

ment has undertaken in the tying provisions of U.S. aid, the interest equalization tax, its application to banks under the Gore amendment, the voluntary credit restraint program, the reduction in tourist duty-free allowances, the change in the Buy-American provisions applying to Government purchases, and the abortive taxes on travel. General conditions of excess spending or excess liquidity require macroeconomic measures in the monetary and fiscal field, affecting spending and money supplies, not particular measures restricting spending on this or that import or investment. These are partial-equilibrium measures which assume "other things equal" when these other things are in fact affected by the change undertaken. To cut down spending on particular imports will divert income to other foreign goods, building imports up again, or to domestic goods, which will aggravate the pressure on U.S. resources, raise prices still further, attracting other goods from abroad and harming exports.

My views on the balance of payments of the United States are somewhat idiosyncratic. I believe, for example, that the so-called liquidity balance or overall measure of the deficit is misleading, along with most others, and that we have been keeping our international books as though this country were a firm, when in fact it functions internationally as a bank. I disagree, for example, that we had a deficit in 1964 when the current-account balance, including remittances and pensions were plus \$7.6 billion, and the so-called net-worth balance, which is the current-account balance less remittances, and U.S. Government grants and capital, amounted to plus \$4 billion. This is equilibrium, or surplus, in my judgment. Today the current-account balance has slipped substantially, so that the net-worth balance is \$500 million negative in 1967. The income surtax is needed to slow down the boom, halt the rise in prices, and, with continued price rises in France, correct the disequilibrium. The financial flows on top of this net-worth balance have received excessive attention.

It would be foolish to defend an extremist laissez faire position. The price system does not always produce a social optimum as, for example, in defense industries, industries with strong external economies, infant industries where economies to scale or to learning exist within the plant. But anything a tariff can do, a subsidy can do better, a subsidy on domestic production rather than a penalty on imports. A tariff is a subsidy and a tax, but there is no guarantee that the tax is effectively or equitably levied, and the subsidy is too far reaching, benefiting existing as well as marginal producers or that the subsidy would be granted if the tariff were recognized as such. There is no guarantee that it would be.

Samuelson's elementary textbook in economics talks of the fallacy of composition, where the whole is not equal to the sum of its parts but may be negative when the parts are positive. If everyone stands to see a well-hit ball at a baseball game, only the long-legged see any batter, and a great many children can't see at all. If all interests which face import competition succeed in getting the Congress to legislate higher tariffs, the United States and the world will be worse off. In the trade field, as in exceptions from the income tax, when everybody is somebody, nobody is anybody. Each one of us, no matter how sophisticated, is at heart selfish and embraces for himself principles of which most