Mr. BUTLER. Neither of them give as much influence to the monetary factor. We have a model that we have developed which gives—if you give more emphasis to the monetary factor—almost no inflation.

Chairman PROXMIRE. The principal money manager of the Nation told us a few days ago that the monetary policy would be much easier if we had a tax increase than if we did not have a tax increase.

Mr. BUTLER. That is right.

Chairman PROXMIRE. If monetary policy is easier it means that you get your expansion from ease in monetary policy instead of an expansion from fiscal ease.

Mr. BUTLER. But you also get——

Chairman PROXMIRE. And it is perfectly possible in other words that these would tend to balance out. So monetary policy it seems to me would be a factor that would tend to remove the deflationary element of a tax increase. Is that right? It would tend to?

Mr. BUTLER. Yes; to some extent. On the other hand, if you take our model and you put in a reduction in the deficit of $6 to $8 billion, then you put in the monetary policy that would be consistent with such a reduction in the deficit, we come out with substantially less inflation for this year than without the fiscal policy. But more importantly we come out with virtual price stability for next year. I think what we are talking about is not so much this year as next year. A lot of these wage increases are going to go on, regardless of what you do, other than great depression.

Chairman PROXMIRE. You are right when you talk about the model. That is right. You cannot prove anything with a model. You are absolutely correct about that. I yield to Senator Miller.

Senator MILLER. Thank you. I would like to ask any one of our witnesses this: The point has been made that our apparent favorable balance of trade is really nonexistent; that for 1967 the balance of trade, favorable balance of trade, is listed at $3.8 billion, but that includes $1.6 billion of agricultural exports under Public Law 480, soft currency donations, so that that would reduce the balance down to $2.2 billion.

Further, that the figures on imports of $26 billion do not include the cost of freight, whereas our figures of $30 billion on exports do include the cost of freight, and that if we were to take a reasonable figure of 10 percent to add to the price of the imports, there would be another $2.6 billion which would eliminate the $2.2 billion adjusted figure in the balance ending up as a deficit rather than as a surplus. Do you have any comments on that observation?

Mr. BEHRMAN. It has been that way for years; what is important is yearly changes, so long as we understand what is in the figures.

Mr. MACHLUP. Concerning the cost of freight, may I ask, Do you mean the balance of merchandise or do you mean the balance of goods and services?

Senator MILLER. I am talking about the cost on the merchandise.

Mr. MACHLUP. Just on merchandise. Well, regarding the freight, whatever you do not put in merchandise appears in service. Hence, one really ought to, in order to compare exports and imports, take goods and services together. If you take goods and services together, then