

Mr. MACHLUP. It was this program that I meant. I am wholeheartedly in agreement with the fiscal measures that were adopted this summer. I believe it was necessary to legislate the tax increase, and I believe that the SDR plan which you mentioned was also an important step.

To repeat, the SDR program and the tax increase were definitely important and useful actions; what I regarded as being for the birds were the restrictive actions announced in January 1968.

Senator PROXMIRE. Well, do you feel that overall the actions of the administration have had any effect? I agree that because there is a lag in our information and because so much of this didn't go into effect, so much of the tax increase, for example, didn't go into effect until fairly recently. It is hard to judge, but I understand the preliminary figures show a spectacular improvement in the balance-of-payments in the second quarter of this year, spectacular at least in the official reserve transaction basis where there is a \$5,800 million surplus on an annual basis and only \$624 million deficit on an annual basis in the liquidity area.

Do you feel this is an indication that we are—we have done anything that has helped us achieve a better position?

Mr. MACHLUP. I am afraid, Senator, that these improvements are deceptive. They are only statistical delusions and do not really reflect any improvements in what has sometimes been called the "basic" balance-of-payments. The improvements in the statistical appearance reflect to a large extent temporary changes in the type, form, and maturities of capital received from abroad, and cannot be expected to be lasting improvements of the balance of payments. Indeed the current account has deteriorated, and it is only on current account that we can expect lasting improvements.

Senator PROXMIRE. I notice that the difference between imports and exports on a seasonably adjusted annual rate in the second quarter was depressingly small, in fact it was almost a washout. Merchandise exports were—this is preliminary—\$33,292 million, and imports were \$33,240 million, which is as narrow as we have had, I guess, in any quarter in a long, long time. So it may well be that your analysis is correct, although I do feel these other elements may be important as the export-import situation.

Mr. BERNSTEIN. May I make a comment?

Senator PROXMIRE. Yes, Mr. Bernstein.

Mr. BERNSTEIN. First, I would like to say you can't measure the balance-of-payments position of a country; you have to analyze it. That is inherent in what Fritz has said. If you look at something reported as a deficit you are going to get merely some arbitrary accounts which have been added together.

I think the proper statement is this: On a liquidity definition, the reason there was an improvement in the U.S. balance of payments is that the United States sold a lot of securities, to Canada and others, which are not defined as reserve liabilities. These are called reserve liabilities in the reserve transactions balance.

Senator PROXMIRE. You say a lot. How much roughly?

Mr. BERNSTEIN. \$500 million; so you have to add that \$500 million.

On a liquidity basis then there was no improvement in the balance of payments, the deterioration on current account being offset by a