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OUR INTERNATIONAL FINANCIAL POSITION

Address of M. Monroe Kimbrel, President of The American Bankers Association, before the 15th National Credit Conference Sponsored by the A.B.A.'s Credit Policy Committee, Sheraton-Chicago Hotel, Chicago, Monday Morning, January 21, 1963. Mr. Kimbrel is chairman of the board, First National Bank, Thomson, Georgia.

For 12 of the last 13 years, the United States has experienced a deficit in its balance of international accounts. For at least the last four of these years, it has been widely recognized that these deficits will, if not checked, lead to a breakdown of the international payments system. Upon the strength and viability of this system rest, in turn, the economic security of the United States; the political integrity of developing nations; the prosperity of our Free World allies; and the economic, political, and military unity of the nations of the Western world. These stakes are truly enormous. They are stakes which we cannot afford to lose.

Consequently, all of us have watched with great interest the official steps which have been taken during the last four years in the search for international payments equilibrium. The approach of the Federal Government has been to secure a gradual, orderly transition to balance-of-payments equilibrium by actions designed to turn a wide range of balance-of-payments factors in our favor. This approach has required time, and that time has been secured, in part, by a series of steps which have strengthened the international payments mechanism against speculative developments which could degenerate into confidence crises.

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None of us can challenge, I think, the dedication which has marked the government's efforts to secure payments equilibrium. None of us can fail to recognize the brilliance and imagination which has been demonstrated by government officials--particularly Treasury officials--in the initiation and execution of plans designed to strengthen the dollar's defenses during these difficult years of adjustment. And none of us can deny the substantial progress which has been made in reducing the size of the payments deficit from $3.8-billion in 1959 and 1960 to roughly $2-billion in 1962. Viewed only in retrospect, these are grounds for being pleased with our progress.

Notwithstanding this record of achievement, however, it seems to me that our balance-of-payments problem perhaps is becoming more urgent, rather than less so. A number of considerations underlie this judgment.

First, international confidence in the dollar--without which the international payments mechanism cannot survive--has been based on the conviction that the present policies of the United States will be sufficient to restore equilibrium to our international accounts. Without this conviction, the deficits of 1961 and 1962 could not have been financed within the framework of international financial orderliness. This conviction again must be sustained in 1963, but it will be no easy task. For developments in 1962, during which our payments deficit showed only small improvement, are raising questions as to whether the policies of the government and the performance of business and the banking community are, in fact, sufficient to eliminate the deficit.

Second, I would stress that the need for significant improvement in our balance-of-payments becomes more urgent as time passes. International confidence that we can restore payments equilibrium in the long run will be of little comfort if, in the short run, our international liquidity position reaches a critically low level. It is true that a nation's stock of international liquidity appropriately may be drawn down in order to secure time in which payments deficits can be eliminated in an orderly manner, and the size of our international reserves is an important determinant of the length of time available to us. The fact that we have maintained the integrity of the dollar in recent years by drawing down on our stock of international liquidity should not be interpreted to mean that this process can go on without abatement.

From these considerations I draw the following conclusions: First, stronger action by the Federal Government to ensure speedier progress toward fundamental balance-of-payments equilibrium should be undertaken. Second, in view of our international liquidity position, serious consideration should be given to the possible need for attracting an inflow of short-term capital pending the achievement of balance in the basic accounts. Third, the banking community must accept the challenge of conveying to every businessman the need to guide business policy in ways that will help improve his own profits through exporting more and helping close the balance-of-payments gap.

The question of whether existing policies are adequate for the restoration of balance in our international accounts is a difficult one, and it must be subjected to continuing reappraisal. Many of the official steps which have been taken to secure balance-of-payments improvement already have achieved their maximum effect. This is true, for example, of the closer tying of foreign aid; and it is true of the reduction in tourists' allowances. Other steps, such as negotiated agreements for foreign military offset purchases and the advancement of loan repayments, have played a crucial role in whittling down the size of the deficit thus far; but there is considerable doubt whether we can continue to rely on these types of measures for the complete elimination of the payments deficit.

Underlying the government's attack on the balance-of-payments problem, of course, have been its efforts, on the broad economic front, to prevent

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inroads on our international competitiveness by arresting price and wage inflation. The success of these efforts is highly gratifying and, over the long run, should go far toward bolstering the position of American producers in international markets. Nevertheless, world conditions change; and the long-range benefits of the favorable trend of prices and wages in the United States (as compared with those in Europe and Japan) are being temporarily offset by short-term changes in the strength of demand in both our import and export markets. In these circumstances, it is appropriate to ask whether--at least in the near future--we can make much progress in the elimination of the payments deficit by pressing forward along the same lines of attack.

I could be more nearly certain of the answer if we could count on international economic conditions operating in our favor, and in such a way as to create a larger surplus in our trade account. However, quite the reverse set of circumstances appears to be a possibility. In Europe and Japan, where booming markets over the past several years have generated a strong demand for United States exports, some signs of an economic leveling are noticeable. A continuation of this trend, and particularly a softening of demand in our major export markets, could have quick and unfavorable repercussions on the volume of our exports. This suggests the need for a mobilization of the energy of American business to assure that we capture a larger part of the business in foreign countries.

Moreover, domestic developments suggest that the volume of United States imports is likely to continue expanding in 1963. This almost surely will be the case if government policy is successful in stimulating domestic economic growth and expansion. The possibility, then, is for a combination of domestic and international developments which may make it extremely difficult to maintain our sizeable trade surplus at the existing level.

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Particularly since attention is being directed toward means of stimulating the domestic economy, it is of critical importance that we not underestimate the extent of our international financial vulnerabilities. Measures which succeed in stimulating the domestic economy are virtually certain to increase our imports and, as a result, complicate the balance-of-payments problem. Whether we can afford these short-range complications is a serious question, and it cannot be resolved by the broad generalization that we can correct our international payments position only by achieving a faster-growing economy. It is not the rate of growth which is of principal importance in influencing the balance of payments, but rather the character and structure of growth. This point should not be lost as the debate over tax legislation gets under way, nor should it be forgotten that a high rate of economic growth is as often associated with balance-of-payments weakness as with balance-of-payments strength.

Moreover--and more to the point--we cannot justify even the most ideal growth-producing stimulants if their short-range repercussions on the balance of payments present unmanageable risks. In this case, as in many others, the short-range consequences must be weathered before the longer-range benefits can be enjoyed.

It is my concern over the adequacy of our balance-of-payments performance, coupled with the judgment that domestic economic programs this year will increase the risks in our international financial position, which leads me to the conclusion that stronger balance-of-payments action--including action on new fronts--must be undertaken. Still, I recognize that the areas in which we have comparative freedom to secure greater payments strength are limited, and the choice of policy instruments is not an easy one.

Some observers have argued in favor of the imposition of selective controls over capital movements. Others have gone even further to recommend the provision of gold guaranties, or the adoption of a floating exchange rate, or even devaluation itself. I accept none of these proposed remedies, for each would represent a retreat from the responsibilities of the United States as the Free World's international banker; and, in the long run, each would tend only to aggravate the international financial problems which we now are facing.

Still other observers place the major responsibility for our present payments difficulties on the nation's monetary authorities, and speak as if the entire problem could be eliminated simply by adopting a more restrictive monetary policy. In my judgment, the thinking which underlies this argument is erroneous, and the remedy which is urged is dangerous. In judging the merits of such arguments, a number of points must be borne in mind.

First, the relationship between a country's balance-of-payments position and its rate of monetary expansion is far from automatic. Among nations now enjoying a strong balance-of-payments position are some with unusually low rates of monetary expansion and some with unusually high rates. Among those nations having persistent balance-of-payments difficulties are countries with low rates of monetary growth, as well as countries with high rates of monetary growth. This may seem paradoxical to those who equate monetary restraint with balance-of-payments strength--and monetary expansion with balance of payments weakness--but the explanation is not difficult to find. It lies in the fact that a wide variety of economic forces--not just the rate of monetary growth--are of strategic importance in shaping a nation's international competitiveness, as determined ultimately by comparative trends in prices and production costs. Moreover, it must be recognized that a fully competitive position in international markets may not be sufficient, in the case of a nation meeting vast international commitments, to ensure balance-of-payments equilibrium.

The fundamental forces which have produced strain on the U. S. balance of payments over the past decade have not been caused by excessive monetary and credit ease, nor have they been amenable to correction by marginal credit restraint. The heavy burden of foreign aid, the necessity for troop support in foreign countries, the influence of cost-push inflation, the deterrents to new investment offered by an oppressive tax-rate schedule, the rebirth and integration of the European economy--all these factors are of central importance in explaining the deterioration in our payments position. Yet none of these factors is of monetary origin.

When, as frequently happens, the origins of a nation's balance-of-payments problem are to be found in excessive monetary growth, the appropriate remedy is found in heavy reliance on monetary restraint. When persistent deficits arise from problems outside the monetary sector, however, attempts to compensate for nonmonetary ills by too-heavy reliance on credit restraint can well result in economic stagnation and, in the long run, a worsening of the payments problem.

Fortuitous relationships between statistical series--such as rough equality between the volume of our gold losses and Federal Reserve purchases of government securities--should not be allowed to obscure this point. If this relationship were anything more than fortuitous, monetary authorities could assure a large return flow of gold to this country by immediately selling $2-billion of government securities, while at the same time lowering bank reserve requirements in order to prevent the development of increased credit tightness.

In circumstances like those which the United States faces today, monetary policy must be used largely as a defensive weapon in the protection of our international liquidity position. Even as a defensive weapon, however, and in spite of the fact that the basic cures to our payments problem must

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be sought in areas other than the monetary sector, it is becoming apparent that monetary policy may have to play an increasingly important role in protecting the dollar if our international liquidity continues to decline.

In other words, rising short-term rates of interest may be required to attract the inflow of short-term capital required to offset at least a part of the deficit in our basic accounts. The implementation of policies designed to achieve this objective should not be based on the idea that restraining action will have a long-term therapeutic effect on the economy, as is sometimes argued, but rather that such action is needed in spite of the short-run handicaps imposed on the domestic economy. That is, the emphasis should be on short-run protection of our international liquidity position pending the development of permanent solutions in the nonmonetary areas affecting our payments position--and not on the theory that monetary restraint, in and of itself, can provide these permanent solutions.

As I have stressed throughout my talk, I believe that the time has come for a broader and more intensive search for means of improving our payments position. To be effective, this search must focus on the fundamental source of our payments difficulties, which I take to be protracted weakness in our international political leadership of the Free World.

Our acquiescence in a disproportionate share of the Free World's burden for foreign aid has had critical implications over the years for our balance-of-payments problems, for it has contributed to the dollar outflow and increased the domestic tax burden.

Our toleration of discrimination against dollar goods, long beyond the point at which these discriminatory practices could be justified, also has contributed heavily to our payments difficulties. Yet a number of discriminatory practices, persist; and variants of such practices which permit foreign producers

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to sell in our markets at prices lower than in their home markets, continue to exercise an important influence on the direction of world trade.

Finally, the burden of the United States in the common military defense of the Free World is clearly a matter requiring attention. If this burden is inconsistent with our international financial responsibilities, it jeopardizes not only our international economic objectives but our political and military objectives as well. In recent months the United States has shown no lack of bargaining and maneuvering skills in dealing with its adversaries. The application of some of these skills to negotiation with our allies on the common problems of defense, foreign aid, and equitable trade practices might also yield beneficial results.

When the United States embarked upon its program for securing a gradual and orderly transition to balance-of-payments equilibrium, it assumed a number of calculated risks. So far, the economic policies which have been followed have been consistent with those risks, and they have contributed to a strengthening of our international competitiveness as prices and production costs in other industrialized nations have continued to advance. It remains to be seen, however, whether our investment in an orderly approach to balance-of-payments equilibrium (an investment which is measured by the interim decline in our international financial liquidity) will prove to have been a wise one.

To protect that investment will require: first, that the Federal Government show the same strength, ingenuity, and realism in international political leadership which it has shown in international financial leadership; second, that American producers take fuller advantage of improvements in their competitive position, and of additional opportunities for markets in overseas areas. Not the least of these improvements, incidentally, is the availability of export credit facilities under new and expanded federal programs. Commercial bankers have a special responsibility to acquaint their customers with the new facilities offered.

I have no doubt that the decisions confronting this country over the next 12 months will be grave and difficult ones, and that balance-of-payments considerations will loom increasingly large as a factor in decision-making. But neither do I doubt that, with the right decisions, we can meet our problems successfully.

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