

been whittled down to near equilibrium in the second and third quarters of this year on the liquidity basis of measure. There is a substantial surplus for the first three quarters on the official settlements basis.

We are pleased that the nation is making substantial progress toward achieving equilibrium in our international balance of payments. But we cannot be satisfied with the relative composition of its components. Our progress is spotty and some of it may be transitory. It is spotty because two big elements in our current account—trade and tourism—are far from satisfactory, and a third—a reduction in net deficit in Government military expenditures in Southeast Asia—must in large measure await the restoration of peace in the area.

There is reasonable prospect of continuing improvement next year. This assumes that there is no dismantling of the ongoing elements of your Action Program. It also assumes that the initiatives launched in that program to improve our trade surplus and reduce the net deficits in military expenditures abroad and private travel will be vigorously pursued. Until these elements of the program are effectively executed, we will not have the durable surplus or the assurance of a long-term equilibrium that will enable us to abandon some of the temporary and less desirable measures we have been forced to employ.

These temporary measures have served us well. They helped bring the necessary immediate improvement in our balance of payments and have given renewed confidence in the strength of the United States dollar. These temporary measures, appropriately modified, are needed for some additional period. As the longer-term measures, instituted last year and in some of the preceding years, yield increasingly larger benefits, the restraint achieved by the temporary measures may be phased out.

To complete our task, a continued and sustained effort will be needed. This is the quickest and surest route to the strong and viable payments position which will permit us to eliminate those aspects of our program that are not wholly compatible with the free flow of trade and capital movements.

These are the underlying principles which your Cabinet Committee on Balance of Payments believes should govern the program in 1969.

1. A Stable Economy and the Restoration of a Healthy United States Trade Surplus Should be the Primary Objective for 1969.

The keystone of a sound international financial position of the United States and of the dollar is a trade surplus. Without it, the United States cannot do what is natural and desirable for its role in the Free World—to export capital, to provide its share of the com-