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During the two periods under consideration the U.S. has been the number one producer and participant in world trade. Its economic and economic policy development in general and its foreign trade policy and development in particular, therefore, have been of great importance for international trade and for the economic performance of other countries in both periods. A slowdown of the U.S. economy, protectionist measures in foreign trade and monetary protectionism (devaluations) have all contributed to deteriorations in the export conditions of other countries, while reverse developments have had beneficial effects. The objective of this paper is to compare the role played by the U.S. in causing world-wide boom and bust in the interwar period with its role in the world economy during the last twenty years. Part One presents some data on the weight of the U.S. in the world economy. Part Two discusses the development of economic activity in the U.S. and in the world economy and the link between U.S. import demand and world trade. Part Three deals with the causes and effects of U.S. foreign trade policies and of protectionist measures in particular. Part Four discusses U.S. dollar exchange rate changes and their effects for world trade developments. Part Five summarizes the results of the comparison of the interwar period to the last two decades and tries to explain why another great depression has not yet occurred.

I. The U.S. Economy in the World Economy

By 1913 the share of the U.S. in world manufacturing production had already risen to about 36%. As a consequence of the First World War and of the prosperity in the 1920s this share reached 42% in 1926/29. As a result of the long depression in the U.S. economy it declined to 32% in 1936/38, but this still constituted by far the dominant proportion of all national economies.[1]

The U.S. was also the leading producer in the world market for primary products. According to computations by the U.S. Department of Agriculture, on the basis of data for 1927 and 1928, the U.S. share in the consumption of nine principal raw materials and foodstuffs amounted to 39 percent of the total for the 15 most important commercial nations.[2]

H.B. Lary in his classic study The United States in the World Economy also estimated the share of U.S. national income of the sum of the dollar-denominated national incomes of 24 countries for which such accounts were available, including the United Kingdom, Germany, France, Japan and Canada. He found that in 1929 the U.S. national income was as high as the dollar value of all the other 23 nations taken together.[3]

Compared to other economically advanced countries, the share of foreign trade in GNP has been relatively low in the U.S. during the twentieth century. War-related demand had strongly raised the export share during the First World War to an average of 10.4 percent from 1916 to 1918. But by 1922 it was back to around 5 percent and remained at about that level until 1929, while the import share was only 4.2% in both years. In the great depression these shares fell to a minimum of 2.8% for exports and 2.3% for imports in 1932 and recovered to only 3.7% for exports and 3.4% for imports in 1937.[4]

Although foreign trade in relation to national income was relatively low in the U.S., the share of U.S. foreign trade in world trade was important as a result of the relative size of the U.S. domestic economy. In 1913 the sum of U.S. exports and imports amounted to 10.8% of world exports and imports. In 1920 the percentage had risen to 20.8. In 1938 the share was down to 12.1%.[5]

The economic consequences of the Second World War at first strengthened the dominant position of the U.S. economy in the world economy, as the First World War had done. In 1950, taking now into account all the world's countries, the U.S. share in the world's gross national product (GNP) amounted to almost 40%. Due mainly to the economic reconstruction in Europe and Japan this share declined to 34% in 1960. As a result of continental Europe's and, particularly, Japan's continuing stronger economic advancement it diminished further to around 30 percent in 1970.[6] Excluding the centrally planned economies the U.S. share in total world GNP in 1970 amounted to 39%. Mainly due to the statistical effect of the dollar exchange rate changes, it diminished sharply in the 1970s to 30% in 1975 and further to 26% in 1980, but by 1983 it had recovered 33%.[7]

The share of U.S. foreign trade in world trade (exports and imports) showed a similar pattern of development into the 1960s. It declined from 15.3% in 1950 to 13.5% in 1960 and further to 12.6% in 1965. From then on it remained around that level and was still 12.8% in 1983.[8]

During the last twenty years several important structural changes have occurred:

- in the share of foreign trade in national income
- in the trade balance situation

- in the composition of foreign trade.

In 1965 U.S. merchandise exports amounted to 4.0% of GNP, imports to only 3.1%. In 1970 these percentages were 4.4 for exports and 4.1 for imports.[9] In the 1970s they rose considerably to 8.5% for exports and 9.5% for imports in 1980. In 1984 the percentages stood at 6.0 for exports and 8.9 for imports.[10]

The U.S. trade balance had always shown a surplus since 1893 and swung into deficit for the first time in 1971. A surplus reappeared in the recession year 1975 (9 billion dollars). From 1976 to 1982 deficits of mostly between 30 and 40 billion dollars annually were recorded.[11] When U.S. economic recovery since 1982 and a strong dollar boosted import demand, U.S. trade deficits grew to 61 billion dollars in 1983, 107 billion dollars in 1984[12] and an estimated 150 billion dollars in 1985. The lagging of export growth behind import growth was due to two factors, among others. First, U.S. multinational companies have been expanding their production abroad as a substitute for American exports and have relied more and more on parts produced abroad and imported as inputs for domestic production.[13] Secondly, the oil price increase in the 1970s was mainly responsible for an increase in the share of raw material imports in total U.S. imports. From its 1970 level of 16.4% it roughly doubled to 31.5% in 1974 and 33.4% in 1975. The second oil price shock at the end of the seventies increased this percentage even further to 38.4 in 1980. Since then it has been going down to 26.4% in 1983.[14]

II. The Link between Economic Activity in the U.S. and in the World Economy

The Bank for International Settlements recently reported that in 1983 and 1984 slightly more than 70% of total demand growth in the OECD area occurred in the U.S., while the U.S. GNP amounted to only 40% of all the OECD countries' GNP. Therefore, U.S. imports in 1983 and 1984 grew more than ever since the Second World War. The additional U.S. imports in those years probably amounted to about 3% of the OECD countries' GNP excluding the U.S.[15] This demonstrates well the importance of the U.S. economy and of its import demand for economic activity outside the U.S.

In order to show that economic activity inside and outside the U.S. developed in rather close harmony, the growth rates for the real gross domestic product (GDP) in the U.S. and in the world as a whole for the period 1965 to 1983 are presented in Table 1. The R^2 between the two time series amounts to 0.69, the regression coefficient being statistically significant. The already described weight of the U.S. economy in the world economy and the fact that the U.S. growth rates fluctuated more strongly than the world's growth rates indicate that the impact of U.S. developments on the world is stronger than the reverse chain of causation.

Two periods of low or - in the U.S. - even negative growth are especially noteworthy in view of the general subject discussed in this section of the conference: 1974-75 and 1980-82. Both were periods with oil price shocks at their start. The second period, in addition, was characterized by determined efforts of monetary authorities in the U.S. and in other economically important countries to reduce the rate of inflation that had reached double digit levels in the late

1970s.

The link through which the U.S. transmitted impulses to world economic activity was its import demand. The growth rates of U.S. imports and those of world exports in real terms are therefore also presented in Table 1. Again we find stronger fluctuations in the U.S. rates than in the world rates. Both time series fluctuate more strongly than the GDP growth rates, but in correlation with them. One line of causation for the impulses the U.S. economy transmitted to economic activity in other parts of the world, what we might call the income effect, ran from changes in the growth rate of real GDP in the U.S. to changes in U.S. import demand and thus to changes in exports and therefore in growth rates of real GDP in other countries.

As the weight of the U.S. economy in the world economy was even greater in the interwar period, the impact of U.S. economic developments on economic activity in other parts of the world was at least as important then. The data comparable to those of the last twenty years are presented in Table 2. Data on the growth rates of GNP in the U.S. are presented in column (1). GNP growth rates in the world as a whole are not available for this period. Instead, the growth rates of world manufacturing production are presented. They generally tend to fluctuate more than the growth rates of GNP. Therefore, the variance of columns (1) in Table 2 is not much different from that of column (2). Actually, however, economic activity in the U.S. fluctuated more strongly than in the world as a whole, as could be shown by a comparison of manufacturing production in the world with that in the U.S. alone,[16] and as it is evidenced by comparing the developemnt of U.S. imports and world exports in columns (3) and (4) of Table 2. This again indicates that the chain of causation ran from U.S. economic activity to world economic activity and not vice versa.

R^2 between columns (1) and (2) in Table 2 amounts to 0.78, the regression coefficient again being statistically significant. Up to 1928, postwar reconstruction in Europe created special domestic business incentives that were somewhat independent of world developments. Therefore, the R^2 for columns (1) and (2) from 1929 to 1938 in Table 2 is even higher, namely 0.83.

It is especially noteworthy that throughout the whole interwar period big slumps in the U.S. economy coincided with big declines in U.S. imports and with depression of world exports and world economic activity, as in the crisis years 1921, 1930-32 and 1938.

III. U.S. Foreign Trade Policies - Cause or Consequence of Economic Crisis?

Not only did the U.S. economy transmit income effects to economic activity outside the U.S.; its trade-policy actions also resulted in substitution effects, i.e. substituting domestic production for imports or vice versa.

The history of protectionist measures in the U.S. after the First World War and through to the great depression is notorious.[17] It was not until the Reciprocal Trade Agreement Act was passed in 1934 that the U.S. reversed the trend of protectionism.[18] Multilateral liberalization of trade was finally embarked upon after the Second World War under American leadership. The successful GATT activities in this direction were somewhat interrupted in the 1970s, when new forms of protectionism, like orderly marketing, voluntary export restraint agreements and non-tariff barriers (NTBs) started spreading rapidly, as did subsidies to national industries that would otherwise have been priced out of the market. Yet, they do not seem to have matched the trade impeding effects of high-tariff (and unilateral import quota) measures of the interwar period. As recent U.S. developments have clearly shown there have been many more protectionist demands than measures.[19] But these calls for protection are considered to be potentially more dangerous obstacles to a rapid development of international trade and of national economic growth which would result from the most efficient allocation of production resources on an international scale. The danger is caused by the broad spectrum of possible instruments, such as buy national campaigns and procurement practices of governments, safety and health standards for imports designed to disguise protectionist motives and procrastination with customs clearing procedures.[20] In contrast to tariff increases, these measures tend to be discriminatory among trading partners.[21] The principle of non-discrimination that made for the success of the GATT is therefore eroded.

The new protectionism has been mainly applied to specific industries, especially textiles, clothing, shoes, steel, automobiles, shipbuilding, machine tools, electronics and services.[22] In the U.S. it has been applied to imports such as automobiles from Japan, steel and steel tubes from the EC, and shoes, textiles and clothing from NICs (newly industrialized countries). The new protectionism is, however, a world-wide phenomenon.[23]

NTBs were not unknown in the interwar period. They spread especially in the 1930s,[24] when unilateral import quotas and regulation of foreign trade through foreign exchange controls proliferated. Bilateralism and trade discrimination were the result. But all through the 1930s and during the previous decade high tariffs were in force in addition, whereas during the last 20 years tariffs have been low and were even lowered further, e.g. in the Tokio round of the GATT in 1979, while the new protectionism was expanding. Free trade remained the guiding principle of policy makers, even when they committed the sin of protectionism. The Reagan Administration especially has been carrying the free trade banner, even while it has pressured other countries into export restraint or has consented to import restrictions.

This was different in the interwar period. The Republican Party was a strong partisan of "the protective tariff".[25] After it had recaptured a majority in Congress at the end of World War I and returned to the White House in 1921, it reversed the tariff reductions that President Wilson had enacted in 1913. The traditionally protective tariff from the Civil War to Wilson was interpreted by the Republicans as the cause of high economic growth in the U.S. in that period. Trade discrimination, not high tariffs, was the concern of the Republicans. The result was the Fordney-McCumber Act of 1922: non-discriminatory, but instead of opening the door to the American market for foreign competitors, it closed it for everybody alike. The average rate of duty on dutiable U.S. imports that had been 27% under the Underwood-Simmons tariffs from 1913-20 climbed to 38.5% from 1922-30. Under the Smoot-Hawley Act of 1930 it even went up further, to 53%.[26]

That average rates as high as this impeded exports to the

U.S. is evidenced by the fact that U.S. imports in the 1920s grew less than world exports and that they shrank much more than world exports in the depression years 1930-32 (cp. Table 2). Only after the Roosevelt Administration had the Reciprocal Trade Agreement Act passed in 1934 and Secretary of State Cordell Hull had initiated a round of trade agreements lowering tariffs[27] did U.S. imports grow rapidly from 1935-37 (cp. Table 2), before recession struck again in 1938.

Were U.S. trade policy measures, namely the trade acts of the interwar period, a cause or consequence of economic crisis? When the Republicans started their protective legislation with the Emergency Tariff Act of 1921 that preceded the Fordney-McCumber Act of 1922, the U.S. and the world economies already found themselves in the midst of the first postwar depression. The tariff measures do not seem to have aggravated it in the U.S., as recovery was rapid and led into the boom of the 1920s. U.S. imports grew by almost 30% in 1922 (Table 2). But afterwards the new U.S. tariffs hampered the growth of American imports, thus prevented the U.S. boom from fully spilling over abroad and contributed to the unsatisfactory economic developments in Europe and in other parts of the world, where relative stagnation - as in Great Britain and Germany - prevailed in the 1920s.[28]

Proponents of supply-side economics in the U.S. have recently advanced the hypothesis that the discussions of the Smoot-Hawley Bill in Congress caused the great crash on the New York stock exchange in October 1929 that is generally seen as the beginning of the Great Depression.[29] But there was a depression on world agricultural markets throughout the second half of the 1920s and this had prompted President Hoover to initiate the Smoot-Hawley revisions. Finally, the U.S. 1938 recession had not been preceded by protectionist measures, but by trade liberalizing agreements. There is therefore no proof that protectionist measures caused depression.[30]

But the Smoot-Hawley Act of 1930 seems to have done much to aggravate it. It started a vicious circle of protectionism around the world[31] that diminished the international division of labor in the 1930s, promoted policies of autarky and was therefore self-defeating for the U.S., which finally emerged from the economic doldrums only after the Second World War started.

In addition to U.S. trade policy action, the kind of U.S. tariffs (and of tariffs elsewhere) aggravated the crisis. Tariff rates had traditionally been set as specific (fixed dollar amount per unit of imported products), not as ad-valorem (percent rate on the value of imported products) tariffs. This remained unchanged for the most part during the interwar period. The effect was that even with unchanged tariff rates the relative rate of protection increased with a decline of prices. As U.S. import prices fell to about half from 1929 to 1933,[32] an automatic increase in the relative rate of protection occurred for those imported goods for which there was a specific tariff rate. The above-mentioned rise in the average rate of duty under the Smoot-Hawley Act was therefore not only the result of increased tariff rates, but of the decline of prices as well. In other words, relative protection would have increased even in the absence of new tariff legislation. Specific tariff rates tended to liberalize international trade automatically when prices went up in boom situations and to impede it when prices fell in depression. This should have reduced the demand for tariff increases in recession, but a Republican Congress and President nevertheless acted twice to meet further protectionist demands. One must conclude that it was less a need for protectionist action that prompted such tariff legislation, but more the ideology of non-discriminatory protectionism that the Republican politicians adhered to.[33] This is confirmed by the fact that a Democratic majority in Congress passed the Collier Tariff Bill in 1932 - at the depth of the depression - providing for substantially lower tariffs immediately, for reciprocal trade agreements, and for an international conference on trade (it was vetoed by Hoover)[34] and that the Roosevelt Administration embarked upon the Trade Agreement Program in 1934 when recovery was still barely visible.[35]

While the Republican tariff increases of 1921/22 and 1930 cannot be regarded as causes of the depression, their size might well have been a consequence of the economic crisis. In both instances the log-rolling process by which politicians in Congress were induced to agree to more and more protectionist demands[36] indicates that such demands increase and that the political market is more receptive to them under crisis conditions.[37] Only after the Smoot-Hawley policy had been discredited by the world's as yet greatest economic depression and the Republicans favorable to protectionism had lost their power base to the traditional party of free trade, did the tides turn and protectionist forces in the U.S. no longer meet with compliant politicians, although crisis conditions still persisted. A different crisis remedy could now be tried on the patient.

The wave of new protectionism since the 1970s has less to do with changes in government. There seems to be agreement that the weakness of economic growth contributed to its spreading.[38] The international division of labor connected with international trade requires constant structural adjustments of national economies to changes in international competitive positions. Capital and labor displaced by foreign competition is more easily absorbed in a growing than in a stagnating economy. While the breakdown of the international monetary system with massive exchange rate changes[39] and the two oil price shocks seem to have contributed to economic stagnation, they have by the same token increased the need for economic adjustment. With less employment opportunities for capital and labor the increased need for adjustment meets with resistance, not only on the part of labor unions that have developed into the most protectionist force in the U.S. in recent years. The owners of threatened industries also fight for protection in order to avoid the necessary adjustment under unfavorable economic conditions. Under such circumstances the cleavage between export- and import-dependent industries on the one hand and import-threatened industries on the other becomes more important for trade policy demands than the traditional cleavage between capital owners and labor.

The forces of the new protectionism have applied pressure most visibly in the U.S. Congress. Their demands have been satisfied to some degree, but most of them have not yet found political approval. The banner of free trade is still being used, especially by the Reagan Administration, to ward off the worst attacks on the liberal trading system that had been the basis for so many years of prosperity in the 1950s and 1960s. Conservative policy now means to preserve the chances for survival of the non-discriminatory liberal trading system. Conservative politicians in Washington, mainly Republicans, behave accordingly at present, while their liberal counterparts, mainly Democrats supported by labor unions, have more and more adopted the protectionist ideology, obviously as a consequence of recent crisis experience. Future economic growth or stagnation will be a decisive factor in settling the issue.

IV. U.S. Dollar Exchange Rate Changes and World Trade

The fixed exchange rate system with free capital movements that had been reestablished after the First World War mainly with the stabilization of the German mark in 1923/24, the return to prewar parity of the British pound in 1925 and the de-facto stabilization of the French franc in 1926, broke down as a consequence of the great depression.[40] Some countries followed the example of Great Britain in 1931 and let their currencies float and devalue. Other countries, like Germany in 1931, while keeping the exchange rate, introduced exchange controls, thus ending the freedom of capital movements. Germany pursued a ruthless policy of deflation into 1932 in order to achieve a real effective exchange rate depreciation of the mark without changing its nominal parity. The U.S. dollar still tied to its gold parity was faced with an effective exchange rate appreciation[41] that further depressed prices in the U.S. In order to alleviate the price situation the new Roosevelt Administration in early 1933 took the dollar off gold, let it float and depreciate on the foreign exchange markets and introduced a new gold parity in February 1934 (35 dollars per ounce of gold as against 20.67 dollars effective until 1933).[42] This depreciation of the dollar was meant to be a price support measure. It was not necessitated by balance-of-payments reasons, as the British and other devaluations had been. As a measure of monetary protectionism on top of U.S. trade protectionism it added to the difficulties of other countries to export to the U.S. and compete with the U.S. in third markets. It made the earning, by countries indebted to the U.S. in Europe and elsewhere, of dollars for the servicing of their debts even more difficult than it had been since capital exports of the U.S. had dried up from 1928 on.

When the Nixon Administration cut the link between the dollar and gold in August 1971, the dollar's trade-weighted exchange rate depreciated by about 8.5% in the next half year. A further depreciation of about 9 percent occurred from January to March 1973, when the fixed-exchange rate system was finally abandoned.[43] This happened before the oil price shock of 1974 led the world economy into its first serious postwar depression. In contrast to the great depression in the inter-war period, the U.S. did not practice monetary protectionism in this period of crisis. In fact, when the Democratic Carter Administration took office in January 1977, the effective foreign exchange value of the dollar was about 5% higher than it had been in March 1973. Under Carter's presidency, however, there was a strong depreciation of the dollar by altogether about 20% from January 1977 to September 1980.[44] This was mainly caused by rising inflation rates in the U.S. reaching a record 13.5% on consumer prices in 1980. Again, this "monetary protectionism" of the U.S. occurred before the U.S. and the world economy started sliding into another depression in 1980 (cp. Table 1). As a result of the adoption of antiinflationary policies via money supply targeting by the Federal Reserve Board in late 1979, U.S. interest rates rose and reached unprecedented levels. This and Ronald Reagan's election into the White House attracted international capital into the U.S. forcing the value of the dollar to appreciate. The trade-weighted dollar exchange rate has been rising every year in depression until the second half of 1982 and while a strong recovery was under way in 1983 and even more so in 1984. When it reached its maximum in February 1985, it was slightly more than 80% higher than the average of 1980 (Table 3). Enormously growing U.S. foreign trade deficits during the economic recovery since 1982 have resulted from this development. The opposite of monetary protectionism, the appreciation of the dollar in the last five years, greatly strengthened the spillover effects from U.S. economic recovery to world economic activity. It helped to avoid a vicious circle of beggar-thy-neighbor policies on the foreign exchange markets. It attenuated the economic consequences, especially on unemployment, of restrictive fiscal and monetary policies conducted outside the U.S. in order to reduce public sector deficits and inflation. It certainly contributed to increasing demands for trade protectionism in the U.S., but it also compensated foreign exporters for facing new trade restrictions in the U.S.

The price paid by the U.S. for its leadersip role in the world economy in the last few years was among others the loss of its international net creditor position it has held since the First World War. It has given up its international wealth to finance recovery for itself with the described spillover effects abroad. That the world's leading industrial country should remain an international net debtor is unlikely. Therefore, sooner or later U.S. current account surpluses will have to reappear. If the swing should occur in the absence of dynamic growth abroad, it would aggravate the problem of stagnation, as it would have to be produced by falling U.S. imports. But if instead it can be brought about by rising U.S. export into a booming world economy, the adjustment will be easier. Especially the West German and Japanese economies will have to absorb much higher and growing imports and will have to accept current account deficits to make room for U.S. current account surpluses.

V. The Relevance of the Interwar Experience for the Contemporary World

The world economy as yet has not experienced a depression of equal dimension as the one in the interwar period. The problem of relatively low growth rates since the 1970s has not been aggravated by a collapse of world prices that marked the way into the great depression. With exchange rates floating, national currencies could be, and were, manipulated. This facilitated the absorption of the first oil price shock of 1974 by a combination of economic stagnation and higher inflation in the oil-importing countries. A vicious deflationary spiral that characterized the period from 1929 to 1932 was avoided.

But the fate of the world economy has recently been similarly dependent on the performance of the U.S. economy as it was in the interwar period. As long as the international exchange in trade and capital is not curtailed drastically among market economies, a scenario in which the world's biggest national economy is stagnating or even in depression, while the other countries are developing normally, is unthinkable.

Some problems of the interwar period have thus far not reappeared in threatening dimensions. In spite of some "new protectionism", nothing like the interwar trade and monetary protectionism is in sight. The break-up of the world economy into preferential zones, as was typical for the 1930s, has not and is not likely to occur. Occasional instances of dirty floating apart, "monetary protectionism" by purposeful undervaluations of currencies was not practiced in the recent period.

The lesson of the interwar experience most relevant for the contemporary problems of the world economy derives from the fact that the U.S. dollar, these days even more than during the interwar years, occupies the center stage in international transactions. In 1943 Hal B. Lary already drew the conclusions:

> "Although various salutary lessons are to be drawn from our experience during the years extending from the end of the first World War to the beginning of the second, the conclusion that emerges most emphatically from the foregoing survey is the fundamental importance of maintaining a more stable and ample flow of dollars in transactions with other countries. Two main sources of instability and disturbance in the international dealings of the United States stand out: (1) The extraordinary amplitude of fluctuations in domestic economic life, with concomitant variations in our purchases of foreign goods and services; and (2) the erratic behavior of capital movements."[45]

Lary rearranged U.S. balance of payment statistics to show items supplying dollars to foreign countries, namely all out-payments on current account (imports etc.) and the gross outflow of long-term capital. The data are presented in <u>Table</u>

4.

The data show that each depression of the interwar period (1921, 1929-1933, 1938) was accompanied by severe reductions in dollars supplied by the U.S. to foreign countries. Lary explains the severity of the great depression mainly by the huge reduction in the dollar supply of 68 percent from 1929 to 1932.[46] Not only U.S. foreign investments, but also U.S. imports fell sharply in that period. As the world economy had been accustomed to a high and mostly growing supply of dollars in the 1920s, it was faced with a tremendous readjustment problem that found expression in the deflationary spiral of world trade and that the newly established fixed exchange rate system with freedom of capital movements did not survive.

The fixed exchange rate system of the post-World-War-II period came under strain at the end of the 1960s and in the early 1970s and was finally given up in March 1973 not because there was an undersupply of U.S. dollars in the world, but rather because there was an oversupply (cp. Table 5) that had produced inflationary pressures all over the world. U.S. gross capital outflows increased dramatically over the rest of the 1970s and further until 1982 (Table 5). This was the period when credits flowed to third world countries on a large scale, credits that led to the third-world debt crisis of recent years. In 1983 and 1984, in contrast, U.S. gross capital exports fell sharply, while the U.S. economy underwent one of its most rapid recoveries. The supply of dollars abroad by U.S. imports has also grown throughout the 1970s (with the exception of 1975) and in 1980 and 1981, although less than capital exports, and, starting in 1983, again dramatically in 1984

(Table 5).

In contrast to the interwar period, the supply of U.S. dollars to foreign countries in the last twenty years has been growing substantially almost every year, as a comparison of column (3) in Tables 4 and 5 shows. But as in the interwar period, a falling supply coincided with world economic crises in 1975 and in 1982/83. Variation in U.S. import activity generally seems to have been of greater importance than variation in capital outflows (with 1983 being an exception, when the negative change in capital outflows was greater than the positive change in U.S. imports). Domestic stabilization of economic growth in the U.S., therefore, seems to be of crucial importance for stabilizing world economic developments. The strong economic recovery in the U.S. in 1983 and especially in 1984 and the concomitant huge increase in U.S. imports and thus in the supply of dollars to foreign countries certainly contributed to sparing the world a depression experience similar to that of the interwar period. Imports were able to play this role, because, in striking contrast to the interwar period, the U.S. Government has kept protectionist forces largely under control - inspite of some "new protectionism" in trade - and has welcomed and tolerated a substantial appreciation of the dollar, i.e. the opposite of "monetary protectionism".

Notes

1 League of Nations (F. Hilgerdt), Industrialization and Foreign Trade, Geneva 1945, p.13.

2 H.B. Lary, The United States in the World Economy. The International Transactions of the United States During the Interwar Period, Washington, DC 1943, pp.28-29.

3 Ibid.

4 U.S. Department of Commerce. Bureau of the Census, Historical Statistics of the United States. Colonial Times to 1970, Washington, DC 1975, p.887.

5 W.S. Woytinsky and E.S. Woytinsky, World Commerce and Governments. Trends and Outlook, New York 1955, pp.38-39, 48.

6 P.G. Peterson, The United States in the Changing World Economy, vol. 2, Washington, DC 1971, p.2.

7 Institut der deutschen Wirtschaft, International Economic Indicators 1985, Cologne 1985, Table 10.

8 United Nations, Statistical Yearbook 1981, New York 1983, pp.886-887. International Economic Indicators 1985, Table 59.

9 Historical Statistics of the U.S., p.887.

10 Computed from Statistical Abstract of the United States 1984, Washington, DC 1983, pp.448, 818 (for 1980) and from Survey of Current Business, vol.65, No.4 (April 1985), pp.9, 14 (for 1984).

11 Statistical Abstract of the United States, Washington, DC, various years.

12 Bank für Internationalen Zahlungsausgleich (BIZ), 55. Jahresbericht 1984/85, Basel 1985, p.104.

13 R.E. Lipsey and I.B. Kravis, "The International Competitiveness of U.S. Firms", National Bureau of Economic Research Working Paper No. 1557, New York 1985 recently found that the U.S. share of total world exports of manufactured goods fell from 21 percent in 1957 to 16 percent in 1966 to 12 percent in 1977. In contrast, the share of world manufactured exports produced by U.S. multinationals in factories both in the U.S. and abroad rose slightly. In other words, although exports of manufactured goods produced in the U.S. grew more slowly than exports produced in other countries, those exports produced by U.S. multinationals grew more rapidly than world exports.

14 International Economic Indicators 1985, Table 55.

15 BIZ, 55. Jahresbericht 1984/85, pp.17-18.

16 *Industrialization and Foreign Trade*, p.134.

17 A fine summary is presented by W.B. Kelly, Jr., "Antecedents of Present Commercial Policy, 1922-1934", in W.B. Kelly, Jr. (ed.), *Studies in United States Commercial Policy*, Chapel Hill 1963, pp.3-68. See also: F.W. Taussig, *The Tariff History of the United States*, 1931, Repr. New York 1964.

18 R.A. Pastor, *Congress and the Politics of U.S. Foreign Economic Policy, 1929-1976*, Berkeley 1980, pp.84-93.

19 E. Rhein, "Der Neue Protektionismus aus der Sicht der EG", in A. Gutowski (ed.), *Der neue Protektionismus*, Hamburg 1984, p.140.

20 A. Gutowski, "Vorwort", in *Der neue Protektionismus*, p.8.

21 General Agreement on Tariff and Trade (GATT), *International Trade 1983/84*, Geneva 1984, p.20

22 GATT, *International Trade 1982/83*, Geneva 1983, p.20. Werner Zohlnhöfer, "Der neue Protektionismus aus der Sicht der politischen Ökonomie", in A. Gutowski (ed.), *Der neue Protektionismus*, p.96.

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Table 1: Growth Rates of Gross Domestic Product and of Foreign Trade 1965-84 in Percent

	Gross Domestic Product (real)		Foreign Trade (real)	
	U.S.	World	U.S. Imports	World Exports
	(1)	(2)	(3)	(4)
1965	6.0	5.7	13.6	6.8
66	6.1	5.3	16.5	7.5
67	2.7	3.6	4.0	4.8
68	4.6	5.3	22.1	12.4
69	2.8	5.4	5.8	11.0
70	-0.2	3.4	3.2	9.8
71	3.3	4.0	8.6	6.2
72	5.6	5.4	13.5	8.5
73	5.5	6.1	4.7	13.1
74	-0.8	1.9	-1.5	6.4
75	-0.9	0.5	-11.9	-5.3
76	5.3	5.2	21.7	11.7
77	5.5	4.3	10.8	4.3
78	4.9	3.9	10.2	4.5
79	2.4	3.7	0.2	6.3
80	-0.3	2.0	-7.1	0.5
81	2.6	1.8	2.5	-1.2
82	-2.0	0.0	-5.0	-2.5
83	3.8	1.9	7.5	2.5
84	6.8		27.0	9.0

Sources:
(1) and (2): IMF, International Financial Statistics. Yearbook 1984, Washington, DC 1984, pp.120-121.
(3) and (4) 1965-1981: IMF, International Financial Statistics. Supplement on Trade Statistics. Supplement Series No.4, Washington, DC 1982, pp.142-145. 1982-1984 for U.S. imports: Survey of Current Business, various years; for world exports: Bank for International Settlements, Annual Report, various years.

Table 2: Growth Rates of U.S. GNP, of World Manufacturing Production and of Foreign Trade 1921-1938 in Percent

	U.S. GNP (real)	World Manufacturing Production (real)	Foreign Trade (real) U.S. Imports	World Exports
	(1)	(2)	(3)	(4)
1921	-8.7	-13.0	-16.2	2.8
22	15.8	22.7	29.2	7.3
23	12.1	5.0	4.1	11.0
24	-0.2	6.2	-2.6	15.6
25	8.4	8.7	7.6	9.9
26	5.9	4.8	7.5	2.4
27	-0.1	6.3	1.5	7.9
28	0.6	5.4	1.1	3.4
29	6.7	8.1	14.3	5.0
30	-9.9	-10.3	-15.1	-7.0
31	-7.7	-10.9	-12.4	-8.1
32	-14.8	-11.5	-19.0	-12.9
33	-1.9	12.3	9.8	1.2
34	9.0	12.1	-1.0	3.7
35	9.9	13.3	22.1	4.6
36	3.9	15.3	10.7	4.9
37	5.3	9.9	11.2	12.5
38	-5.1	-6.7	-27.8	-7.8

Sources:
(1) Historical Statistics of the U.S. Colonial Times to 1970, Washington, DC 1975, p.224.
(2) League of Nations (ed.), Industrialization and Foreign Trade, Geneva 1945, p.134.
(3) Historical Statistics of the U.S., p.893.
(4) W.S. Woytinsky and E.S. Woytinsky, World Commerce and Governments. Trends and Outlook, New York 1955, p.39.

Table 3: Trade-Weighted Foreign Exchange Value of the U.S. Dollar 1967-1985; March 1973 = 100

1967	120.0	1977	103.3
68	122.1	78	92.4
69	122.4	79	88.1
70	121.1	80	87.4
71	117.8	81	102.9
72	109.1	82	116.6
73	99.1	83	125.3
74	101.4	84	138.2
75	98.5	Febr. 85	158.4
76	105.6		

Source and Method:
"Index of the Weighted-Average Exchange Value of the U.S. Dollar: Revision", in Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin*, August 1978, p.700. *Federal Reserve Bulletin*, current.

Table 4: Annual Supply of U.S. Dollars to Foreign Countries via Payments by the U.S. on Current Account and by Long-term Capital Outflows 1919-1939 (in Millions of Dollars)

	Payments on Current Account	Outflow of Long-term Capital (Gross)	Total (1) + (2)
	(1)	(2)	(3)
1919	9631	719	10350
20	7715	1413	9128
21	3976	877	4853
22	4382	949	5331
23	5082	485	5567
24	5004	1025	6029
25	5711	1112	6823
26	5997	1292	7289
27	5818	1485	7303
28	5910	1597	7507
29	6361	1037	7398
30	4818	1089	5907
31	3480	432	3912
32	2322	87	2409
33	2269	98	2367
34	2566	49	2615
35	3340	68	3408
36	3654	74	3728
37	4520	28	4548
38	3267	68	3335
39	3582	75	3657

Source:
Hal B. Lary, The United States in the World Economy. The International Transactions of the United States During the Interwar Period, Washington, DC 1943, p.216, Table II.

Table 5: Annual Supply of U.S. Dollars to Foreign Countries via Payments by the U.S. for Imports of Goods and Services and for Gross Capital Outflows 1965-1984 (in Billions of Dollars)

	Imports of Goods and Services	Capital Outflow (Gross) = Increase in U.S. Assets Abroad	Total (1) + (2)
	(1)	(2)	(3)
1965	32.3	4.2	36.5
66	38.1	5.3	43.4
67	41.0	8.0	49.0
68	48.1	8.6	56.7
69	53.6	8.7	62.3
70	59.5	6.0	65.5
71	65.8	9.6	75.4
72	78.5	10.1	88.6
73	97.9	16.5	114.4
74	140.8	32.7	173.5
75	132.0	31.6	163.6
76	159.7	43.0	202.7
77	193.8	34.7	228.5
78	229.4	61.0	290.4
79	281.6	61.8	343.4
80	333.9	84.8	418.7
81	361.8	109.3	471.1
82	351.5	118.0	469.5
83	365.1	49.5	414.6
84	452.8	21.2	474.0

Sources:
1965-1974: Survey of Current Business, Vol.55 (1975), June Issue, p.30-31.
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