It seems to me that we have a very serious, if not critical, situation in these figures for the first quarter unless the second quarter—I don't know what they are going to show—balances this off in a very radical way, but would you comment on the problem?

Secretary FOWLER. Mr. Curtis, first, you have hit a number of points. With regard to the other measure of balance of payments, the official settlements basis, as you yourself observed, the surplus in that measure in calendar year 1966 was the result of flows of funds in some measure which were unnatural and not expected to last. You will find that in all the comments that we have made on that particular phenomenon we went on to say we expected to see that reversed during the coming year, and we think that that is actually what has been happening and that when the official settlements figures for 1966 and 1967 average out you will probably find that there is not any greatly different trend over all between that picture and the picture you get on the liquidity deficit.

Mr. CURTIS. The only comment I would make, of course, and I know you realize it, is the figures of $7 billion, though, is so immense it is going to take all sorts of adjustments even to bring that down, because our previous figure on an annual basis, the highest, just reading from this table was $3.4 billion and then $1.3 billion, $2.7 billion, $2 billion, $1.5 billion, and $1.3 billion. There we have this most unusual one of $7.2 billion.

Secretary FOWLER. A lot of it was the recovery of the pound in that period. A lot of it was the flowback of funds that had been brought into the United States——

Mr. CURTIS. Short-term.

Secretary FOWLER. In 1966.

Mr. CURTIS. Funds which many warned last year could not be counted on. I don't think you were, but I know that I felt a strange silence on the part of the administration in not joining in the warning.

Secretary FOWLER. I did, Mr. Curtis.

Mr. CURTIS. You did personally. I agree with that. I say the overall picture. But, at any rate, the minus $7 billion is so large that it is going to take an awful lot of——

Secretary FOWLER. That is an annual rate, Mr. Curtis.

Mr. CURTIS. I understand.

Secretary FOWLER. I don't think you should project a first quarter where there has been a marked flowback of funds from this unusual situation last year.

I don't think you should imply that that is going to go on.

Mr. CURTIS. I am not. I am simply saying that it is so large that you are going to have to do a lot of explanation to bring it back because even on the liquidity basis, the first quarter deficit is running at an annual rate of minus $2.1 billion, compared to $1.3 billion in 1966 and 1965.

Secretary FOWLER. On the liquidity basis the figure for the first quarter was up from what we had hoped it would be. We had hoped it would hold and perhaps decline from the $1.4 billion level of the deficit last year, and the $1.3 billion in 1965, but the fact of the matter is that the foreign exchange costs of our operations in Southeast Asia have substantially increased and just the direct foreign exchange costs in Southeast Asia account for by far the major portion of that liquidity deficit. So confronted by the financial and physical prob-