

maintained for a number of years. My criticism is not of how the members of the Council deal with this problem as they see it; instead, I offer a fundamental challenge to their way of looking at this problem.

Balance-of-payments problem grossly exaggerated

I submit that a grossly exaggerated importance has been attached to our unfavorable balance of payments. This, in turn, has been responsible in substantial measure for many shortcomings in policies related to the domestic economy. In the name of dealing with the balance-of-payments problem, the Council itself has admitted on occasion that it was inhibited from recommending domestic policies which otherwise would have been desirable to expedite the rate of economic growth, and reduce further the level of unemployment. In the name of dealing with the balance-of-payments problem, interest rates have been elevated unconscionably, to the great detriment of economic progress and distributional justice.

An unfavorable balance of payments, running recently at an annual rate in the neighborhood of \$4 billion, comes to only about one-half of 1 percent of our \$800 billion GNP. During recent years, our unfavorable balance of payments, averaging annually somewhere in the neighborhood of \$2 billion, has been somewhere within the range of one-third of 1 percent of GNP during these years. I venture the prophesy that, within a decade, most economists will look back upon the fear and trembling which has been generated by an unfavorable balance of payments in these magnitudes in somewhat the manner that most economists today look back to 35 years ago, when a national debt about one-twelfth the size it is now was regarded with fear and trembling by so many.

We should run a much larger unfavorable balance of payments

I believe that it would be in our own national interest to average, during the decade ahead, an unfavorable balance of payments several times as large in ratio to our GNP as the ratio today. Upon observation of its internal structure, it appears that our unfavorable balance of payments results substantially from the fact that our business system is a large net investor in other parts of the world. It seems to me that this is good for the U.S. economy; and it is only natural that our dominant world position, in terms of wealth, production, and capital accumulation, should result in our being a very large net investor in other parts of the world. Moreover in this connection, I believe that restraint upon the free flow of this type of investment is tantamount in many respects to the placement of tariffs and other prohibitions upon the international exchange of goods, a policy which we have not favored in general over the decades, and declared further against in the trade act several years ago.

Our currently avowed intent to reduce or even erase our unfavorable balance of payments is sorely neglectful of the economic circumstances and needs of other countries. It is inconsistent with the scores of billions of dollars which we have spent since World War II, to help these other countries avoid economic retrogression and make economic progress. For by definition, to the extent that we reduce our