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THE BALANCE OF PAYMENTS
STATISTICS OF THE
UNITED STATES

A REPORT
OF THE
SUBCOMMITTEE ON ECONOMIC STATISTICS
OF THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES



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LETTERS OF TRANSMITTAL

JULY 27, 1965.

To the Members of the Joint Economic Committee:

Transmitted herewith for the use of the members of the Joint Economic Committee and other Members of Congress is a report of the Subcommittee on Economic Statistics on the balance-of-payments statistics of the United States.

The views expressed in this subcommittee report do not necessarily represent the views of other members of the committee who have not participated in hearings of the subcommittee and the drafting of its report.

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

JULY 26, 1965.

HON. WRIGHT PATMAN,
*Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.*

DEAR MR. CHAIRMAN: Transmitted herewith is the unanimous report of the Subcommittee on Economic Statistics on the balance-of-payments statistics of the United States.

The subcommittee wishes to express its gratitude and appreciation for the guidance it has received from the experts who appeared before it as witnesses or who submitted materials in writing.

WILLIAM PROXMIRE,
Chairman, Subcommittee on Economic Statistics.

REPORT ON THE BALANCE-OF-PAYMENTS STATISTICS OF THE UNITED STATES

The statistics on the condition of our balance of payments are some of the most vital data in the Nation today. They exert a profound influence on the proposals of the administration and the actions of Congress on a wide variety of policy issues ranging from monetary and fiscal policy through foreign aid and the execution of military operations overseas. In view of their pervasive influence on Government policies, we believe it imperative that the Congress and the administration take the steps necessary to insure that these important statistics are the best we can produce. Additional funds spent on improving these data will come back many times over through improved decisions of the administration and the Congress.

Hearings by this subcommittee in May and June convinced us that improvements in our balance-of-payments statistics are urgently needed because of the growing volume and complexity of our decisions and the importance of these particular statistics to those decisions. These hearings—on May 11, and June 8 and 9, 1965—were held to study the report made in April of this year, after 2 years of intensive work, by the Review Committee for Balance-of-Payments Statistics under the chairmanship of Dr. Edward M. Bernstein. This Review Committee, made up of distinguished experts, was appointed by the Director of the Bureau of the Budget in April 1963 to examine "basic conceptual problems, problems of presentation and analysis, and technical problems of data collection, estimation, and related matters." Everyone associated with this project has won our respect and admiration: the Review Committee for its thorough and masterful presentation, and the expert witnesses for their lucid exploration of the report's implications and of the problems involved in applying its recommendations. We thank all of them for their invaluable contributions. Their names and affiliations will be found in the appendix to this report.

RECOMMENDATIONS

The subcommittee recommends and expects positive and aggressive leadership from the Bureau of the Budget in developing, at a very early date, a program for the urgently needed improvements in our balance of payments statistics. We recommend that this program provide adequate funding for the additional personnel and other resources needed by the appropriate agencies—especially the Balance of Payments Division of the Commerce Department's Office of Business Economics—to enable them to carry out the needed improvements on a high-priority basis. This subcommittee intends to give such a program its strongest support. We reach this conclusion after careful and thorough review of the Review Committee's convincing case for such action. This is clearly a place where the investment of public funds will pay large dividends—and fairly quickly.

In developing this program, the Bureau of the Budget should carefully take into consideration the excellent recommendations and guidelines for specific improvements set forth by the Review Committee. The subcommittee expects to schedule further hearings as soon as the Bureau of the Budget and the other responsible agencies are prepared to present detailed plans and schedules of priorities for the program.

The subcommittee was also presented with the most important and difficult problem of choosing an appropriate way of defining the balancing item in our international accounts, of deciding which concept is to be associated with the much publicized balance-of-payments deficit or surplus. At present, the accounts are structured according to the so-called "liquidity" concept. The Review Committee, however, proposed a change to what it called the "official settlements" concept.

Both of these definitions measure changes in our gold reserves and liquid liabilities to foreign monetary authorities. The chief difference between the two is that the liquidity concept also counts changes in liquid liabilities to private foreign individuals and organizations.

The Review Committee has made an important contribution by developing the case that the balance of payments can best be measured by focusing on official transactions to "fill the gap between the private demand for and the private supply of foreign exchange." The subcommittee recognizes the importance of the distinction, emphasized by the Review Committee, between foreign official and private dollar acquisitions; only dollar balances accumulated by foreign official agencies can be converted into our gold. We also found especially significant the Review Committee's emphasis on symmetrical treatment of private short-term capital movements. The Review Committee's official settlements definition has the virtue that, if all countries used it, their combined balances of payments would total zero, except for acquisitions of new monetary gold stocks. Under the liquidity concept, the world as a whole has a balance-of-payments deficit, because of the asymmetrical treatment of private capital. We believe that this asymmetry—apart from the underlying economic realities—tends to result in an overall and undesirable deflationary bias in national economic policies.

We are persuaded, moreover, that there can be no satisfactory analysis of the balance of payments which does not compare the growth in private foreign short-term claims on the United States with the increase in private U.S. short-term claims on foreigners. We should have a measure of the balance of payments which recognizes that dollar acquisitions by individuals and organizations abroad often result from an increased foreign demand for dollars for investment purposes and for working balances. Such dollar acquisitions may properly be viewed as capital movements rather than as settlement items.

However, we agree with the Review Committee that "no simple number can adequately describe the international payments position of this country at any time." The subcommittee concludes that the liquidity definition of the balance-of-payments deficit is also essential to an understanding of the U.S. international financial position, because of the reserve and international currency status of the dollar,

frequent and large shifts between foreign official and private dollar holdings as a result of official forward exchange operations, and other important reasons. The importance of these considerations was impressed upon the subcommittee by the excellent testimony and persuasive arguments presented by its expert witnesses. Dr. Walther Lederer of the Commerce Department's Balance of Payment Division merits special commendation for the depth and high quality of his contribution. At present we conclude it is wise to retain a measure of our balance of payments which alerts us to changes in liquid liabilities to private foreigners, because such liabilities could be transferred to foreign central banks and thus become direct claims on our gold reserves.

The subcommittee therefore recommends that the Government continue to compute and publish figures based on the present liquidity concept of the balance of payments, refined as appropriate, and, in addition, begin to publish figures based on the official settlements concept. It is our conviction that these should be set forth separately where their analytical character can be clearly understood. We further recommend the construction of a basic table or tables reporting the underlying data in such a way as to be neutral between these two definitions or any other analytical concepts which later research may reveal to be desirable. The accounts, moreover, should be set forth more clearly than at present, along the general lines recommended by the Review Committee. They should be modified from time to time as may be desirable for achieving the utmost in clarity of presentation to the users.

The subcommittee concludes that much increased analytical and research work in this area is essential. As part of that improved research and analysis, provision should be made for publication as soon as practicable of a volume describing the methodology, concepts, classifications, sources of data, and errors and limitations. The volume should be written with the basic objective of making the balance-of-payments statistics as widely usable as possible.

The subcommittee learned, in the course of its hearings, that there is no uniformity of practice in the balance-of-payments accounting of other countries, and that the quality of statistics varies substantially among different countries and among types of transactions affecting individual countries. We hope that the work of the Review Committee, our hearings, and our report will stimulate and guide other countries in improving their statistics—to their own benefit and the benefit of all nations.

Even with the improvements we recommend, our balance-of-payments statistics will not by themselves guarantee that policymakers will not make mistakes, for there is no mechanical road to policy. It is even more true, however, that poor statistics will make errors of policy more probable. When small policy errors can produce results which in dollar terms are many times the cost of the best statistics, it is folly to be overly pecunious in funding such programs.

We urge that Congress provide the relatively modest sums which are necessary. This is too vital an area to be starved by inadequate budgets.

APPENDIX

THE REVIEW COMMITTEE FOR BALANCE OF PAYMENTS STATISTICS

MEMBERS

Edward M. Bernstein, Chairman, president, EMB (Ltd.), research economists.
Richard E. Caves, professor of economics, Harvard University.
George Garvy, economic adviser, Federal Reserve Bank of New York.
Walter E. Hoadley, vice president and treasurer, Armstrong Cork Co.
Harry G. Johnson, professor of economics, University of Chicago.
Peter B. Kenen, professor of economics, Columbia University.
Roy L. Reiersen, senior vice president, Bankers Trust Co.
Charles F. Schwartz, Assistant Director, Western Hemisphere Department,
International Monetary Fund.

STAFF

John E. Reynolds, Staff Director.
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Davy H. McCall.
Dionyssios S. Kotsonis.
Evelyn P. Fales.
Carol A. Wade.

WITNESSES BEFORE THE SUBCOMMITTEE ON ECONOMIC STATISTICS

May 11, 1965:

Edward M. Bernstein, Chairman of the Review Committee for Balance-of-Payments Statistics, and president, EMB (Ltd.), research economists.
Peter B. Kenen, member of the Review Committee, and professor of economics, Columbia University.
John E. Reynolds, Staff Director of the Review Committee, and associate adviser, Division of International Finance, Board of Governors of the Federal Reserve System.

June 8, 1965:

George H. Chittenden, vice president, Morgan Guaranty Trust Co. of New York.
Hal B. Lary, associate director of research, National Bureau of Economic Research.
Walther Lederer, Chief, Balance of Payments Division, Office of Business Economics, Department of Commerce.

June 9, 1965:

James W. Angell, professor of economics, Columbia University.
Peter Fousek, assistant vice president, Federal Reserve Bank of New York.
Richard H. Holton, professor of economics, University of California at Berkeley.

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Robert Sammons, Chief, Balance of Payments Division, Board of Governors of the Federal Reserve System.