through higher costs of food, shelter and clothing. Efforts to develop low-income housing are stymied by rising construction costs. Welfare payments and unemployment benefits provide less help when the prices of essential goods continue to mount. Those who are socially and economically disadvantaged could be benefited most through a combination of broad policies to curb inflation together with manpower programs to bring them into the labor force and provide them with needed job skills. Efforts should also be made to improve Government employment services and to develop a data bank on job vacancies in order to identify job opportunities and increase labor mobility.

Balance of Payments Problems

The year 1968 produced the first surplus in our balance of payments since 1957, but there was little cause for elation in view of the continued weakening of our merchandise trade balance from a \$3½ billion surplus in each of the years 1966 and 1967 to less than \$500 million last year. A heavy inflow of foreign capital was primarily responsible for converting the deficits of earlier years into a narrow surplus in 1968. However, there is little or no assurance that these offsetting capital inflows will continue in the future, since they arose to a considerable degree from political disturbances in Europe rather than from basic economic relationships.

Inflation and excess demand have doubtless played an important role in the deterioration of our trade balance this past year, by attracting an increased flow of imported goods while making our exports more expensive to many foreign buyers. If we are to maintain our competitive position in world markets, it is essential that we regain control over inflation to prevent rising export prices.

The Economic Report recommends that controls over foreign lending and direct investment be maintained and that the interest equalization tax be renewed. While these measures may be unavoidable under present circumstances, we should not lose sight of the desirability of removing these restrictions on international capital flows as quickly as circumstances permit. The persistence of this type of "temporary" capital control illustrates the need to achieve domestic price stability and to restore a viable balance in our international trading position.

Management of Domestic Monetary Affairs

The Economic Report offers proposals to modify the organization of policy formation within the Federal Reserve System with a view to enhancing its effectiveness. If any modifications are to be made, however, we believe it is highly important to maintain the independence of Federal Reserve policy from political supervision or direct control by either the executive or legislative branch. This independence permits monetary policy to respond to changing economic conditions with a speed and flexibility which would be sacrificed if the System operated under fixed political directives.

In a related field, greater flexibility is also desirable in the management of the public debt and Treasury borrowing operations. For the past three years, the Treasury has been unable to market securities with a maturity beyond 7 years, because of the 4¼ percent interest rate