FROM:
THE AMERICAN BANKERS ASSOCIATION
THE NEWS BUREAU
George J. Kelly, Director
John De Jong, Associate Director
Theodore Fischer, Assistant Director
Mid-Winter Trust Conference Headquarters
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ADDRESS OF M. MONROE KIMBREL

President of The American Bankers Association, before the 44th Mid-Winter Trust Conference Sponsored by the A.B.A.'s Trust Division, The Waldorf-Astoria, New York, Monday Morning, Feb. 4, 1963. Mr. Kimbrel is chairman of the board of the First National Bank, Thomson, Ga.

As the program indicates, I was originally scheduled to discuss banking legislation--particularly legislation of interest to trustmen. For reasons which I hope you will agree are valid, I have decided to treat that topic briefly and then turn to another area of great interest to all bankers.

First, the legislative recommendations expected to result from the three interagency committees set up by President Kennedy have not materialized. The reports still have not been made public.

Secondly, the Senate has not yet organized its subcommittees because of a dispute over filibuster rules. As a result, the composition of the Senate Banking and Currency Committee and its legislative program are still undetermined.

In the House of Representatives, the committees have been organized, but no action has been taken on major legislation.

One significant development is the change in leadership of the House Banking and Currency Committee. As most of you know, Representative Wright Patman of Texas has succeeded Representative Brent Spence of Kentucky in that very important position.

Mr. Patman has launched his tenure as chairman by asking each of the federal supervisory authorities in banking or related areas to appear before

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the committee to discuss their respective functions and to meet the 12 new committee members. Representatives of the Treasury, Federal Reserve System, and the Housing and Home Finance Agency met with the committee last week.

Thirdly, the current legislative issue of prime interest to trustmen--and, for that matter, to the general public--is the tax bill. The American Bankers Association has long advocated a fiscally responsible tax reduction as a means of promoting long-range economic growth. We have made our views known frequently and, I think it is fair to say, effectively.

Some of you may have read the editorial on this point which appeared on Tuesday of last week in the independent daily newspaper, the American Banker. The editorial noted that our association, as spokesman for the banking industry, repeatedly communicated to Administration officials its philosophy and the standards it believes should apply to a sound tax-reduction program. This was done positively and clearly while the Administration proposal was being prepared. The editorial observed that while some features of the tax proposal and the dimensions of the President's spending plans are sharply at variance with A.B.A. recommendations, banking (and I quote) "has been heard from on this important issue, and its judgments weighed in formulation of the final program." Let me assure you that we intend to continue to express our views on tax reduction--both in the public forum and in the Congress.

With relation to my mission here this morning, however, it is pertinent to note that the President's tax message runs 25 legal-size, single-spaced pages.

It is rather complex. We want to make sure that we understand the plan and its implications before deciding on a course of action. A subcommittee of the

Economic Policy Committee has been studying the plan since the President sent it to Congress Jan. 24. The committee will hold its final meeting tomorrow. At that time the group will prepare its recommendation to the A.B.A. Administrative Committee with respect to the testimony we shall present to the House Ways and Means Committee when it opens public hearings on the tax bill Feb. 18. In view of this tight time schedule, I think it would be premature for me to attempt an evaluation at this time.

My fourth, and most pressing, reason for departing from my original subject is the recent change in the situation in Western Europe. As you know, European unity suffered a potentially severe setback when France prevented Great Britain's entry into the Common Market. Apparently, it is President de Gaulle's intention to reduce the influence of Great Britain and the United States in Europe. He appears to believe the interest of France will best be served by a Europe in which French influence is dominant.

His grand design has been evident in two recent acts: he has vetoed Great Britain's bid to enter the Common Market and he has rejected the idea of a NATO nuclear deterrent which was proposed by President Kennedy in Nassau.

The political, military and economic ramifications of these actions run deep, and it may be some time before the long-range effects will be known. But one thing is certain: these developments require reappraisal of many of this nation's policies, for they have profound implications for the basic objectives and operating structure of the Western Alliance.

Since the end of World War II, the long-range goals of the United States have been: (1) a strong and united Europe, (2) a closely knit Atlantic Community, and (3) cooperation between the Atlantic Community and the new and emerging nations of the Free World. These are still our basic goals. In fact, Secretary of State Dean Rusk reiterated these long-range goals in a television interview on Jan. 27.

The United States has worked toward these goals in many ways. To develop a strong European economy the United States poured billions of dollars into Europe under the Marshall Plan. At the same time, we insisted that European countries cooperate to assure that the aid was used in the most efficient manner. This insistence on our part led to the founding of the Organization for European Economic Cooperation, known as the O.E.E.C. We permitted discrimination against American goods because of the dollar shortage in Europe. We encouraged United States investment in Europe. In short, we assumed costly and burdensome commitments to help Europe establish the strong economic foundation it needed to deter the spread of international Communism.

To provide the military umbrella under which economic recovery could flourish, we took the lead in organizing NATO. We contributed to NATO the biggest share of its armed forces and by far the biggest share of money to support them. We realized then and we realize now that a joint defense effort is more economical than several independent deterrent forces. The United States knew it was going to have to shoulder the bulk of the burden for defending the Free World, and its efforts were directed toward making the total cost as small as possible.

The emphasis underlying the operation of NATO is cooperation. The same was true of the O.E.E.C., and the same is now true of the O.E.C.D.--the Organization for Economic Cooperation and Development.

The third long-range goal--a close relationship between the Atlantic Community and the rest of the Free World--also demands cooperation. In fact, the United States for some time has been trying to persuade the more affluent European countries to contribute more in the form of aid to underdeveloped nations. This is the kind of cooperation that counts.

De Gaulle's actions can have the effect of diverting us from all three of these objectives.

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Since we are all interested in the investment outlook, we might attempt to appraise the economic implications of de Gaulle's vetoing Great Britain's membership in the Common Market. In so doing, I realize that I might be raising more questions than I can answer. But the sooner we start discussing the problem the better off we will be.

First, we should consider the effect the veto will have on the Common Market itself. Immediate reactions to the veto were expressed by most of the five Common Market nations which supported Britain's bid for membership. Germany may not ratify the treaty signed by de Gaulle and Adenauer which pledged increased cooperation between France and Germany. Ludwig Erhard, West Germany's economic minister, said, "The European Common Market is now only a mechanism and no longer is a living thing."

Paul Henri Spaak, Belgium Foreign Minister, said, "The Common Market will continue to live, but the European spirit has been badly hit."

Belgium's Prime Minister Theo Lefevre said the British membership dispute was a grave crisis "which could affect the entire status of European defense." The Associated Press also quoted Lefevre as saying, "A United Europe can sit down as an equal with the United States, but individual countries cannot do this. Only small countries are left in Western Europe now--those which know they are small and those which do not know it."

Many observers of the Common Market--both inside and out--have expressed the view that the Common Market was beginning to lose some of its momentum and that Britain's entry would renew the surging economic forces that had marked the dynamic progress of the six nations.

The five nations which backed Britain's application felt the British would force the Common Market to look outward from the Continent. The feeling after the dispute was that the Common Market may tend to look inward and turn its back on increased trade with the rest of the world.

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But the actions of the French raise other serious questions. The Common Market has shown phenomenal growth because the six countries cooperated to a much greater extent than anyone had ever dreamed possible. Nationalistic jealousies that had existed for centuries were minimized for the good of the six. With the cooperative environment, nations made concessions that reflected an unprecedented degree of mutual trust and responsibility. The split will surely cause the other five nations to take a harder look at new policy decisions. Nationalistic views will again bear more weight than in the recent past.

In some respects the situation is comparable to that of a football team which is driving down the field and suddenly fumbles away the ball. They may be able to pick up momentum again when they get the ball back, but they will have to start all over.

Being unable to overcome French resistance to her entry into the Common Market, Britain logically might be expected to turn toward closer trade relationships with other members of the European Free Trade Association--commonly known as the Outer Seven. Whether or not this could serve as a satisfactory alternative for Britain is debatable. In any event, however, the rivalry of regional trading blocs within Europe could scarcely be considered to be conducive to European political, economic, and social unity; and the end result could easily be the growth of regional protectionism and a sacrifice of the benefits which can ensue from a reduction of trade barriers throughout the Free World.

Finally, it should be noted that the inability of Britain to enter the Common Market may make the defense of the pound in international markets a much more difficult task. The flow of foreign capital to Britain is likely to be dampened by the new developments, and the longer-range outlook for British export opportunities becomes less favorable. These circumstances could

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complicate Britain's balance-of-payments problems and, as a result, increase the risks of international monetary instability.

How will the breakdown in negotiations affect Great Britain? As you know, Great Britain has had its economic problems. Unemployment is very high, and entry into the Common Market was expected to help increase Britain's exports to the six nations on the Continent. The Conservative Government led by Prime Minister Macmillan has based its future on the expectation of Britain's joining the Common Market. Rejection by de Gaulle may force the Conservatives out.

How will the new situation affect the United States? While no one can be sure at this point, several consequences appear to be in prospect. First, our efforts to help Europe develop into a cooperative economic unity have been thwarted at least temporarily.

Secondly, United States trade and balance-of-payments policies may be put to sterner tests. In the short run, any loss of steam in the economies of the Common Market countries will tend to weaken our export markets and make it difficult for us to maintain our trade surplus at adequate levels, In the longer run, an inward-looking Common Market--should it develop--might reasonably be expected to maintain tariff walls specifically calculated to reduce the inflow of American and British goods. Such a development would seriously interfere with our objective of achieving permanent balance-of-payments equilibrium.

The Trade Expansion Act of 1962, designed to protect United States producers against exclusion from the rich and growing markets of Continental Europe, loses much of its significance as a result of Britain's inability to enter the market.

As you recall, the act gives the President authority to eliminate tariff on goods for which the United States and the Common Market together furnish 80 per cent or more of world exports. According to the Annual Report of the

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Council of Economic Advisers, with Great Britain in the Common Market this provision of the act would apply to a wide range of products including coal, organic chemicals, transportation equipment, most kinds of machinery, photographic supplies, paints, cosmetics and miscellaneous chemical products. "In 1960," according to the report, "Free World exports of those goods to which the special authority would apply amounted to $22.5 billion; of this total, exports from the United States were $8.8 billion." However, the United States and the Common Market <u>without</u> Great Britain accounted in 1960 for 80 per cent of world exports in only two commodity groups: aircraft, and margarine and shortenings.

In addition to carrying unfavorable implications for our export markets, an inward-looking Common Market also could heighten our balance-of-payments problem by contributing to a net outflow of private capital. Prospects for British entry into the Market, and for the reduction of trade barriers between the United States and Europe, have encouraged many American firms to believe that they would be able to serve the rich European market through export sales. Now, if an inward-looking Europe is to develop and barriers to free trade are to persist, the participation by American producers in European markets may well require the location of production facilities and investments inside--rather than outside--the tariff walls.

It is too early to say whether this potential pressure for an increased flow of investment funds to Europe actually will materialize, but the possibility should not be ignored. At the same time, forces working in the opposite direction--notably French efforts to curtail American investment in the Common Market--also must be considered. The initial reaction of France's Common Market partners to suggestions for curbs on the inflow of private capital from America has been cold. In the short run, however, investors may hesitate to make capital investments in Europe until the future course of European affairs becomes clearer.

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Granting that the recent developments in Europe cannot be fully appraised until the situation firms up a bit, there nevertheless are grounds for wondering whether or not a new note of additional gravity has been added to our balance-of-payments problem.

The President, discussing the balance of payments in his economic report to Congress, said, and I quote, "The area in which our greatest efforts must now be concentrated is one in which the Government can provide only leadership and opportunity; private business must produce the results. Our commercial trade surplus--the excess of our exports over imports of goods and services--must rise substantially to assure that we will reach balance-of-payments equilibrium within a reasonable period."

The surplus in our trade account has been substantial for many years. But it is not large enough to compensate for the large outlays for defense and economic aid that add to our payments deficits.

The Government cannot shift the entire burden to business. Increased exports would alleviate the situation; but, if business is unable to generate the necessary trade surplus, the responsibility rests squarely on the Government to correct the imbalance by further reducing the dollar outflow associated with Government aid and military programs.

Another point that should be noted in regard to our balance of payments is this: the United States is relying more and more on increased cooperation among the foremost trading nations of the world to prevent disruptive currency speculation. This approach is implemented in part, through close coordination of fiscal and monetary policies of the various countries. France, if interested in reducing the influence of the United States on the Continent, could become reluctant to participate in these cooperative efforts.

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What can the United States do about developments in Europe? Secretary Rusk stated a week ago that if our policies--a strong unified Europe, a close Atlantic Alliance, and cooperation with the Free World--were sound in the beginning, they are just as sound now and that we should continue with our basic plans.

Apparently the first reaction in Washington to the French action was one of wait and see. However, spokesmen have indicated that the United States will continue to negotiate for tariff concessions with the Common Market. And Great Britain, with the support of the five Common Market members which supported her, will probably try again at a later date to gain membership. We cannot exert too much pressure without irritating those who support our position.

In closing, let me say that Jan. 29, 1963, will undoubtedly be remembered for a long time as a crucial date in the history of the Western Alliance. Its implications will be felt for many years. As one observer put it, de Gaulle has succeeded in doing what Khrushchev could not do in 15 years--drive a wedge in the Western Alliance.

We will be hearing much more about this development in the weeks and months ahead. It will figure more dominantly in our economic forecasts.

It will test anew the vision, the will and the judgment not only of our Government spokesmen but of all Americans who believe that a strong and united Western Alliance is essential to our ultimate victory over Communism.

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M. Monroe Kimbrel

Economic Implication of De Gaulle's Action

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