The NIA budget is seriously defective, and it is a questionable procedure to shift to it as the budget does during a year when it happens to show the low deficit while the administrative budget happens to show a large deficit. We ought not to be afraid of large deficits if they are properly financed. That is an essential condition. And we should not exalt the NIA budget any year where that happens to put a spuriously favorable look upon the whole budget situation.

THE BALANCE OF PAYMENTS

In 1966, the United States lost some of the competitive advantages that relative price stability had been conferring. In 1967, some more will be lost. It is of little help, even if true, to say that our inflation is less than that of other major countries. To be fair and efficient, the automatic mechanism of balance-of-payments adjustment requires prices in the deficit country to fall while in the surplus countries they rise. If that is asking too much, stability in the deficit country is the minimum to be expected.

Prior to 1965, the United States could allege not only that it was holding prices stable, but also that it was making sacrifices on behalf of international adjustment in the form of lower income and higher unemployment. At present, the full employment and rising prices, the United States is making no economic contribution whatever to fundamental payments adjustment and is throwing the entire burden of adjustment upon the surplus countries. High short term interest rates, the interest equalization tax, tying of aid are stopgaps, not means of adjustment.

Thanks to these stopgaps, the balance of payments did not deteriorate seriously in 1966. It is worth noting, however, that beyond relying on stopgap devices, it was additionally necessary to employ a long list of window-dressing measures to make the deficit look smaller than it is. No less than nine such window-dressing devices, the repercussions of some of which already are coming home to roost, are identified in the Department of Commerce's balance-of-payments presentation for the first three quarters of 1966; they "improve" the results for the period by $856 million.

If, as seems likely, we are now running out of such devices, and if short term funds should flow back as interest rates fall, dangerous new pressures upon the balance of payments must be anticipated. It is difficult to see how they could be met except by new controls, presumably in the area of private foreign investment, harmful as they would be in the longer run. What supports foreign confidence in the dollar now is the conviction abroad that this country will sooner go to far-reaching controls than to devaluation. But controls undermine the usefulness of the dollar and in the long run, therefore, its strength as well.

It is in the nature of a payments deficit, unlike inflation or unemployment, that the country experiencing it feels no pain. The pain comes later, when the consequences must be faced in the form of tight controls or a devalued currency. For this reason, the payments deficit attracts little attention. Sacrifices to end it are ruled out as unacceptable. Even when sacrifices are proposed, such as the 6-percent income