Mr. ACKLEY. It will be still more certain if we wait until the year after next and see what in fact actually happened; but then it would be too late.

Chairman PROXMIRE. Well, that makes my commendation somewhat weaker. The commendations that I am delighted to hear you say, because I know that this isn't true of all the Members of Congress by a long shot, and in fact I fear it may not apply to a majority of Members of Congress, but you are so right when you say that you should focus in this matter of a tax increase on the economic not the accounting factors, and I think you are the most important person in the administration to keep the President's eye on that. I think there is where the decision should be made.

I am delighted that you put our emphasis on it.

Congressman Curtis?

Representative CURTIS. Just to put in my own caveat, I feel very, very strongly for other economic and fiscal reasons that it is very important that you do move forward with both a tax increase and expenditure reform. I don't think you can temporize in these areas.

The line of questioning to which I would briefly direct myself now is that in its latest annual report, the Bank for International Settlements said that in 1966 our underlying balance-of-payments deficit worsened. In the first quarter of 1967 the deficit at an annual rate was \$2.2 billion compared to \$1.4 billion for all of 1966.

Looking at that, I was astounded to see the figure for the official reserve transaction basis of a minus \$7.3 billion; it is hard to remember when there has ever been a figure like that.

In view of this, do you believe that the deterioration in our underlying position is continuing, and is the administration considering any new steps to deal with the situation, and doesn't our domestic fiscal problems that we have been discussing here have a great bearing on our balance-of-payments position?

Mr. ACKLEY. I would like to ask Mr. Okun, who is our expert on the balance of payments, to respond to those questions, Mr. Curtis, if I may.

Mr. OKUN. In neither of the two measures that we consider most relevant, either the liquidity or the official settlements basis, did our balance-of-payments position deteriorate last year. It remained essentially unchanged on the liquidity basis and improved enormously on official settlements.

I think we would have a difference of opinion with the Bank for International Settlements on how to evaluate our payments position. This improvement in our official settlements position, as you suggested, was indeed short lived. We did get a very big deficit in the first quarter of this year. Many of the same temporary factors that contributed to the surplus of last year just turned around—the change in the financial markets, the strengthening of sterling—both of which led to that enormous deficit for one quarter in the official settlements balance.

Representative CURTIS. Of course, there is this, too; Many people were warned that the short-term money that came in from abroad would go out as fast as it came in, and apparently a lot of that did go out.

Mr. OKUN. It did. I think these are temporary factors and forces. They do shift around. If one averages out over a period of the last five quarters or last year and a half, one finds a better measure of our