ance of payments. In settling these deficits, our gold reserve has declined and our liabilities to foreigners have increased substantially. However, the acquisition of dollar balances by foreigners has also served a useful purpose. Private foreigners have voluntarily increased their dollar holdings to finance world trade and international business. Because of the dollar's important role as an international reserve asset, foreign official institutions may also want to add further to their liquid dollar assets.

Equilibrium in our international payments is attained when, on average, the deficits in our international accounts are equal to the additional dollars the rest of the world voluntarily wishes to add to its holdings at the existing exchange rates when there are no direct or indirect government controls over international trade or capital transactions imposed for balance-of-payments reasons. The United States is not likely to achieve longrun payments equilibrium unless the economy reaches its other objectives of high employment, stable prices, and steady growth.

The statement then specifies the role the Government plays in affecting the economy as being composed of two conceptually separate sets of forces: those which affect the level of output that the economy has the *potential* to produce at stable prices and those forces which affect the *actual* level of demand at any time. The Government's impact on the *economic potential* of the economy arises from its influence on the size of the labor force as well as its impact on the productivity of this labor force. While the factors affecting productivity are many and diverse, Government expenditures on health, education, urban development, research and development and the like have direct impact on the motivation and ability of the work force and thus affect the potential. Expenditures and tax programs designed to induce innovation and investment also provide significant stimuli to increase productivity. However, to the extent we spend publicly to achieve these objectives when the economy is at high employment, less resources are available to be used in the private sector. Thus, we conclude

> Our longrun objective for economic growth requires that the Federal Government manage its spending, taxing, lending and borrowing programs in ways which assure that the resources of the whole economy are used as efficiently as possible. This means that the productivity of Federal spending and lending programs should be weighed against the productivity of private spending and that the tax system be one which fosters or least deters initiative, effort, and investment. These objectives can best be served if the Federal Government manages its spending and taxing so as to yield approximate balance in the overall budget *when the economy is at a high level of employment and experiencing stable prices.*

The Federal Government through its taxing, borrowing, spending, and lending decisions exerts a significant influence on the actual level of the economic activity in the economy. Monetary policy similarly exerts a substantial impact on the level of demand, employment, and prices. Our recommendations for public policy with respect to the objective of achieving high employment at stable prices are that if, with proposed Federal spending and the existing tax rates, total demands exceed or fall short of the country's capacity to produce at stable prices, the Congress should enact legislation affecting either