FROM:
THE AMERICAN BANKERS ASSOCIATION
THE NEWS BUREAU
George J. Kelly, Director
12 East 36 St., New York 16, N. Y.
MU 5-5100

RELEASED AT 8 P.M.
FRIDAY, MAY 3, 1963

FOREIGN TRADE--A MUST FOR ECONOMIC GROWTH

Address of M. Monroe Kimbrel, President of The American Bankers Association, before the Sixth Annual Salute to Virginia Industry, Sponsored by The Bank of Virginia, Hotel John Marshall, Richmond, Friday evening, May 3, 1963. Mr. Kimbrel is chairman of the board, First National Bank, Thomson, Ga.

During the past few months, most of us have been concentrating our attention on the domestic scene. With the exception of status reports on Cuba, the flare up in Laos, and the Canadian election, few incidents beyond our borders have given rise to headlines or wide-spread concern.

Public interest and major news coverage have recently been focused on the domestic economy. Economic indicators point to a gradual rise in business activity following long hesitation on a high plateau. Profits, which showed a healthy rise in the fourth quarter of 1962, are still encouraging, judging from first quarter reports. The recent McGraw-Hill survey also shows that business expects to invest a record $40 billion in new plant and equipment in 1963--a 7 per cent increase over 1962 expenditures. Retail sales are showing marked improvement. Unemployment is down from a few months ago and promises to go down further.

Taxes have also been on everyone's mind recently. The tax bill now before Congress is the number one priority item in the Administration's legislative program. This proposal, of course, has brought out many arguments to cut Federal spending.

(More)

I might add at this point that three of the best informed advocates of fiscal prudence in the Congress are from Virginia. Senator Byrd, I am sure, will insist on fiscal discipline as part of the tax program when the bill comes before his Senate Finance Committee in September. Senator Robertson, a veteran and knowledgeable member of the Senate Banking Committee, has already done much in this session to point out the inherent dangers involved in a tax cut that could lead to an unmanageable deficit. Judge Smith, of the House Rules Committee, has also been a staunch supporter of fiscal prudence in Government.

The drive for Government economy now being waged in the halls of Congress is being echoed on the state and local level across the country.

With the economic outlook improving and the chances for a tax cut increasing, it is easy to understand why concern over the balance-of-payments deficit has appeared to dwindle.

I don't want to cast myself in the role of a pessimist, looking at the bad side of everything, but I do think it is necessary to consider all the consequences--both favorable and unfavorable--of our economic expansion. One of these--and it could easily be unfavorable--is the impact of increased economic activity on our balance-of-payments deficits.

As you know, the United States has had balance-of-payments deficits in 12 of the last 13 years. The only surplus came in 1957 when the Suez crisis resulted in an extraordinary increase in our oil exports.

The aggregate deficits total over $25.5 billion. Part of these deficits--about $8 billion was financed by selling gold to foreign central banks. The rest is reflected in a large build-up in foreign holdings of dollar claims, which can, of course, be presented by foreign governments at any time for gold. We have guaranteed to sell gold at the standard price of $35 per

(More)

fine ounce to any foreign government desiring to exchange dollar holdings for gold.

The United States gold stock is now $15.9 billion, the lowest since April 1939. During the first three months of 1963,it has declined by only $100,000. With our pledge to maintain the gold parity, which in effect makes the dollar as good as gold, foreign countries are willing to hold dollars as reserve for their own currency. This is particularly true when the United States economy is performing favorably because the dollar holdings are receiving interest. If the outlook were not favorable, other countries might question our ability to continue to redeem dollars for gold and they might insist on converting dollars to gold immediately.

In short, the United States is the banker for the Free World. Like any banker, it has to consider its liquidity position. Looking at the balance sheet, our long-term assets are far in excess of our liabilities. But, as you all know, long-term assets may not be useful when someone wants to withdraw funds immediately. So, in international finance the liquidity position of a nation is measured in terms of gold and other liquid assets versus short-term liabilities.

The discouraging aspect of the balance-of-payments situation in recent years is that our liquidity--our gold supply relative to our short-term liabilities to foreigners--has been dwindling and the basic causes of the deficits have not been corrected.

These causes are not difficult to understand. The United States has been spending, lending, and investing more abroad than foreigners are spending and investing here.

The biggest factor in any nation's balance-of-payments computation, of course, is trade. In this area the United States has done well in recent years.

(More)

Last year, for example, U. S. exports set a new record of $20.6 billion--an increase of 4 per cent over 1961. However, imports rose by 12 per cent to $16.2 billion. The difference between the two--our trade surplus--amounted to $4.4 billion. Although this is a very substantial surplus, it is about $1 billion below the surplus registered for 1961. And, more importantly, it was not enough to cover the outflow of dollars associated with supplying foreign aid, supporting our overseas defense establishment and the spending and investing abroad by U. S. businesses and individuals. Last year, in spite of the $4.4 billion trade surplus, the United States experienced a $2.2 billion deficit in its international payments.

During the early part of 1962, Administration officials were predicting that the deficit for 1962 would be about $1.5 billion and that the nation's international payments would be in basic balance by the end of 1963. Forecasting in this area is extremely difficult and I am not surprised that no new target date for restoring equilibrium has been volunteered.

With a problem as many-sided as the balance-of-payments deficit, it is understandable that the solutions being attempted are also many-sided. Military expenditures abroad which lead to dollar outflows are being scrutinized. Efforts are being made to reduce the outflow of dollars stemming from our aid programs. Short-term interest rates are being maintained at a level that will reduce the outflow of funds which move from one financial center to another in search of higher interest rates. The United States is also conducting an all-out effort to increase exports.

To achieve equilibrium, improvement is going to be needed in each of the categories I just mentioned plus several other areas which are, for the most part, directly related to the operations of the international financial mechanism.

(More)

Although many improvements can be made in all these areas--and a current American Bankers Association study is certain to recommend some--I would like to concentrate my remarks on the area that is most directly related to the private sector of our economy; that is, exports.

Increasing exports presents a tremendous challenge to American industry. It also raises real opportunities. In addition to being the main source of foreign exchange to cover the cost of overseas expenditures by the Government, exports offer U. S. industry leverage for expansion that will benefit corporations through higher profits and will help sustain the upswing in the domestic economy.

I don't want to be accused of underestimating the challenge we face in attempting to increase exports--it is indeed formidable. Let's look at some of the problems. Following World War II, the United States did not have to worry too much about competition for export markets from the war torn countries of Europe. In fact, with their productive capacity greatly reduced, these countries were our best customers for exports. They could not even meet their own internal demands let alone produce for exporting. The same situation existed in Japan.

But things changed drastically during the 1950's. The Marshall Plan and other aid programs have been successful. Today, European nations have new modern plants and their equipment, in many cases, is more modern and more efficient than some used in this country.

With highly efficient equipment, the wage differential between the United States and other countries took on added meaning. There was a time when our advanced technology and efficiency made up for the higher wage rates paid in this country. This is not such a big plus factor in our favor any longer. For example, German-made barbed wire can be sold in many parts of this country at a price cheaper than it can be sold by U. S. producers. The same is true of wire nails and many other products.

(More)

Another factor which could be a stumbling block for exports, is the uncertainty about the Common Market's attitude toward agricultural products. As some of you know, my home state of Georgia is one of the leading producers of broiler chickens. A good many of these chickens were exported to Common Market countries, primarily West Germany. Georgia producers and processors were shipping an average of four and three-quarter million pounds per month before Germany raised its import duties from 16 per cent to 43 per cent on whole broilers and the levies on certain parts were raised 320 per cent. Since then, the shipments have dwindled to practically nothing.

This means a direct loss of $16 million in export income to the state. Other aspects of agricultural exports are causing concern to American farmers. The Common Market nations are working toward a common agricultural policy which will be designed to protect domestic producers. The tariffs imposed by individual countries are to be adjusted gradually until there is one wholesale price for each commodity throughout the EEC. This objective is to be reached by 1969. In the meantime, the six nations will use variable levies to limit imports and protect their own producers. This practice could have serious impact on U. S. exports of wheat, wheat flour, feed grains and other products, including tobacco.

For example, last July when the variable levies were first applied, The Netherlands raised tariffs on wheat from $3.19 to $33.35 per metric ton. West Germany raised its tariff on corn from $46.05 to $55.20 per metric ton.

Other agricultural products are scheduled to come under the common agricultural policy this year. However, the price proposals for items to be covered this year were delayed because the member nations did not agree on the prices proposed by the Common Market's economic commission.

(More)

The principle of variable levies poses a threat to many of our agricultural exports.

Another factor that could have some influence on the trend of U. S. exports is the apparent slowing of economic expansion in the Common Market nations. As the pace slows, the demand for goods slows and producers in the European countries will be in a better position to meet more of their own needs. The same thing has always been true here in the United States. When business is in an expansive phase, imports increase; as the economy starts to contract or slow down, imports show a similar drop.

These factors will indeed pose a challenge to U. S. businessmen and farmers who are striving to increase exports. But in spite of these challenges, there are many opportunities open to you.

American products have been making improved showings in markets in Japan, India and Pakistan. Sales to Latin American markets have also been increasing as have sales to Africa, Canada, and Australia,

Of course, some of the gains have been made as a result of foreign aid. But as the nations become more self-supporting the commercial exports should continue.

One of the biggest factors in favor of U. S. producers is the relative price stability that has been maintained in this country for close to five years. As many prices abroad have continued to rise, the competitive disadvantage that U. S. goods faced in world markets has been greatly reduced.

On top of this, the new depreciation schedule plus the investment incentive provision of the Revenue Act of 1962 give American businessmen the opportunity and, as the name implies, the incentive to invest in more efficient equipment so they can further improve this trend in competitive pricing.

(More)

In about two weeks a ministerial conference of countries which adhere to the General Agreement on Tariffs and Trade will convene in Geneva. The ministers will be working on the ground rules for the first negotiations of tariffs under the new Trade Expansion Act which was enacted last year. The negotiations, which will begin in the early part of 1964, will undoubtedly see the U. S. strongly urging a reduction in the use of the variable levies which I mentioned earlier.

Michael Blumenthal, Deputy Assistant Secretary of State for Economic Affairs, said the United States was prepared to exchange concessions with the Common Market on the fullest range of industrial and agricultural products, limited only by a few exceptions.

Another new encouraging development to spur exports is the program offering insurance on both commercial and political risks involved in exporting. This insurance program is handled by the Foreign Credit Insurance Association (FCIA) under the sponsorship of the Export-Import Bank in Washington. The A.B.A. published a small booklet describing the program and distributed it across the nation. The Federal Reserve Bank of Richmond had an excellent article on the insurance program in its February economic review. I will not go into details on the program now, but I did want to point out that over 1,000 policies were written during the first year of FCIA's existence.

One of the biggest spurs to increasing exports has been the work of the U. S. Department of Commerce. As you know, it has been doing more and more to help U. S. businessmen find export markets for their products.

As I understand, the local field office of the Commerce Department held a workshop here in Richmond yesterday to discuss some factors relating to exports. They have been doing the same thing all across the country.

(More)

I also understand that the Department is increasing the number of trade missions being sent abroad each year. During the past decade, 11 such trade missions have gone to Europe selling United States products. Five missions are going to Europe this spring.

The missions take with them hundreds of proposals of American businessmen to sell products, establish relations with distributors or promote other profit-producing arrangements.

The Department also works with the State Department and USIA in setting up and planning American exhibits at international trade fairs. In addition to the fairs, several permanent trade centers are maintained overseas, where the small manufacturer who doesn't have an overseas representative, can display his wares and establish working relationships with distributors.

The Department of Commerce has many other activities in this field and I don't have time to mention them all. However, if you think you have a product which has export possibilities or if you plan to expand your export effort, the first step should be a stop at the regional office of the Department of Commerce. You will find a list of hundreds of publications dealing with specific markets and other aspects of world trade.

Incidentally, last year over 1,200 businesses in the U. S. joined the ranks of exporters. These new corporations exported over $25,000 each. I mention this just to show the numerous possibilities that exist and are being successfully exploited by American firms.

The State of Virginia has a double interest in exports. In addition to increasing profits of corporations producing for export, with your fine harbors exports can increase the shipping business and related activity in seaport cities. I understand your legislature has passed an appropriation to enable the

(More)

Virginia Ports Authority to embark upon a long-range program of improvement of export-import facilities, which will make them even more valuable to commerce and industry.

The State of Virginia has a long and enviable record of exporting. In fact, during the early colonial days, Virginia enjoyed a distinct advantage over the other colonies. Staple products produced here were not all consumed in Great Britain. In the eighteenth century about four-fifths of Virginia's tobacco exports merely passed through Great Britain yielding a handsome profit to the British merchants. Naval stores and other products exported by other colonies were needed by the Royal Navy and could not be taxed without damaging British interests. Consequently, Virginia alone was offered the exceptional opportunity to tax her exports. This greatly decreased the need for direct poll or property taxes.

Virginia, of course, was the leading producer of tobacco back in the early days. Before the Revolutionary War, Virginia exported twice as much as Maryland--the second leading tobacco exporter. Although your state ranks third today in tobacco production, tobacco still represents a major export item. And, in spite of the cancer scare in Great Britain and the unfavorable tariffs of the Common Market, tobacco exports reached a six-year high in the year ending July 1.

By way of summing up, I want to emphasize three points. The United States balance-of-payments position is still unfavorable and there are no prospects for an easy solution. Many actions on many fronts will be required to restore equilibrium. Although most of the steps require action on the part of the Government, the private sector can make a vital contribution by increasing exports.

Secondly, exports offer U. S. industry an opportunity to expand markets and to add net profits. This will not only help the corporations involved, but it will also add momentum to domestic economic expansion.

My final point, and one that is quite important, is this: The United States has never been too concerned with exports. Less than 4 per cent of this nation's gross national product is reflected in export sales. With the development of the Common Market and other trade blocs, and with the rapid increase in world trade that has developed in the past decade, we cannot as a nation sit back and watch others capitalize on new and expanding markets around the world. It is incumbent upon us--both in the industrial community and in the financial community--to do everything in our power to enable the United States to compete and profit in these markets. The trend undoubtedly will continue. And the sooner we resolve ourselves to look at exports as a vital part of our business interests--as most other industrial nations now do--the sooner we will take advantage of the new developments in world trade.

This is one area where we can say categorically that what is good for the nation's businesses is also good for the country.

#