

improvement of the current account: from 1959 to 1965 the outflow of private long-term capital increased from \$1.6 billion to \$4.4 billion. (One must not assume, however, that these changes are independent of one another; it is quite likely that the increase in capital outflow stimulated foreign demand and thus helped increase commodity exports from the United States.)

After 1964, the adjustment process came to a halt, probably because of an updrift of incomes and prices in the United States and a simultaneous attenuation of wage-and-price inflations in Europe.² The American export balance of goods and services began to decline: from the \$8.5 billion in 1964 it fell to \$5.1 billion in 1966.

To record that the adjustment process came to a halt is not to say that adjustment policies will not work. They will, if consistently pursued. Nor is it to condemn the United States for not pursuing them consistently. The government evidently believed that policies of restraining the increase in effective demand were too costly in terms of employment and national product. It was a conscious decision to give prime consideration to the objective of achieving greater employment through stepping up aggregate demand. An economist may have his own value judgments about which ought to be more important to the nation: more employment or a smaller payments deficit. But the decisions are made by governments.³ In any case, the expansion of aggregate demand in the

² Wholesale prices in the United States, which had been virtually unchanged for six years – from 1958 to 1964 – rose from March 1965 to August 1966 at an annual rate of 3.8 per cent.

³ The economist should not be silent, however, when faulty arguments are presented by the government. When a reduction of income taxes was proposed by the government and legislated by the Congress in 1964, economists outside Washington expected that the resulting increase in domestic consumption and investment would increase imports and reduce the export surplus. Yet, President Johnson, in his *Economic Report* of January 1964, predicted that

With the tax cut, our *balance of payments* will benefit from basic improvements – in our ability to compete in world markets as costs are cut directly through lower taxes and indirectly through modernization; – and in our ability to retain and attract capital as returns on domestic investment rise with higher volume and lower unit costs [p. 9].

This argument was specious, to put it mildly.