

THE U.S. BALANCE OF PAYMENTS IN 1966

The balance of payments of the United States improved in 1966. It is true that the "overall balance" showed little or no gain, but that Department of Commerce definition of equilibrium is not acceptable to me. It is true, further, that there was a worrying decline in the balance-of-payments surplus on current account as a result of the rise in imports and the increase in overseas expenditures owing to Vietnam. Moreover, Mr. Roosa is right in not being cheered by the improvement in the balance on official transactions—the so-called Bernstein balance. That definition loses significance when it is realized that the \$2 to \$3 billion which was borrowed or brought back from the Euro-dollar market last summer is not a permanent movement of capital to the United States. The loans have to be repaid, and the repatriated funds owned by U.S. banks will be replaced abroad. The basis for stating that the balance of payments improved is that we lost less gold. Our gold losses, which rose from \$100 million in 1964 to \$1.7 billion in 1965, declined to \$571 million in 1966. This amount represented a loss of \$600 million to France, offset by a small net gain otherwise. And the improvement extends into 1967 since the French balance of payments has turned from surplus to deficit last September.

This judgment of the balance of payments solely by gold losses is not based on the theories of Jacques Rueff, nor does it ignore the fact that the monetary authorities have wide latitude in which they can adjust the figure to their public purpose. The position is in fact somewhat worse than \$571 million, since there was a reduction of \$700 million in our gold tranche position at the International Monetary Fund, offset to the extent of \$500 million in holdings of convertible currencies, both during the first 9 months of the year. Moreover, there may be need for further adjustments on account of changes in official swap positions, Roosa bonds, et cetera.

This view is not then based on a naive interpretation of the gold standard. On the contrary, it rests on the belief that the liquidity and official-transactions criteria for judging the balance of payments of the United States are thoroughly misguided, since they treat the United States as a firm when it is in fact a bank. A firm typically wants a current ratio of quick assets to demand liabilities of something like 3 to 1, because it must meet and pay off its demand liabilities. A bank on the other hand is in the business of having its liabilities used as money. It is in the business of lending long and borrowing short, continuously. Under normal conditions its liabilities run on indefinitely. And a bank is in good shape so long as its depositors have confidence in it, and its assets are sound, if it has a quick-asset ratio of, say 1 to 5. This ratio for the United States as a bank is roughly 1 to 2 if you measure gold and convertible currencies of the Government against demand liabilities, or virtually 1 to 1, as calculated by Mr. Roosa in his New York address, if you add in short-term liquid claims. The real questions then turn on the character of our assets and the confidence of our depositors.

Almost no one questions the soundness of the assets which U.S. investors are acquiring abroad. In a little-noticed speech on December 8, 1965, before the U.S. Council of the International Chamber of Commerce in New York, however, Secretary of the Treasury Henry H.