

same course of events unfold with respect to the wage and price controls which are advanced in the report because we continue to be unwilling to adopt the necessary fiscal restraint.

TOWARD INTERNATIONAL EQUILIBRIUM

For some years now the Government has invoked a variety of measures to reduce the U.S. balance-of-payments deficit and end the gold drain. Although the deficits recorded in 1965 and 1966 were smaller than in previous years, we were far from a satisfactory long-term solution to the balance-of-payments problem. Then, in 1967, the deficit increased sharply. It is clear that the balance-of-payments deficit can be eliminated either by increasing the surplus on private international transactions or by reducing the deficit of the Government's international transactions, or both. In recent years Government policies have been directed at both fronts.

To increase the surplus on private transactions the Government has tended to look for individual items which could be affected by specific actions rather than to seek more general adjustment through appropriate broad monetary and fiscal policies. The piecemeal approaches have often proved ineffective and this had led to their proliferation. The substantial increases in the payments deficit and severe gold loss last year have led to direct controls over a vital part of our economy. The emergency measures announced by the President on January 1, 1968, were designed to restore the waning confidence abroad in the Government's willingness and ability to deal with balance-of-payments problem.

The justification for introducing the various piecemeal balance-of-payments measures has been that they provide us with a "breathing spell" during which we could achieve basic improvements in our payments position. Yet, we do not find in the Council's report an adequate statement of how we are to move from the present emergency controls to a long-run solution which would make them unnecessary.

The United States continues to earn a surplus of exports over imports. However, continued inflationary pressures and repeated economic overheating over the last 3 years have damaged the U.S. competitive position and resulted in a declining export surplus. Moreover, continued inflation in the United States casts doubts on the stability of the dollar and thus undermines a principal reason why foreigners have found it attractive to hold dollars.

The most promising way to achieve a lasting improvement in the U.S. payments position is by restoring balance to our internal economy. More than a year ago, the Committee for Economic Development emphasized this in a policy statement entitled, "The Dollar and the World Monetary System." To use the words of this statement:

Fortunately for the United States there is currently little conflict between the demands of an appropriate domestic fiscal and monetary policy and those of the external United States payments position. Under present conditions of inflationary full employment there is need for a program of further domestic restraint. Such a program could reduce the present balance-of-payments deficit substantially.

The consequences of continued inaction in the fiscal area are clearly evident in our deteriorating trade surplus. Moreover, the countries of