up in the second quarter of last year.

1/ See the United Nations, Economic Survey of Europe in 1949, chapter 7, section 3, and its Economic Bulletin for Europe (Third Quarter 1950), pp. 20-21, 31.

2/ See table on following page.

Volume of U. S. Imports for Consumption,1/ Selected Leading Commodities
(In millions of pounds)

Commodity	Jan-Apr. 1951	Jan-Apr. 1950	Jan-Apr. 1949	Jan-Apr. 1948	Jan-Apr. 1947
Copper 2/	313	388	413	313	177
Tin 2/	61	80	77	53	24
Crude Rubber	597	564	521	562	522
Unmanufactured Wool 3/	172	181	86	210	162

1/ Imports for consumption exclude entries into bonded customs storage warehouses.

2/ Including ore.

3/ Clean content.

On the other hand, unit values of finished manufactures imports have moved up much more moderately--13 per cent from June 1950 to April 1951--another indication, it might be noted, of the worsening of the manufacturing nations' terms of trade.1/ At the same time, the quantities imported into this country have risen sharply--54 per cent from the (pre-devaluation) third quarter of 1949 to April 1951, or 21 per cent since the month before the Korean outbreak.

Although public attention has focussed more on the increases in the price of raw material imports, as evidence of the current defense-generated inflation, our own raw materials have shown similar price movements. However, because of the greater predominance of manufactured items in our exports than in our imports, the corresponding sharp upward movement of our raw materials prices is less prominent, and thus less publicized. Yet, if we look at raw cotton, for example, the extent of the price increase is of the same order of magnitude as for imported materials. From an average wholesale price of 30 cents per pound in the first quarter of 1950, it rose to 43 3/4 cents, the present ceiling, or an increase of about 45 per cent. As a result, although the volume of our raw cotton exports in the first four months of 1951 was one-third below the first four months of 1950, the value was down only 2 1/2 per cent.

1/ Cf. the charts in the June 1951 Monthly Review of the Federal Reserve Bank of New York, pp. 76-77.

Since semi-manufactured and manufactured items do make up so great a proportion of our exports--68 per cent in January-April 1951--and since the unit value indices of these two categories have risen only 28 per cent and 12 per cent respectively from the first quarter of 1950 to April 1951, the over-all terms of trade of the United States have deteriorated sharply since Korea, as shown on the following chart.

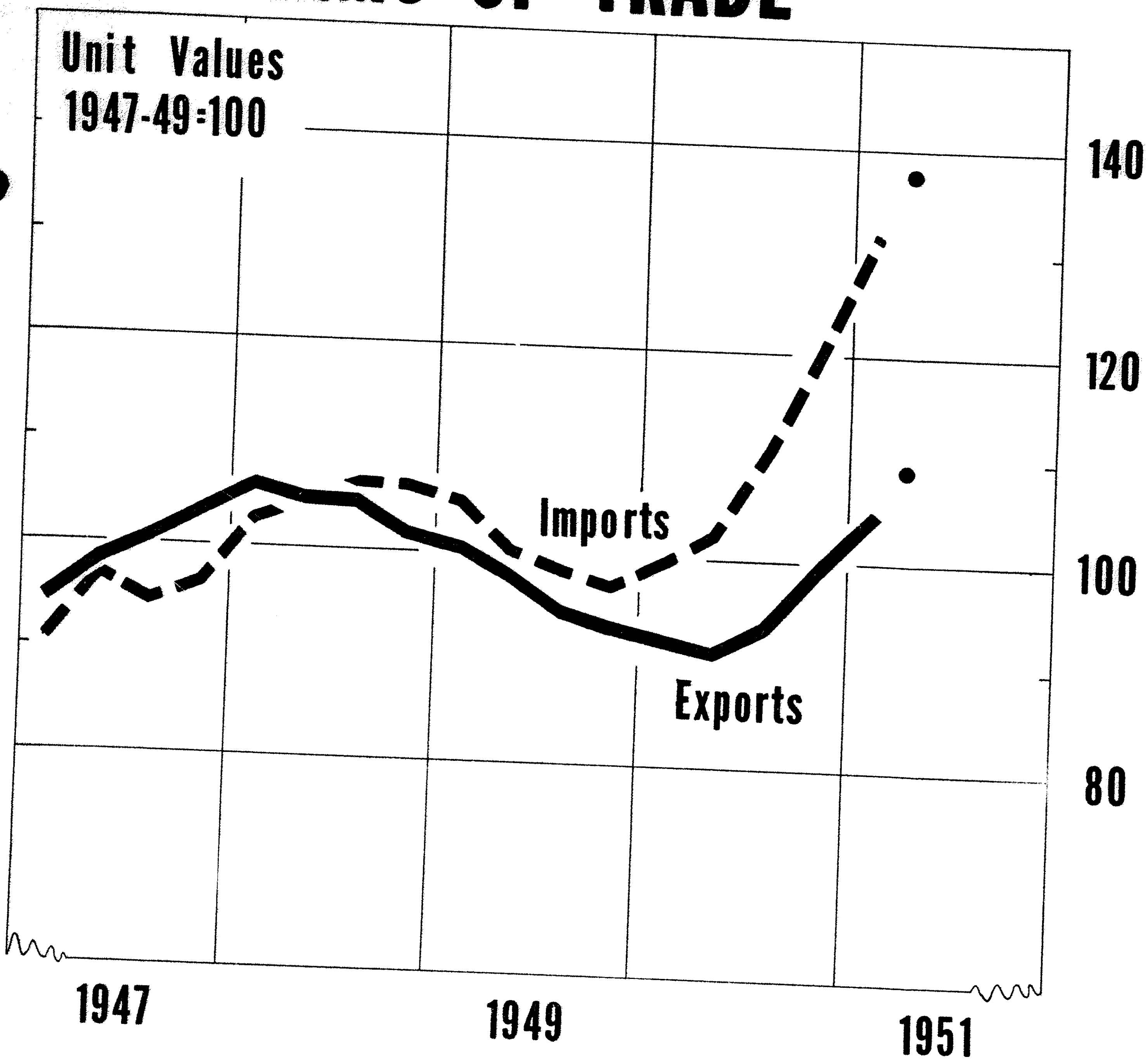
Near-future trade trends

As is generally true in times when domestic and international political developments dominate the movements of an economy, projections into the immediate or more distant future are extremely hazardous. This is particularly true of the post-World War II years, when the policies of a foreign--and unsympathetic--oligarchy greatly influence the reactions of almost all spheres of our economic activity. One need only to think back to the month of June 1950 to realize how impossible it was to foresee the subsequent developments. Bearing this in mind, it is still worthwhile to outline what may develop in the field of foreign trade during the coming year, based on present trends in both the economic and politico-international areas.

The main uncertainty within the economic realm is the problem of inflation and its control, particularly within the United States. If we assume that effective control will result, so that there is relatively little further increase in wholesale and consumer price averages, and that confidence in the dollar is maintained, then it is probable that foreign demand for our exports will not be influenced by the desire to liquidate foreign-owned gold and dollar balances in order to obtain goods before these reserves fall further in purchasing power.

The converse holds, of course, if we assume a renewed upward price movement similar to the six months following the Korean outbreak. Moreover, inflation here would mean that U. S. consumers' income and spending were increasing, bidding away goods that might otherwise have gone into exports, and increasing the demand for imports, thus resulting in an adverse current account balance. Offsetting the resulting fall in the quantity of exports would be higher per unit values, so that the total value of exports might not be reduced. But the value of imports would certainly increase, both because of increased volumes imported and because of increased prices resulting from our heightened demand, as well as from possible repercussions on the inflationary pressures abroad. Only if foreign inflation were sufficiently rampant to curtail supplies available for shipment to this country would the increase in the value of our imports be restrained.

U.S. TERMS OF TRADE



U. S. Foreign Trade

Credit control developments in the United States during the first half of 1950 tend to support the hypothesis that the United States will continue to have a merchandise export surplus exceeding the amount of MDAP aid, though probably not by so wide a margin as in the recent months of April and May.

Developments in January-May

During the early part of 1951 both exports and imports continued to increase in value, although the volume of imports tended to level off after January. After February the increase in the value of United States exports was particularly sharp. Shipments under the Mutual Defense Assistance Program increased only moderately, but other exports rose from an annual rate of $11.4 billion in January-February to $14.2 billion in March, $15.5 billion in April, and $14.7 billion in May. Imports, in contrast, dropped off after March, general imports declining from an annual rate of $13.2 billion in March and $12.1 billion for the first quarter to $12.3 billion in April and $12.2 billion in May. Imports for consumption fell off even more, as the excess of entries into bonded warehouses over withdrawals rose from a negligible amount in January-February to more than $800 million (annual rate) in March-May. This was attributable mainly to a rise in inventories of wool in bonded warehouses, importers preferring to postpone payment of import duties until domestic demand warranted the movement of wool to manufacturers.

As a result of the greater rise in exports, our export surplus, which had been rather small during the first quarter, rose to an annual rate of $3.2 billion in April and $2.4 billion in May.

Recorded U. S. Foreign Trade (at annual rates in billions of dollars)

	Exports 1/	General Imports	Trade Balance 1/
1950-1st Quarter	9.5	7.6	1.9
2nd Quarter	10.0	7.7	2.3
3rd Quarter	9.4	9.6	-0.2
4th Quarter	11.1	10.6	0.5
1951-January	11.1	12.3	-1.2
February	11.8	10.9	0.9
March	14.2	13.2	1.0
1st Quarter	12.3	12.1	0.2
April	15.5	12.3	3.2
May	14.7	12.2	2.4

1/ Includes re-exports, but excludes shipments under MDAP. Recorded MDAP shipments were (at annual rates) $0.4 billion for the third quarter of 1950, $0.7 billion for the fourth quarter, $1.0 billion for the first quarter of 1951, and $1.3 billion for April and May.

Unit values for each import category 1/ rose fairly steadily during the first four months, but the quantity imported in February, March and April was somewhat below the January level. Export unit values rose continuously during the first four months of this year for each category,1/ while quantity increases were almost equally general after January. The April over-all unit value index for imports was about a third above June 1950, whereas the export unit value index was up less than one-fifth, each being at its highest since the outbreak of hostilities. (See chart).

Exports and Imports

The upswing in exports has been distributed fairly uniformly among the commodity classes, whether we compare the current period with the last quarter of 1950 or the first four months of 1950. In general, it can be said that most of the commodity groups rose from January to April, and then levelled off or dropped slightly in May, although wood and paper, nonmetallic minerals (which include coal), and chemicals rose steadily throughout the four months after January. Metals and manufactures (including machinery and vehicles), however, stopped their upward movement in April, even including shipments under MDAP, and in May the increase was but 2 per cent over April.

For the first four months of this year the value of exports of each of the eleven commodity groups exceeded the value in the first four months of last year, the increases ranging from 22-26 per cent for chemicals (excluding certain special categories),2/ and metals and manufactures (other than machinery and vehicles), to over 70 per cent for a number of groups including vegetable food products and beverages (71 per cent), wood and paper (76 per cent), textiles, other than raw cotton (82 per cent), inedible animal products (85 per cent), and the miscellaneous category (68 per cent).2/

1/ The five categories for which unit value and quantity indices are computed by the Department of Commerce are crude materials, crude foodstuffs, manufactured foodstuffs, semi-manufactures and finished manufactures.

2/ Since certain "special category type I" chemicals are now reported under "miscellaneous", the figures for chemicals since July 1950 are not fully comparable with data before then. "Special category" exports are those for which complete statistical data are not furnished because of their military uses. Except for certain broad area groupings, no destinational information is published for "special category" exports. The total amount of "special category type I" exports is broken down only to three commodity groupings, of which two are in the category of machinery and vehicles, and one in "miscellaneous". For "special category type II", which in April amounted to 15 per cent of all "special category" exports, commodity details are published. Most "special category" exports, but not all, are shipped under MDAP; conversely, most MDAP shipments are probably of "special category" goods. The April total for "special category" exports was $117.5 million, while shipments under MDAP totalled $82.6 million. No breakdown is published of the latter figure, except a broad area-of-destination breakdown

Exports in the machinery and vehicles group were up 52 per cent. For this important group, the March-May rate of exports was 73 per cent above the rate of the first four months of 1950. Mutual defense shipments accounted for only a minor part of this rise. Of the total value of machinery and vehicles exports in March and April, equivalent to an annual rate of $5.2 billion, only $1067 million or 20 per cent was in the special categories that represent military-type products, as compared with about 5 per cent in the first four months of 1950.1/

Exports Of U. S. Metal Products
(In millions of dollars)

1950 -	July	294.0
	August	268.4
	September	303.7
	October	298.8
	November	323.9
	December	346.8
1951 -	January	344.7
	February	345.7
	March	432.4
	April	447.4

NOTE: Includes, in addition to "machinery and vehicles" discussed in the text, "metals and metal products excluding machinery and vehicles." Excludes "special category" exports in these groups, as well as all re-exports.

As compared with the monthly average of the fourth quarter of 1950, the extent of the increases was of course smaller, the total having risen 20 per cent including MDAP shipments or 19 per cent excluding MDAP shipments. For inedible vegetable products (except fibers and wood) and the miscellaneous category, there were declines of 22 per cent and 4 per cent respectively. The increases ranged from under 10 per cent for chemicals and non-metallic minerals to 51 per cent for the group that includes grain.

The following table shows changes in values, quantities and prices (unit values) from January-April 1950 to January-April 1951 for the five economic classes of exports.

1/ "Special category" exports in early 1950 were commercial shipments not financed by MDAP. As indicated in the preceding footnote, it is possible that "special category" shipments currently include some commercial exports.

U. S. Domestic Exports, Monthly Average January-April 1951
(Excludes Re-exports)

Type	Value January-April 1951 (In millions of dollars)	Increase from January-April 1950 (percent)		
		Quantity	Unit Value	Value
Crude materials	181	-3	29	26
Crude foodstuffs	120	79	6	89
Manufactured foodstuffs	69	18	25	47
Semi-manufactures	120	12	25	40
Finished manufactures	669	37	10	51
Total	1,159	28	16	48

Source: --Based on Department of Commerce, Total United States Export and Import Trade, January-April 1951

With regard to the destinations of U. S. exports, it can be said that during the first four months of 1951 our exports to the ERP countries, the Sterling Area, Canada and Japan were rising regularly, whereas those to Latin America, which had been among the first to start increasing in 1950,1/ showed a tendency to level off in April. Exports to the Soviet bloc, China, and Hong Kong had a declining trend, whereas those to other Far Eastern countries remained fairly steady through this period.

Compared with the first four months of last year, the most notable increases in our exports were to Mexico, Cuba, Brazil, Switzerland, the Union of South Africa, Japan, and the main Asiatic and Oceanic suppliers--notably, India, Indonesia, Malaya, and Australia. As compared with the last quarter of 1950, the list of countries with largest increases is somewhat different, including also the Netherlands and Greece. The substantial increase in exports to Canada reflects the general rise in Canadian imports following the virtual ending of import controls and the freeing (and subsequent appreciation) of the Canadian dollar at the end of last September. A sizable part of the past year's increase in exports to the ERP countries has been in the "special categories" and coal; of the $112 million rise in the monthly average since the first half of last year, more than half can be attributed to MDAP shipments to this area, which averaged $65 million during the first four months of this year while bituminous coal shipments rose from less than $1 million to $14 million.

1/ This Review, December 5, 1950, New Trends in the Destination of U. S. Exports (p. 4.).

Our exports to the 20 Latin American Republics have been rising steadily, so that the cumulative rise has been quite sharp over the year. From a monthly average of $192 million in the first quarter of last year the figure rose approximately 5 per cent in each of the two succeeding quarters, then jumped 15 per cent in the last quarter of 1950, and more than 10 per cent in the first four months of this year, to reach a figure 46 per cent above the corresponding period of 1950.

The continued deterioration in our relations with the Soviet bloc was reflected in our exports, too. Comparing the first four months of 1951 with that of 1950, we exported only $2 million to the ten Eastern European members, compared to $12 million a year before; our exports to China and Manchuria dropped from $19 million to less than $10 thousand; while to Hong Kong--an important entrepot for the China mainland--exports dropped from $40 million to $7 million. In contrast, Yugoslavia, no longer within the bloc, took $51 million in January-April 1951, more than five times the $9 million shipped in January-April 1950.

The country details for exports will be found in the table on the following page.

Among our imports, the most marked increases in value to the first four months of this year from the corresponding period of 1950 were in the important raw materials--particularly wool and rubber--and coffee and cocoa. It may be noted that the value of cocoa and the two raw materials mentioned rose mainly because of higher per unit costs, the volume of rubber and cocoa imports having risen less than 15 per cent while the receipts of unmanufactured wool actually were slightly smaller than in early 1950. Other significant increases in value were in meat products, sugar, furs, inedible vegetable oils, wood and paper products, iron and steel-mill products, and industrial chemicals.

The following table shows changes in values, quantities and prices (unit values) from January-April 1950 to January-April 1951 for the five economic classes of imports.

U. S. Imports for Consumption,1/ Monthly Average January-April 1951

Type	Value January-April 1951 (In millions of dollars)	Increase from January-April 1950 (percent)		
		Quantity	Unit Value	Value
Crude materials	314	7	66	79
Crude foodstuffs	200	24	22	51
Manufactured foodstuffs	86	28	9	41
Semi-manufactures	220	20	34	60
Finished manufactures	158	31	14	50
Total	979	20	33	60

1/ Imports for consumption exclude entries into bonded customs storage warehouses.

Source: -Based on Dept. of Commerce, Total United States Export and Import Trade January-April 1951.

U. S. Foreign Trade

U. S. Exports - Monthly Average
(Includes re-exports)
(In millions of dollars)

Countries	Jan-Apr.1951	4th Quarter 1950	Jan-Apr.1950
Including special categories			
E.R.P. countries	368.3	310.3	257.8
E.R.P. participating dependencies	35.6	35.5	37.8
Latin American Republics	293.3	263.3	201.8
Canada	226.1	198.9	140.4
Other Europe	20.9	11.1	11.0
Other countries	231.4	162.6	143.5
Total	1,175.4	982.3	792.3
Excluding special categories			
E.R.P. countries	295.7	251.0	246.4
United Kingdom	57.6	51.8	45.1
Italy	44.1	27.4	31.6
Belgium-Luxembourg	29.2	24.1	23.2
Netherlands	22.7	18.0	19.9
Switzerland	15.2	14.1	8.9
Greece	9.7	5.8	8.4
Austria	9.6	8.1	11.2
Norway	7.2	5.1	5.8
Other countries	100.4	96.6	92.3
Latin American Republics	284.4	254.1	194.3
Mexico	54.2	52.7	36.8
Cuba	50.9	44.4	30.9
Brazil	44.1	39.8	19.1
Venezuela	41.0	36.7	31.8
Other countries	94.2	80.5	75.7
Canada	221.4	194.2	137.4
All other countries	261.3	192.5	182.4
Japan	59.3	38.2	30.9
India	28.3	17.3	19.8
Union of South Africa	16.8	10.2	8.4
Indonesia	13.4	7.5	7.2
Yugoslavia	12.8	2.9	2.3
Australia	11.7	9.4	8.4
Malaya	4.7	2.0	1.3
Pakistan	2.3	2.7	2.2
Korea	1.8	1.3	3.1
Hong Kong	1.8	8.0	10.0
Eastern Europe 1/	0.5	0.8	2.9
China and Manchuria	neg.	1.3	8.7
Other countries	107.9	90.9	77.2
Special categories	112.6	90.5	31.8
Total	1,175.4	982.3	792.3

1/ Soviet bloc only.

Changes in the area figures, of course, corresponded to the movement of the specific commodities. The rise in rubber imports resulted in an increased value for shipments from Malaya, Thailand and Indonesia. The wool increases raised the import figures for Australia, Argentina, and Uruguay. India and Pakistan, main sources for burlap and jute, each showed sizable increases, too. Sugar shipments from Cuba and coffee from Brazil raised our import figures for those two countries. Meat, wood and paper products, and the non-ferrous metals contributed to the increase in Canadian shipments. Imports from China continued the decline which had begun last November, and by April were less than one-third the early 1950 level.

The continued rise in manufactured imports, particularly of steel and chemicals, boosted our imports from ERP countries, although the April figures indicated some slackening off of this movement. The largest increases over the past year were imports from France (305 per cent), Germany (236 per cent), Netherlands (194 per cent), Belgium-Luxembourg (131 per cent), the United Kingdom (109 per cent) and Italy (91 per cent), the ERP countries as a whole having an increase of 119 per cent. Since the latter half of 1950, during which the upswing had been very sharp, the rise has tended to slow down and in April, mainly because of lower imports from France and Turkey, our imports from the ERP countries dropped almost 10 per cent below March. The April total of imports from ERP countries was at an annual rate of $2.1 billion. As compared with the last quarter of 1950, the only sizable increases in the rate of imports in January-April were from France (43 per cent) and Belgium-Luxembourg (26 per cent).

The country details for imports will be found in the table on the following page.

U. S. Foreign Trade

U. S. General Imports 1/ - Monthly Average
(In millions of dollars)

Countries	Jan-Apr. 1951	4th Quarter 1950	Jan-Apr. 1950
Latin American Republics	331.5	253.4	217.4
Brazil	83.9	71.3	46.0
Cuba	38.9	26.9	31.9
Argentina	30.2	16.5	18.4
Uruguay	25.4	9.3	5.6
Chile	18.6	16.2	10.2
Other countries	134.5	113.2	105.3
Canada	180.0	191.0	134.0
ERP countries	171.5	151.4	78.3
United Kingdom	39.2	38.2	18.8
France	26.7	18.7	6.6
Belgium-Luxembourg	21.5	17.1	9.3
Germany	17.4	15.4	5.2
Italy	13.1	14.1	6.9
Netherlands	10.2	9.8	3.5
Other countries	43.4	38.1	28.0
ERP participating dependencies	93.9	82.9	57.5
Malaya	40.8	36.5	18.2
Other countries	53.1	46.4	39.3
All other countries	236.4	201.8	131.3
Australia	30.5	14.1	12.4
India	29.2	23.7	21.2
Indonesia	24.4	21.8	7.9
Union of South Africa	15.3	15.2	8.9
Thailand	12.8	11.9	3.4
China and Manchuria	6.7	16.5	8.7
Eastern Europe 2/	6.2	5.3	7.1
Pakistan	5.7	3.4	2.2
Other countries	105.6	89.9	59.5
Total	1,013.3	880.5	618.5

1/ General Imports include entries into bonded customs storage warehouses.
2/ Soviet bloc only.

July 17, 1951

DEPRECIATION IN THE REAL VALUE OF LATIN AMERICA'S GOLD AND DOLLAR HOLDINGS CONSIDERED IN RELATION TO IMPROVEMENT IN THE AREA'S TERMS OF TRADE

Lawrence Bostow

There are three principal ways in which the Latin American republics stand to gain or lose as a consequence of current inflationary pressures: (1) shifts in the terms of trade, (2) depreciation in the real value of gold and foreign exchange reserves, and (3) depreciation in the real value of exchange remitted for interest payments and amortization of contractual indebtedness.

Shifts in the terms of trade may have either a favorable or adverse effect on Latin America, depending on the direction of change. Depreciation in the real value of gold and foreign exchange reserves represents an unfavorable development. Depreciation in the real cost of servicing the foreign debt is always a favorable factor from the standpoint of the debtor country.

The matter of shifts in the terms of trade was the subject of discussion in an article on "Latin America's Post-War Foreign Trade" published in the RFD of May 22, 1951. It was the conclusion of that article that, in the absence of the Korean War and an accelerated United States defense program, Latin America's terms-of-trade index with the United States might have reached 172 1/ during 1950. The index was 161 for the second quarter of 1950, and reached 189 and 184 during the third and fourth quarters, respectively. Unit value indexes of U. S. imports from and exports to Latin America recently compiled by the Department of Commerce, show a further jump in Latin America's terms-of-trade index to 197 during the first quarter of 1951.

The question to be explored in this article is to what extent depreciation in the real value of Latin America's gold and dollar reserves has been compensated for by above-normal dollar and gold earnings resulting from the favorable shift in the area's terms of trade.

Increase of dollar earnings through improved terms of trade

The increment added to Latin America's gold and dollar holdings since June 1950, which is due solely to the terms-of-trade shift, can be approximately determined by subtracting from the actual dollar earnings on merchandise account with the United States an estimate of what such earnings would have been in the absence of mobilization.

Actual dollar earnings on merchandise account, and an estimated range of what such earnings would have been under "normal" circumstances, are shown

1/ 1936-38 = 100.

in Table I. It is assumed that, in the absence of the Korean War, the terms-of-trade index would have been between 161 and 172 during the period. The lower limit is set by the index which obtained during the second quarter of 1950, and the upper limit is determined as outlined in the RFD of May 22, 1951. Using this range as a basis for calculation, Latin America's earnings on merchandise account during the nine-month period ending March 31, 1951 would have amounted to between 34 and 182 million dollars had it not been for the Korean War, as compared with 462 million dollars actually earned during the period. What might be termed "windfall gains" to Latin America thus turn out to be between 280 and 428 million dollars. It should be emphasized that these gains do not take into account the extent to which mobilization may have increased the volume, and consequently the value, of trade.

Table [illegible]

U.S. Merchandise Trade with Latin America; Actual and Deflated Values; Quarterly since June, 1950
(Millions of dollars)

	Exports	Imports	Balance
Actual values			
Third quarter, 1950	[illegible]91	920	- 229
Fourth quarter, 1950	[illegible]90	814	- 24
First quarter, 1951	[illegible]53	1026	- 209
Total	2[illegible]	2334	- 462
Values deflated to average prices during Second quarter, 1950, with terms-of-trade index of 161 1/			
Third quarter, 1950	677	767	- 90
Fourth quarter, 1950	731	662	69
First quarter, 1951	768	781	- 13
Total	2176	2210	- 34
Export values deflated to average prices during Second quarter, 1950. Import values deflated to level corresponding with constant terms-of-trade index of 172 2/			
Third quarter, 1950	677	814	- 137
Fourth quarter, 1950	731	708	23
First quarter, 1951	768	836	- 68
Total	2176	2358	- 182

1/ Unit value indexes of U.S. exports with base = Second quarter, 1950: 1[illegible]2, 108, 111 for the three quarters, respectively.
Unit value indexes of U.S. imports with base = Second quarter, 1950: 120, 123, 136 for the three quarters, respectively.

2/ Amended unit value index of U.S. imports: 113, 115, 127.

Depreciation in the real value of Latin America's gold and dollar holdings

There is no satisfactory way of determining the extent of depreciation loss in Latin America's gold and dollar reserves on the basis of available statistics, or of determining the extent to which United States inflation can be credited with being the causal factor for the depreciation. To view reduction in the real value of Latin America's gold and dollar holdings in the narrow context of bilateral financing is unrealistic for two reasons: (1) Gold and dollars can be regarded as international currency for multilateral payments purposes; therefore, it is inappropriate to measure the area's depreciation loss by applying a measure of inflation in the United States. For example, if, as a consequence of United States inflation, certain internationally-traded goods could be purchased in other areas at cheaper prices through using either gold or dollars, then such a measure would exaggerate the loss. (2) Whatever the real loss to Latin America might be, inflation in the United States would be the sole causal factor only if no other trading area was suffering inflation, or if inflation in all other areas was caused directly by economic forces having their origin in the United States.

For the above reasons, determining Latin America's loss through depreciation in the real value of gold and dollar reserves by using inflation of United States export prices as a measure, as is done below, is valid only in the sense that it sets an upper limit on the extent to which United States inflation can be credited with "causing" the depreciation. It is in this last sense that the question is relevant to the problem of measures which the United States might be urged to consider for the purpose of stabilizing the real value of Latin America's reserves.

Movement of the United States export price index in trade with Latin America since the second quarter of 1950 is shown in Table II.

Table II

Unit Value Index of U. S. Exports to Latin America

	1936-38 = 100	2nd quarter 1950 = 100
2nd quarter 1950	175	100
3rd quarter 1950	179	102
4th quarter 1950	189	108
1st quarter 1951	195	111

Source: U. S. Department of Commerce.

The dollar loss through depreciation (as measured by inflation of United States export prices) in the value of Latin America's holdings of gold and short-term dollar assets is shown in Table III. Reserves on hand at the end of June 1950 are shown as having depreciated in value by 11 per cent. Additions to reserves in subsequent quarters are depreciated by the extent to which United States export prices rose following their acquisition.

Table III

Depreciation of Latin America's Gold and Dollar Holdings Between June 30, 1950 and the First Quarter of 1951

(Millions of dollars)

Period	Gold plus short-term dollar assets held at end of period	Value added during quarter	Per cent deprecia-tion	Dollar loss through depreciatio
2nd quarter 1950	3088.8	--	11	340
3rd quarter 1950	3321.2	232.4	8.8	20
4th quarter 1950	3492.7	171.5	2.8	5
1st quarter 1951	3767.6	274.9	--	--
Total				365

For the reasons outlined above, the resulting 365 million dollars should be considered as the upper limit to the depreciation loss which may have been suffered by the Latin American republics as a direct consequence of United States inflation. Offsetting this loss is the gain of from 280 to 428 million dollars which accrued to the area by the terms-of-trade shift resulting from the same causal factors and over the same period.

Conclusion

It is highly probable that Latin America's "unearned surplus" on trade account with the United States during the nine-month period following the outbreak of the Korean War approximately compensated for the loss sustained by the republics during the same period through depreciation in the real value of their gold and dollar reserves. The increment added to the current value of Latin America's exports has thus been roughly adequate to maintain both the real rate of consumption of United States goods which would have been possible in the absence of mobilization, and to maintain the real value of gold and dollar holdings by increasing the size of reserves.