Chart 16

The liquidity deficit was between $1.3 billion and $1.4 billion in each of the years 1965 and 1966--only a third as large as the 1959-1960 average.

In 1967, our attempts to restore balance in our international accounts received a severe setback and the deficit rose sharply to $3.6 billion. The uncertainties and unrest which accompanied the sterling devaluation in November, 1967, accentuated our problems. However, this deterioration also reflected the effects of higher costs in Vietnam, heavy unilateral transfers, a disappointing trade surplus, and increased outlays by U. S. citizens traveling abroad.

In 1968, despite a strong upward surge of imports stimulated by domestic inflation, a strong rate of real GNP growth and various strike situations, the liquidity deficit disappeared and a small balance-of-payments surplus emerged. The improvement, however, was not well balanced as among various accounts.

The trade surplus fell well below $1 billion and the tourist deficit continued at a high level. Also, some of the sharp improvement in the capital accounts was the result of restraint programs which are not permanent features of our system. The over-all results, however, are encouraging and have been reflected, in part, in a net increase in our gold stock during the second half of last year.