broad-based properly structured reductions in Federal tax rates can help sustain economic activity and utilize the fruits of growth to help bolster living standards. Another choice—one that has been receiving increasing attention—is to return a portion of Federal tax receipts to State and local governments. Still a fourth option, of course, is to increase Federal spending.

The American Bankers Association has studied and commented on aspects of these alternatives in the past and will continue to do so in the future. The important point to recognize at this time is that, although there is currently a deficit in the Federal budget, long-range prospects for rapidly increasing revenues call for careful, extensive research and discussion of these vital matters.

THE INTERNATIONAL ECONOMY

The apparent progress toward establishing a technique and mechanism for orderly accretions to international reserve assets is most gratifying. Hopefully, progress will continue so that, when the need for additional reserves becomes clear, the new mechanism will be ready to be put into operation. The American Bankers Association, without commitment to any given approach, urges continued discussion and negotiation toward this end.

Still, we cannot view the international economy with complacency so long as the U.S. balance of payments remains in substantial disequilibrium. The adverse effects of the 1965–66 overheating of the economy were not confined to the domestic economy; the overheating contributed directly to the surge in imports that was the main factor in cutting sharply into our trade surplus. The impact of this deterioration has been obscured by the large inflow of volatile funds, reflecting the extremely tight money situation here.

While the Vietnam conflict has contributed to an additional foreign exchange drain of substantial magnitude, this contingency provides no latitude for dealing with the fundamental problem. Rather, it adds to the urgency.

The additional avenues for closing the payments gap have been discussed many times, both by this association and by other observers, and need not be repeated in detail here. Surely the reestablishment of balanced, noninflationary economic growth is a prime requisite. Otherwise it will be difficult to recover the ground lost by shrinkage of the trade surplus. We cannot share the optimism of the Council concerning the trade surplus in 1967. Some improvement may well occur, but the prospects for continued wage and price increases, coupled with a less expansionary environment in important economies abroad, dampen these prospects.

As time goes by—and recalling that since 1949 the U.S. account has been in deficit every year but one, with truly sizable deficits during each of the past 10 years—it becomes increasingly clear that fundamental realignments in free world defense and aid spending will be necessary before true equilibrium is reached. Informed observers in the financial community and elsewhere increasingly are questioning the heavy budget and foreign exchange outlays for the maintenance of large U.S. garrisons in Western Europe. They also believe that our prosperous free world friends are able to share a larger portion of the overall defense and aid burden.