FROM:
THE AMERICAN BANKERS ASSOCIATION
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EXPORTS--A BOOSTER FOR BANK PROFITS

Address of M. Monroe Kimbrel, President, The American Bankers Association, before the 69th Annual Convention of the Pennsylvania Bankers Association, Chalfonte-Haddon Hall, Atlantic City, New Jersey, Monday, May 20, 1963. Mr. Kimbrel is chairman of the board, First National Bank, Thomson, Ga.

In his annual Economic Report to Congress last January, the President of the United States outlined a tremendous challenge to the ingenuity, resourcefulness and efficiency of the nation's businessmen and bankers.

After discussing the many factors contributing to the nation's balance-of-payments deficits, he said: (and I quote) "The area in which our greatest effort must now be concentrated is one in which Government can provide only leadership and opportunity; private business must produce the results. Our commercial trade surplus--the excess of our exports of goods and services over imports--must rise substantially to assure that we will reach a balance-of-payments equilibrium within a reasonable period."

Now I am sure that all of you are aware of the background of the situation which prompted this statement. Briefly stated, we have had deficits in our international payments in 12 of the last 13 years - the lone exception being in 1957, when the Suez crisis caused a sharp jump in our oil exports.

The deficits for the 13 years total almost $26 billion. Of this total, $8 billion has been financed through the sale of gold to the central banks of foreign countries. The rest is reflected in a buildup of short-term dollar claims held by foreigners. These claims, including $17.5 billion held by foreign official institutions, could be presented to the United States for gold whenever the countries holding them no longer felt this nation would continue to honor its commitment to sell gold at the price of $35 per ounce. In short, they would not want to hold dollars very long if they started to lose confidence in our ability to act as banker for the Free World. Our gold stock now stands at $15.8 billion, the lowest level since April 1939.

The deficits have been decreasing since 1960 when our international accounts were $4 billion in the red. In fact, early last year, Treasury officials were predicting that the 1962 deficit would be down to about $1.5 billion and that balance would be restored by the end of 1963. However, the final figures for the year did not bear out the prediction. The 1962 deficit totaled $2.2 billion. Moreover, prospects for continuing improvement in our payments position are not greatly encouraging. Deficits during the first quarter, seasonally adjusted, totaled $820 million. In terms of an annual deficit this would be $3.3 billion.

The problem, as you know, is many-sided. We are, as a nation, spending, lending and investing more abroad than foreigners are spending and investing here.

With the problem so complex, the solutions must be sought through many different approaches. Military expenditures which result in dollar outflows are being scrutinized. Some military expenditures are being offset through arrangements whereby foreign governments agree to spend the same amount of dollars on U.S. goods as we spend maintaining troops in their countries.

Efforts are being made to stem the flow of dollars resulting from our foreign aid program. The Clay committee pointed out additional areas where programs could be trimmed.

Short-term interest rates have been maintained to prevent the outflow of funds which move from one financial center to another in search of higher rates. With our unemployment problem, however, monetary authorities must carefully weigh

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domestic conditions. Personally, I believe the current circumstances call for even higher rates to attract a net inflow of funds.

In another move to eliminate the deficits, all Government agencies that spend dollars abroad are now required to submit quarterly spending estimates to the Budget Bureau Director. Every item involving a dollar outflow is being scrutinized.

Many other technical arrangements have been made to protect the dollar against speculation. These steps, and all the others which I have mentioned, are steps being taken by the Government. The private sector can do little more than attempt to offer constructive criticism based on objective analysis. This The American Bankers Association has done in the past, and it will continue to do so in the future.

But exports are a different breed of cats. Here the distinctions between the role of the public sector and the role of the private sector are less clearly defined. Moreover, the present circumstances tend to add more confusion to the relative roles of both sectors.

In the long run, a nation's ability to finance its international commitments for military and economic aid is directly related to the surplus generated by the private sector. Otherwise, chronic deficits will develop. But under present circumstances, the United States is committed to burdensome defense and aid programs. These commitments should be and are under continuous review, and it is probable that they will be reduced somewhat in the years ahead. Still, few would argue that drastic cutbacks are desirable. This means that our nation must continue to bear a heavy burden of military and economic aid.

If we are to honor these commitments, then the Government has the responsibility of both allowing and encouraging the private sector to generate the necessary financing by increasing exports. If opportunities and leadership are provided, then the private sector must accept the responsibility and take advantage of the opportunities. If the Government does not provide the opportunities, or if the private sector does not respond to the encouragement, then the Government may have no choice but to reduce drastically its international financial commitments.

It seems three points are apparent. First, bankers would be the first ones to insist that the United States continue to serve as the Free World's military and economic leader. Second, although some may question the speed and degree of actions to date, the Government can and is attempting to reduce the burden in fulfilling this role. And, third, under these circumstances the private sector must make every effort to enable the nation to finance these commitments until they are in fact reduced.

Now, after what may well be the longest introduction on record, let's look further at the subject of exports. During 1962, United States exports set a record high at $20.6 billion--a 4 per cent increase over 1961. On the other side of the ledger, however, imports amounted to $16.2 billion--up 12 per cent from 1961. Consequently, the trade surplus was $1 billion less than it was a year ago.

In terms of dollar volume, our exports are the highest in the world. West Germany, which ranks second, had exports of $13.2 billion during 1962. But exports sales account for only 4 per cent of our Gross National Product. Because this figure is low--one-twentieth of G.N.P.--we Americans tend to underestimate the importance of exports. By comparison, the Benelux countries, for example, must rely on exports for one-third of their total G.N.P. Export-income accounts for about one-sixth of the G.N.P. for Canada and West Germany. These countries are obviously more export-oriented than we are.

Aside from the balance-of-payments considerations, there are several reasons why we should seek to expand our exports.

First, exports can be a big factor in maintaining the nation's economic growth and thus, they can help in reducing unemployment -- a problem which looms large in many of the areas of the Commonwealth of Pennsylvania.

Second, by working with your customers with export financing and encouraging them to seek export markets, you will be helping them to enlarge their sphere of operations. This will redound to the benefit of the business, the community and the bank.

Third, it is obvious that bankers would increase their business profits if their customers would increase exports. Export financing is becoming an important income producer for many banks.

Getting even more specific, the Keystone State is in an excellent position to realize substantial benefits from increased exports. The Port of Philadelphia, which I understand has been undergoing extensive improvements, handles more import-export tonnage than any other port in the nation. Even acknowledging the fact that the majority of the tonnage registered is on the import side, it doesn't take much imagination to see that increased exports would help greatly to increase job opportunities in the area.

The St. Lawrence Seaway has also opened similar opportunities in Erie which can be further exploited.

Now foreign trade is not new to Pennsylvanians. Your state has been a leader dating back to earliest colonial days. The most recent figures I have seen show that your state is fourth in production for exports.

But with the natural and human resources available here, I am sure you would agree that export trade can be expanded. In fact, recently someone jestingly said, if Pennsylvania were as good at exporting goods and services to other nations as it is in exporting athletes to other states, we would not have a balance-of-payments problem and Pennsylvania wouldn't have any unemployment.

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Seriously though, the industrial elements of the state lend themselves to export production. Light manufactured goods - the nation's leading export category - can thrive in this state. The raw materials are abundantly available, and, with more colleges and universities than any other state, your manpower needs and brainpower needs should not be hard to meet.

Now much of what I have said might seem obvious to many of you. But have these elements been exploited fully? During 1962, when the Department of Commerce stepped up its drive to increase exports, many companies which had never considered exporting went into the business. In fact, during 1962 over 100 companies a month went into exports. These figures include only companies which exported in excess of $25,000 worth of goods or services.

I mentioned at the outset that the Government has a job to do in encouraging and promoting exports. Some steps in this direction have been taken. Being the nation's leading steel producing state, you are all well aware of the Government's effort to promote price stability so our exports will be competitive in the export markets. Though we might disagree with some of the methods, it is obvious that the relative price stability we have enjoyed since 1958 has been a big factor in our favor in overseas markets. Prices abroad are catching up with ours.

But maintaining prices is not very palatable if it further squeezes earnings. In an attempt to offset this force, the Government has given businessmen the new investment-incentive tax provision and the new depreciation schedules to enable them to invest more in new efficient plants and equipment. This has been highly beneficial. The McGraw Hill survey of capital spending plans shows that businessmen attribute over 40 per cent of their increased spending plans to the two factors I just cited. Just last month Henry H. Fowler, Under Secretary of the Treasury, speaking before the Senate Small Business Committee, proposed even further steps in liberalizing depreciation schedules. In his testimony, he called

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particular attention to the problems in the steel industry and suggested that consideration be given to adjusting depreciation allowances upward, so as to allow for the impact of inflation on replacement costs. This would require legislation and would not happen for some time. However, it is encouraging to have the Treasury Department's views on the official record.

In another area, the Trade Expansion Act, which became law last year, could lead to a reduction in some of the barriers to freer trade. As you know, over 400 representatives of the 50 signatory nations of the General Agreement of Tariffs and Trade are now meeting in Geneva, preparing for the so-called Kennedy Round of negotiations which are tentatively scheduled for next year.

The Trade Expansion Act authorizes the United States to reduce tariffs by as much as 50 per cent on a broad range of items. At the same time, we will be seeking to gain reduced tariffs and reduction or elimination of other trade barriers for our goods going to the Common Market and other trading nations of the Free World.

The meetings are still in progress. Early reports were not too optimistic. But I believe there is growing support for free trade in most corners of the Free World. And I am convinced that technical problems, such as the Common Market's agricultural policy, will be settled eventually, and that we will see increased opportunities for free trade. All of the long-range indicators point in this direction.

There are, of course, problems. The apparent slowing of economic growth in some of the European nations could lead to a reduction in the demand for our goods and services. A nation's imports normally follow its economic progress. Imports expand with an expanding economy and drop when a country has a slow-down in its economic growth. This general tendency, under present circumstances, could easily mean that our imports will continue to rise and our exports will encounter more resistance. This is indeed a challenge to businessmen, farmers and bankers striving to increase exports. But it should be noted that American products have been making improved showings in markets in Japan, India, and Pakistan. Sales in Latin American Markets have also been increasing as have sales to Africa, Canada and Australia.

Another new, encouraging development to spur exports is the program offering insurance on both commercial and political risks involved in exporting. The program, as you know, is handled by the Foreign Credit Insurance Association (F.C.I.A.) 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. To date over 25,000 copies have been distributed to bankers and businessmen. During the first year of operation, over 1,000 insurance policies were written under the program.

The Association is also working on two other projects to help banks in their export promotion efforts. Before the fall, we expect to have completed a program for use by state associations in setting up teams to visit industrial companies and explain some of the new opportunities available for their products overseas.

The Association is working on a booklet which will explain the fundamentals of export credits, documentation, custom regulations and many other technical problems involved in export business. This educational booklet will be extremely helpful to the medium and smaller banks, which have not been engaged in the business before.

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 overseas markets for their products.

It 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 U.S.I.A. 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 your customers have a product which has export possibilities, or if they plan to expand their 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.

In summing up, I want to emphasize again three points:

First, exports, because of the volume involved, are the biggest single factor in our balance-of-payments figures. And, while the private sector has provided a substantial trade surplus, it is incumbent upon us to maintain or improve this surplus until relief being sought in other areas is achieved.
The Government is making many efforts to encourage exports. We should do everything in our power to make sure that the private sector accepts the implicit challenge and acquits itself with the same distinction that it has displayed in meeting challenges in the past.

Second, banks, through their own enlightened self-interests, should promote exports. The benefits will accrue to your bank in the form of increased earnings. Expanding industries in the export field will also increase job opportunities. My home state of Georgia, and Pennsylvania have similar problems

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here. The problem is creating the opportunities that will encourage our young people to stay at home instead of moving to more promising areas of the country.

My third and final point is this: Increased trade promotes a better standard of living for our citizens. This is something that would go well with the massive rebuilding programs now going on in Pittsburgh, Philadelphia, Harrisburg and many other areas of your state. The Pennsylvania Bankers Association has long been one of the leaders in doing effective work for banking. I am confident that this leadership will again be displayed in the months and years ahead as the banking industry, working with Government and business, attempts to take advantage of freer trade.

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