

Statement of
Wm. McC. Martin, Jr., Chairman,
Board of Governors of the Federal Reserve System
on H. R. 5280
before the
Antitrust Subcommittee of the
Committee on the Judiciary
House of Representatives
March 11, 1965

I am glad to testify here today in support of the bill H. R. 5280, which is intended to implement one of the recommendations of the President on February 10, 1965, in his Message to Congress on the balance-of-payments problem of the United States.

In so doing, I want to emphasize that the President's concern about the deterioration in our international balance of payments is shared by the Federal Reserve System. We join wholeheartedly in the President's determination to improve our international payments position and to maintain confidence in the dollar.

Briefly, H. R. 5280--subject to safeguards to competition--would exempt from the antitrust laws discussions among bankers and certain other financial institutions, and the formulation by them, of "voluntary agreements or programs" to restrain private outflows of dollar funds detrimental to our balance-of-payments position, if requested by the President or his delegate. The bill would also exempt from the antitrust laws any acts or omissions to act which occur pursuant to any such "voluntary agreement or program" approved either by the President, himself, or by a delegate of the President (who is appointed by him with the advice and consent of the Senate) and the Attorney General. Provision is made for necessary reports to the President or his delegate of activities affecting our balance-of-payments position. If enacted, H. R. 5280 would terminate December 31, 1967, unless terminated sooner by the President as no longer necessary.

Mr. Chairman, I shall endeavor to relate the desirability of this legislation to the major role to which the Federal Reserve System and the banking and financial community, in cooperation with the Secretary of the Treasury, have been assigned in the drive for the President's objective. That role is to help improve the Nation's international payments position by voluntary restraint on loans and other credits to foreigners.

Immediately following the President's Message of February 10, the Board urged all banks to make a determined effort to help reduce the outflow of private funds. The importance of the role assigned to the banking and financial community and the implementing steps being taken were stressed and outlined at our meeting on February 18 with representatives of banks and other financial institutions prominent in the field of foreign lending after their visit on the subject earlier that day with the President.

Last week the Board issued its guidelines for banks and other financial institutions to follow--individually and in the discretion of each institution--in complying with the President's program. If appropriate, Mr. Chairman, I have here copies of the guidelines and press releases that you might like for the record.

Under the guidelines, any bank may expand its credits to foreigners by 5 per cent of the amount outstanding at the end of 1964. We expect that banks will continue to grant bona fide export credits. Such credits are to be given absolute priority. Obviously, no priority can be claimed for credit extensions that substitute a credit sale for a cash sale or that substitute financing by United States banks for financing from nonbank or foreign resources. A bank that finds itself in excess of the 5 per cent guideline

is asked to reduce its foreign credits to no more than that level within 12 months or sooner, if possible. As provision is also made within the guidelines to avoid difficulties to less developed countries and certain others, the cut back sought to be achieved is expected almost entirely in nonexport credit to those fully developed countries that are not customarily dependent on United States financing and that do not suffer from payments difficulties.

The place of nonbank financial institutions under the President's balance-of-payments program involves somewhat different problems. The guidelines for these institutions are more general and tentative in their specifications. They envisage cut backs in the placement of liquid funds abroad, primarily in the so-called Euro-dollar market. In the case of short-and medium-term credits, the guidelines for banks are, in effect, applicable to nonbanks. No specific target has been set for long-term credit.

In his Message, the President stated that pending enactment of legislation such as H. R. 5280, the Secretary of the Treasury and the Federal Reserve will guide the program assigned to them along lines which raise no antitrust problems. This we have done, as I believe is clearly evident from the foregoing. Each bank is expected to act alone, in a manner consistent with our guidelines, and not in collaboration with or pursuant to an understanding or agreement with other financial institutions.

Of course, it remains to be seen what future needs may be. It may become necessary to call upon banks and other financial institutions, acting together or in groups, to enter upon the formulation of, and to adhere to,

temporary credit restraint agreements or programs that, without a shield such as H. R. 5280, would raise antitrust problems. We hope that it will not be necessary to resort to efforts of that nature, and that the measures we now have under way will be effective aids in correcting the serious imbalance in our international payments. However, we must be prepared to alter course if necessary without delay.

In his Message, the President asked that United States financial institutions exercise voluntary restraint in lending money abroad. The Federal Reserve System was requested by the President to work closely with the Secretary of the Treasury and the financial community to develop a program that will sharply limit the flow of bank loans abroad. The President stated that cooperation among competing banking interests could raise problems under the antitrust laws. Because of this, enactment of H. R. 5280 is needed, as the President emphasized.

With this legislation on the books, the private institutions covered in the bill may well devote that extra measure of dedication that is essential to the successful execution of the responsibility assigned to them under the President's program. In addition, the President or his delegate will be assured access to information needed for the program and to assess its progress.

Finally, the antitrust exemption which the President has recommended is patterned after the provision of the Defense Production Act of 1950 that gave exemption from the antitrust laws for the Voluntary Credit Restraint Program in force during the Korean conflict. Thus, while the situation facing the country then was quite different from the present one, the bill before you does not involve any new or untested concept, nor one that would continue in effect after the need for it ceased to exist.

The Board urges prompt enactment of H. R. 5280.