

II. United States Balance of Payments—The Record to Date

For three successive quarters,¹ our over-all balance of payments position has improved under the impetus of the President's Action Program. The huge liquidity deficit of \$1,742 million in the fourth quarter of 1967 was reduced this year to \$680 million in the first quarter and \$160 million in the second quarter. In the third quarter, the United States achieved a small surplus of \$35 million, the first quarterly surplus since the second quarter of 1965.

Improvement of the official settlements balance was also impressive. The fourth quarter, 1967 deficit of \$1,082 million was reduced to \$552 million in the first quarter of this year. Surpluses of \$1,523 million and \$439 million were recorded in the second and third quarters, respectively.

For the first nine months of 1968 the liquidity deficit showed a \$1 billion improvement over the same period in 1967, while the official settlements balance showed a \$3.7 billion improvement between the two nine-month periods.

These results are encouraging and they have contributed to a strengthened position of the dollar in foreign exchange markets. But the gains in these over-all measures do not reflect a balanced improvement in all the major balance of payments components covered by the President's Action Program.

The trade account, which began deteriorating in the fourth quarter of last year, continued that trend in the first two quarters of this year. Only a mild turn-around occurred in the third quarter.

Exports have performed creditably, except in the agricultural sector; but there has been an extraordinary surge of imports. This resulted partly from the excessive level of domestic demand fostered by the tardy passage of the anti-inflation fiscal package. But strikes and the threat of strikes in various industries caused extraordinary imports of between \$600 and \$700 million, representing an irreversible loss to the balance of payments.

The trade position must be restored to a much higher level of surplus in order to sustain the over-all improvement in the balance of payments.

Achievement of the program goals was also thwarted in the travel account. The Congress has not approved recommended measures to

¹ Data given here are those contained in the report for the third quarter of 1968 released by the Department of Commerce on November 15, 1968; some preliminary figures there in are subject to later revision.