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THE PRESENTATION OF THE U.S. BALANCE OF PAYMENTS: A SYMPOSIUM

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EDWARD M. BERNSTEIN, AND WALTHER LEDERER

INTERNATIONAL FINANCE SECTION

DEPARTMENT OF ECONOMICS

PRINCETON UNIVERSITY

Princeton, New Jersey

This is the one hundred and twenty-third number in the series ESSAYS IN INTERNATIONAL FINANCE, *published from time to time by the International Finance Section of the Department of Economics of Princeton University.*

This Essay is a collection of five brief papers commenting on the recent change in the presentation of the U.S. balance of payments and analytical issues arising from that change. The authors are introduced in the Foreword, which describes the origins of the Essay.

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PETER B. KENEN, *Director*
International Finance Section

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FOREWORD

Early in the 1960s, soon after the U.S. balance of payments started to weaken, a debate began among economists and other users of the balance-of-payments statistics about the best way to measure the U.S. payments deficit. Few participants denied the existence of a deficit, but few were happy with the way in which it was defined in the balance-of-payments tables published by government agencies.

Responding to this controversy and to concerns about the quality of the data, the government appointed a panel of experts, the Review Committee for Balance of Payments Statistics, known more often as the Bernstein Committee after its Chairman, Edward M. Bernstein. After two years of meetings, the Review Committee issued a report recommending improvements in the quality of the trade and payments data, revisions in the presentation of the data, and the introduction of a new statistic, the balance on official reserve transactions or "official settlements" balance, to measure the overall surplus or deficit in the U.S. balance of payments. This last recommendation, along with several others, was accepted by the government, and the balance on official reserve transactions was introduced into the balance-of-payments accounts in June 1965.

In fewer than ten years, however, a new debate broke out. Users of balance-of-payments statistics in and out of government started to question the relevance of the official-settlements balance. This debate, like the earlier one, arose because of changes in the international monetary environment. With the advent of more flexible exchange rates, changes in official reserves and in reserve liabilities could no longer be taken to reflect mandatory intervention in the foreign-exchange markets, and the official-settlements balance could no longer be used to measure market pressures on exchange rates.

Responding to these new concerns, the government appointed another panel, the Advisory Committee on the Presentation of Balance of Payments Statistics, which issued its report in June 1976. It recommended against any attempt to identify an overall surplus or deficit in the balance of payments and, therefore, elimination of the official-settlements balance from the balance-of-payments tables, along with all other overall balances. In fact, it recommended that the terms "surplus" and "deficit" be deleted from official prose concerning the international transactions of the United States. With small exceptions and qualifications, the government accepted these recommendations.

This symposium is devoted to the issues raised by the Report of the Advisory Committee. Was it right to discontinue the publication of the official-settlements balance? What about other balances? When no balances are published, how should one begin to analyze the statistics on trade, services, and capital movements?

The contributors to this symposium include two members of the Advisory Committee, one who worked closely with the Committee, and two who have written extensively on the problems of measuring the balance of payments and international reserves. I have tried to arrange their contributions in the sequence that would be most helpful to readers who have not followed the intricate debate, beginning with those that introduce the basic issues and recommendations of the Advisory Committee and following with those that deal mainly with problems of analysis and interpretation arising from those recommendations.

The contributors, in order of appearance, are:

Robert M. Stern, Professor of Economics at the University of Michigan, who is the author of *The Balance of Payments: Theory and Economic Policy* has written extensively on international monetary problems, and has served as a consultant to several U.S. government agencies, including the Office of the Special Representative for Trade Negotiations and the Office of the Assistant Secretary of the Treasury for International Affairs.

Charles F. Schwartz, Deputy Director of the Research Department of the International Monetary Fund, who was a member both of the Review Committee for Balance of Payments Statistics and of the Advisory Committee on the Presentation of Balance of Payments Statistics.

Robert Triffin, Frederick William Beinecke Professor of Economics at Yale University, who served on the staff of the International Monetary Fund from 1946 to 1949 and with the European Recovery Administration from 1949 to 1951, and has been a frequent contributor to the publications of the International Finance Section, most recently to *Reflections on Jamaica*, a symposium on reform of the international monetary system.

Edward M. Bernstein, President of E M B (Ltd.), who was Director of Research at the International Monetary Fund from 1946 to 1958, Chairman of the Review Committee for Balance of Payments Statistics, and a member of the Advisory Committee on the Presentation of Balance of Payments Statistics.

Walther Lederer, who was Chief of the Balance of Payments Division in the U.S. Department of Commerce from 1953 to 1969 and Senior Adviser for Balance of Payments Analysis and Projections at the U.S. Treasury from 1969 to 1976, and is now engaged in research and writing on the international accounts of the United States.

PETER B. KENEN

ROBERT M. STERN

Thanks to the efforts of the Advisory Committee, we now have a revised format for presenting the balance-of-payments statistics of the United States that more closely approximates the realities of managed floating than did the former presentation, which was devised for pegged exchange rates. In the discussion that follows, I shall first summarize what the Committee accomplished and then consider some issues of balance-of-payments analysis and policy suggested by the new presentation. I examine briefly thereafter the problems of international comparability and historical continuity of balance-of-payments statistics.

The New Format

For the benefit of the reader, the main features of the new format are summarized in Table 1 for calendar 1975. The line numbers refer to the more detailed table that was first published in revised form in the June 1976 issue of the *Survey of Current Business*. Comparable line numbers are also given for the old format, which was last published in the *Survey* for March 1976. It is evident that the new format is essentially a tabular listing of credits and debits with respect to goods, services, unilateral transfers, U.S. claims on and liabilities to foreigners, and a statistical discrepancy for unrecorded transactions that is required to equate total credits and debits. The line concordances between the new and old formats are unambiguous except for foreign official and other foreign assets in the United States. In the former case, the new format differentiates foreign official purchases of U.S. Treasury securities from purchases of securities issued by other U.S. government agencies. In the latter case, it differentiates between Treasury securities and other liabilities reported by U.S. banks.

The new presentation makes life easier by recognizing that, in principle, there can be no imbalances of payments under floating exchange rates. Users of the statistics and students will certainly be grateful for the changes, since they no longer need be concerned about the intricacies of defining and interpreting the various overall balances—the current and long-term capital, net liquidity, and official reserve transactions (ORT) balances—that used to appear. Gone also is the distinction in the capital account between liquid and nonliquid transactions, and an attempt is now made to provide a more detailed and symmetrical treatment according to the type of transactor instead of the type of asset or liability.

Partial balances are shown as memorandum entries (lines 68-71) rather than being recorded in the table itself. The Advisory Committee actually recommended only the inclusion of the balance on goods and services and the balance on current account, since these balances have been identified traditionally and also are component entries in the national income and product accounts (with adjustments for special military transactions and interest-income payments to foreigners by the U.S. government). In their consideration of the Advisory Committee's recommendation, the Interagency Committee on Balance of Payments Statistics and the Office of Management and Budget decided that there was some merit in including as well the merchandise trade balance (line 68) and the balance on goods, services, and remittances (GSR) (line 70). The justification for including the trade balance was that it was conceptually clear and not seriously subject to misinterpretation by the public. In my view, however, the recording of the trade balance is a needless concession to the past and may quite possibly be misinterpreted. As I point out below, it would be more in keeping with the spirit of the new format to give publicity to exchange-rate changes rather than to any of the partial balances. Recording the balance on GSR was rationalized on the grounds that its use has the effect of including U.S. government grants (line 30) together with all other official and all private capital (lines 33-49) and thus supposedly furnishes a better measure than the balance on current account of the financing element in international transactions, especially for developing countries. Again, this is a rather outmoded conception because it is premised on the need to finance a payments imbalance and thus does not make allowance for the effects of floating.

The Advisory Committee apparently had the most difficulty in agreeing on whether to continue reporting the balance on ORT. Some members felt that it should be continued because it reflected official intervention in the foreign-exchange market, provided an indication of the possible impact on the U.S. monetary base, and met the need for a stable, overall point of reference for the description and analysis of the balance of payments. Those opposed to its continuation argued that the balance on ORT was much less relevant in a system of discretionary official intervention and was in any case an imperfect measure of such intervention, especially since it included changes in the international financial portfolios of the OPEC countries. Moreover, the balance on ORT was not coincident with a change in the U.S. monetary base to the extent that

TABLE 1

Summary of U.S. International Transactions for 1975
(Billions of dollars)

New Format: Line		Old Format: Line	Credits (+)		Debits (−)
1	**Exports of goods and services**	1	**148.4**		
2	Merchandise, excluding military	2	107.1		
3-13	Services and other, including military	3-13	41.3		
14	**Transfers under U.S. military grant programs**	14	**1.7**		
15	**Imports of goods and services**	15			**−132.1**
16	Merchandise, excluding military	16			−98.2
17-27	Services and other, including military	17-27			−33.9
28	**Transfers under U.S. military grant programs**	28			**−1.7**
29	**Unilateral transfers (excluding military)**	29			**−4.6**
30	U.S. Government grants	30			−2.9
31	U.S. Government pensions and other transfers	31			−0.8
32	Private remittances and other transfers	32			−0.9
33	**U.S. assets abroad, net (increase/capital outflow (−))**	33,38,58			**−31.1**
34-38	U.S. official reserve assets, net	58-61			−0.6
39-42	U.S. Government assets, other, net	34-37			−3.5
43	U.S. private assets, net	38			**−27.1**
44	Direct investment abroad	39			−6.3
45	Foreign securities	40			−6.2
	Nonbank claims				
46	Long-term	44			−0.4
47	Short-term	45,46			−0.9
	Bank claims				
48	Long-term	41			−2.4
49	Short-term	42,43			−10.9
50	**Foreign assets in the U.S., net (increase/capital inflow (+))**	47	**14.9**		
51-57	Foreign official assets in the U.S., net	48,50,55-57	6.3		
58	Other foreign assets in the U.S., net	—	**8.5**		
59	Direct investments in the U.S.	49	2.4		
60-61	U.S. Treasury and other U.S. securities	48,50,54	5.4		
	Nonbank liabilities				
62	Long-term	51	0.3		
63	Short-term	52			−0.2
	Bank liabilities				
64	Long-term	53			−0.4
65	Short-term	54	1.0		
66	**Allocation of special drawing rights**	63			
67	**Statistical discrepancy**	64	4.6		
	Memoranda:				
68	Balance on merchandise trade (lines 2 and 16)	—		8.9	
69	Balance on goods and services (lines 1 and 15)[a]	—		16.3	
70	Balance on goods, services, and remittances (lines 69, 31, and 32)	—		14.6	
71	Balance on current account (lines 69 and 29)[b]	—		11.7	
	Transactions in official reserve assets:				
72	Increase (−) in U.S. official reserve assets (line 34)	—		−0.6	
73	Increase (+) in foreign official assets in U.S. (line 51 less line 55)	—		4.6	

[a] Conceptually equal to net exports in the U.S. national income and product accounts.

[b] Conceptually equal to net foreign investment in the U.S. national income and product accounts.

Source: Adapted from "Table 1.—U.S. International Transactions," *Survey of Current Business*, 56 (June 1976), pp. 32-33. The old format last appeared in the March 1976 *Survey*.

foreign official institutions dealt in U.S. Treasury obligations and interest-bearing bank deposits. In the final analysis, the drawbacks of presenting the balance on ORT or any other overall balances were judged by the Advisory Committee to outweigh the advantages. However, a compromise was reached by including the changes in U.S. and foreign official reserve assets as memorandum items (lines 72-73) and by quarterly publication in the *Survey of Current Business* of a table recording selected transactions with official agencies.

Analyzing the Balance of Payments

Under conditions of floating, the exchange rate itself becomes the focus in analyzing the balance of payments. Movements in the exchange rate will depend upon demand and supply conditions in the foreign-exchange market. These, in turn, are derived from the underlying changes in incomes, relative prices, rates of interest and profitability, and expectations that manifest themselves in exports and imports of goods and services and international capital movements. Intervention by the authorities in the foreign-exchange market will be reflected in variations in their international reserve assets and liabilities. The question then is how much information on these matters is provided in the revised presentation of balance-of-payments statistics.

Changes in exchange rates for the U.S. dollar are prominently displayed graphically and in tabular form in the official reports on U.S. international transactions published quarterly in the *Survey of Current Business*. The data are given in the form of indexes of the foreign-currency price of the U.S. dollar on a trade-weighted basis against 22 and 10 currencies and against the currencies of 8 major industrialized countries individually. Data on U.S. international transactions by geographic area are also published in the *Survey of Current Business*, in the same format as Table 1. It is thus possible, using the regularly published data, to identify in retrospect the changes in exchange rates and the associated changes in international trade and capital movements, both in the aggregate and with respect to the major countries and regions.

Questions do arise concerning the way in which the foregoing information should be released to the media, what the media will report to the public, and what the public may in turn conclude from the media report. The Advisory Committee was clear in its recommendation (p. 23)[1] that the first news release, available six weeks after the close of a

[1] Page numbers refer to the Advisory Committee Report as it appeared in the June 1976 *Survey of Current Business*.

quarter, should stress the principal developments that have occurred. It is my impression, however, based on admittedly casual evidence, that the data on U.S. merchandise trade and changes in the trade balance receive undue attention in the press. The public may well conclude that a trade deficit is bad and a surplus is good without really understanding how incomplete and possibly incorrect such a view may be in terms of the impacts on U.S. employment and output. It would be preferable instead to direct public attention to the current- and capital-account changes and especially to the changes that have taken place in the exchange rates for the U.S. dollar vis-à-vis the other major currencies.

Exchange-rate changes in themselves do not reveal everything that has happened, of course, especially insofar as exchange-market intervention may have been important. There is some aggregative information given in the quarterly reports in the *Survey of Current Business* relating to U.S. and foreign official reserve changes and the use of swap arrangements. But it is difficult to determine the extent and impact of intervention from these data. Here the analyst must rely particularly on the periodic reports of Treasury and Federal Reserve foreign-exchange operations published in the *Federal Reserve Bulletin.* But even these reports may be too highly aggregative, and, what is more important, they do not provide information on the intervention that foreign central banks undertake on their own. It is difficult, therefore, to assess the actual extent to which floating has been managed.

Analysts of the official balance-of-payment statistics may also feel hampered by the lack of other supporting detail, particularly with respect to international financial capital movements. The Advisory Committee recommended discontinuance of the distinction between liquid and nonliquid categories of asset claims and of liabilities to foreigners. A distinction is now made with respect to the short-term and long-term characteristics of nonbank and bank claims and liabilities. The Advisory Committee was aware that the classification according to term-to-maturity was rather arbitrary and therefore did not necessarily reflect accurately the economic motivations and behavior of the relevant transactors. Mention was made (p. 22) of the possibility of using bank or bank-reported transactions as a separate classification in the table in order to facilitate analysis of the effects of these transactions on exchange rates. Unfortunately, this classification could not be implemented because of deficiencies in the method of data collection. It is to be hoped that these and other deficiencies can be corrected to permit more effective analysis than is presently possible of the international financial behavior of the important bank, nonbank, and official transactors.

Maintenance of Analytical Neutrality

Granting that there will always be deficiencies in data collection, it is of interest to consider broadly the types of supporting data investigators might find useful for analytical purposes. In the United States and elsewhere, for example, there is a significant and growing interest in the monetary approach to the balance of payments and exchange-rate determination. In this connection, some consideration might have been given to including a measure of the effect on the monetary base of changes in U.S. and foreign official reserves. The Advisory Committee was apparently reluctant to make this and similar recommendations because (p. 20) ". . . the maintenance of analytical neutrality was viewed as very important, both for its own sake and for the purpose of maintaining a high degree of credibility for Federal statistics. The statistics should be presented in a way that does not imply unnecessary judgments about economic behavior or support for any particular economic theory."

Later, in discussing the drawbacks of the balance on ORT, the Advisory Committee pointed out (p. 24) that there were now infrequent and limited effects on the U.S. money supply resulting from the acquisition or sale of dollars by foreign central banks in exchange for reserve assets or from changes in official dollar balances held with Federal Reserve banks. Moreover, it stated that even if the U.S. monetary base were affected by these transactions, the Federal Reserve System could sterilize the impact through open-market operations. Whether or not sterilization can be successful is of course a central issue in the monetary approach to the balance of payments. It thus appears that the Advisory Committee was not neutral in this instance and that an empirical judgment was being made that the monetary effects of reserve changes were not of much consequence in the United States.

To gain further insight into this issue, we should note that the effect on the monetary base of changes in the U.S. balance of payments is calculated and reported by the Federal Reserve Bank of St. Louis in its quarterly *U.S. International Transactions and Currency Review*. It is noteworthy that the relevant data are not provided in the *Survey of Current Business* tables, but rather are taken from the *Federal Reserve Bulletin*. Beginning with the figure for "convertible foreign currencies" from the table on U.S. reserve assets (Table 3.12, p. A55 of the January 1977 issue of the *Federal Reserve Bulletin*), the Federal Reserve Bank of St. Louis adds any change in the "Special Drawing Rights certificate account" and deducts "deposits other than member bank reserves with

Federal Reserve Banks-foreign" (Table 1.11, p. A4). End-of-period data are taken for each quarter. These data are seasonally adjusted, and the final figures for the categories mentioned above are first differences of the adjusted data.

In an article by Donald S. Kemp ("U.S. International Trade and Financial Developments in 1976," *Review of the Federal Reserve Bank of St. Louis*, December 1976, p. 9), the monetary-base effect for 1975-I to 1976-III was reported as follows (in millions of dollars):

1975		1976	
I	42	I	580
II	−12	II	560
III	141	III	−381
IV	12		

Compared with the overall changes in the monetary base, the effects from 75-III to 76-II were (p. 10) 6.6, 0.6, 34.6, and 21.6 per cent of the total increase in the monetary base, while in 76-III there was a negative impact on the base amounting to 19.4 per cent of the total change. Without more information regarding the various influences on the monetary base, it is by no means clear how the foregoing calculations should be interpreted. Moreover, we do not know to what extent, if any, the foreign-sector impacts on the monetary base were taken explicitly into account by Federal Reserve officials in the implementation of U.S. monetary policy. The fact remains, however, that the analyst has to go to some length just to perform the necessary calculation. In addition, while the monetary-base effect is perceived to be small and of limited importance in the United States, this is not necessarily the case in other countries. To the extent that the revised presentation of the U.S. balance-of-payments statistics provides a model for other governments to follow, the official presentation of the monetary-base effect might therefore be worthwhile, as will be noted again below.

The monetary-base effect is only one example of supporting information that some investigators might find useful. Similar remarks could be made about data on prices, interest rates, and other phenomena. If one wishes to probe deeply into the behavior of the foreign sector in the United States and elsewhere, the official balance-of-payments statistics, supporting tables, and textual discussion furnish only the starting point.

A variety of other source materials will have to be consulted, and it is by no means clear even to the seasoned investigator where to begin and how reliable and comprehensive the available data may be.

The Advisory Committee may have considered it beyond their mandate to ask how useful the revised presentation of balance-of-payments statistics might be for analytical purposes. In my view, while the revisions in themselves are of great value, serious consideration should be given to the inclusion of even more supporting information. This would not necessarily have to be done in the individual quarterly reports in the *Survey of Current Business*. Rather, it might be possible to expand the annual *Survey* article that covers the entire calendar year. In this regard, some of the series for selected foreign countries currently reported by the Federal Reserve Bank of St. Louis in its *U.S. International Transactions and Currency Review* might be worth including. It would also be useful to include data in current and constant dollars for U.S. trade in total and for the major aggregates, plus some of the relevant information on the stocks of the important components of U.S. claims on and liabilities to foreigners. Judgment would obviously be required on exactly what supporting detail to include. But this should not be an overwhelming task, and it could be accomplished without taking sides on theoretical issues.

The International Comparability of the Balance-of-Payments Presentation

One result of carrying out the recommendations of the Advisory Committee has been to increase the differences between the ways in which the United States and the rest of the world measure and interpret statistics on the balance of payments. For example, in Table 2, I have summarized the presentations of the U.S. balance of payments for 1975 prepared by the International Monetary Fund (IMF), Organization for Economic Cooperation and Development (OECD), and Bank for International Settlements (BIS).

It should be evident that all three presentations are based on the premise that there is an overall balance-of-payments surplus or deficit that has been financed in some manner. According to the IMF presentation, the United States experienced a deficit of $4.0 billion, which was financed by a net increase in liabilities to foreign official agencies. The OECD recorded a deficit of $2.5 billion for the balance on official settlements, which is more or less equivalent to the balance on ORT and is similar in concept to the IMF formulation. In contrast, the BIS recorded

TABLE 2

Summary Presentations by International Organizations of the U.S. Balance of Payments for 1975 (Billions of dollars)

IMF:		
Balance on:		
Trade	$ 9.0	
Services and private transfers	6.6	
Current account		$ 15.6
Capital-account balance[a]		−19.6
Total		− 4.0
Change in liabilities to foreign official agencies[b]		4.6
Balance financed by transactions in reserve assets (increase (−))		− 0.6
OECD:		
Balance on:		
Trade	9.0	
Services	7.5	
Goods and services		16.5
Private transfers, net	−1.0	
Official transfers, net	−3.6	− 4.6
Current balance		11.9
Long-term capital		−10.5
Basic balance		1.4
Nonmonetary short-term capital	−1.2	
Errors and omissions	4.6	3.4
Balance on nonmonetary transactions		4.8
Private monetary institutions short-term capital		− 7.2
Balance on official settlements		− 2.5
Total liabilities to foreign national official agencies		3.1
Change in reserve (increase (−))		− 0.6
BIS:		
Current balance		11.9
Capital balance		− 7.1
Overall balance		4.8
Adjustments		− 0.1
Adjusted overall balance (= total external monetary movements)		4.6
Official assets, net		− 3.0
Commercial banks, net		7.6

[a] Equal to difference between the balance financed by transactions in reserve assets and the sum of the current-account balance and the change in liabilities to foreign official agencies.

[b] Includes the use of IMF credit and liabilities of the borrowing country that are presumably treated as reserve assets by the creditor country.

Sources: Adapted from IMF, *Annual Report 1976*, Washington, Sept. 19, 1976; OECD, *Economic Surveys: United States*, Paris, July 1976; and BIS, *Forty-Sixth Annual Report*, Basel, June 14, 1976.