tionary path. There will, of course, have to be a continuing review of policies as the adjustment proceeds.

For the present, given the economic outlook as outlined to you by the Council of Economic Advisers, a combination of fiscal and monetary restraint is clearly required. The budget should be kept in surplus while the Federal Reserve pursues appropriate complementary policies. While the administration has reached no final decision with regard to extension of the 10 percent surcharge beyond this June 30, a budget surplus will continue to be needed if inflation is to be combated without extreme credit stringency. Unless fiscal 1970 Federal expenditures can be cut back appreciably from the levels now apparently in prospect, there will be no choice, in my opinion, but to continue the surcharge for another year.

Other matters for legislative consideration will be described by the Under Secretaries. As you know, President Nixon has emphasized that tax reform and equitable tax administration are to have a high priority. Hearings begin this month in the House Ways and Means Committee and in due course we will be submitting the administration's proposals.

The balance of payments continues to be a cause for concern. A small surplus was recorded last year on the liquidity basis of calculation. But this statistical improvement reflected a massive inflow of foreign capital—both private and official. Inflows are unlikely to continue on that scale. Meanwhile, our merchandise trade surplus dwindled to the vanishing point last year. A major reason for the steadily worsening trade position since 1965 is the sharp increases in imports caused by overexpansion of the domestic economy. A return to noninflationary growth is essential to the restoration of our trade surplus and the maintenance of confidence in the dollar.

In conclusion, I will only note that much the same economic policies are needed to promote internal and external equilibrium of the economy. Both the domestic economy and the balance of payments are badly in need of relief from inflationary strains and distortions.

Mr. Chairman, that completes my presentation.

Chairman PATMAN. Thank you, sir. You have made a splendid statement. In fact, I don't know of anything I disagree with. It sounds real good.

But, of course, Mr. Secretary, time is of the essence in your commitments. And I will get down to a point or two that I want to cover personally.

The conflict of interest is on the mind of practically everyone these days, as it should be. Many people believe that if our country ever falls as a Government run by the people, the conflict of interest will be the principal contributing cause. And that is not accusing you or any other person of a conflict of interest, I want that made plain. But I just bring it out to show the importance of it.

Of course, you are well known as a banker—a big banker and a fine banker. Nobody disputes that. And you have been appointed as Secretary of the Treasury. There are certain laws involving the Secretary of the Treasury that do not involve other people in the Government, because it is one of the most important positions. The Secretary of the Treasury has so much importance and authority. Therefore, Members of the Congress are certainly concerned about that.