of our policy to press ahead with long-term financing to the extent of jeopardizing the flow of funds necessary to support an expansion of business investment. Any changes, during the coming year, in the level of long-term interest rate will reflect a natural response to changing levels of business activity, and not any rigid preconceptions regarding the appropriate method of financing our current deficit. Nor will it represent a blunt effort—which I believe would be quite futile—to crowd out of the long-term market some marginal amount of foreign borrowing—borrowing that in any event is attracted more by our unrivaled market facilities than by relatively small differences in the total cost of the credit to the borrower.

The balance of payments: Over the longer run, as I have said, our ability to maintain equilibrium in our international balance of payments will reflect our success in achieving more rapid increases in productivity, a favorable climate for new investment, faster growth, and stable prices in our domestic economy—precisely the objectives we are seeking in our tax reform program and in credit policies. But, for the present, after more than a decade of deficits, we cannot wait idly by until these longer run solutions take hold. Instead, we must intensify our efforts through other means to restore balance as promptly as possible.

Our balance-of-payments accounts are beginning to show some of the fruits of the measures we have taken. The overall deficit, which averaged $3.7 billion between 1958 and 1960, was reduced to $2.5 billion in 1961 and during the first half of this year fell further, to an annual rate of $1.5 billion. Part of this recent improvement resulted from the temporary Canadian difficulties, but more basic factors have also contributed.

For instance, the net drain from our mutual defense program is being significantly narrowed, reflecting additional military procurement in the United States by our allies, as well as our own economies in oversea spending. Current outlays for economic aid also reflect our efforts to furnish this assistance in the form of American goods and services. Perhaps most significant for the longer run, our exports have climbed to a new record level—thanks in large part to the virtual stability of the prices of our manufactured goods since 1958. Although imports have also risen—an expected response to higher levels of business activity—our trade surplus has improved over the second half of 1961.

Efforts to lessen the balance-of-payments impact of our oversea expenditures and to stimulate our exports are being stepped up. One evidence of our determination to reduce Government spending overseas to the minimum necessary is the recent development under the aegis of the Bureau of the Budget of a Government-wide control system for international transactions. This requires the quarterly submission by all agencies, whose transactions affect the balance of payments, of a detailed report of past results, as well as of detailed estimates running 1 year into the future. This system provides for the first time a regular and orderly procedure for the special review and control of these outlays. Each item is being subjected to close scrutiny, and, unless adequately justified in terms of overall priorities,