

July 26, 1963

REMARKS BY M. MONROE KIMBREL

before the Atlanta Kiwanis Club

A few years ago the New Yorker magazine ran a cartoon which showed a man and woman sitting in a living room reading the newspapers. The wife, with a puzzled look on her face, looked at her husband and said, "Harry, explain gold to me."

The cartoon was very appropriate at the time, for the United States was starting to be concerned about the deficits in its international payments and the accompanying reduction in its gold supply. And, the chances were that in 1959, when the Eisenhower administration first took steps to stem the flow of dollars leaving the country, many Harrys across the country knew little or nothing about gold or the balance of payments.

Since then, most thinking Americans have followed the ups and downs of our payments problem and have shown a sincere interest in the steps our Government has taken to curtail the outflow of dollars and to protect our dwindling gold stock.

Briefly stated, Americans--Government, private business and individuals--have been spending, lending and investing more abroad than foreigners have been spending here.

This has been the case in 12 of the past 13 years, the lone exception being in 1957, when the Suez crisis caused our exports to rise rapidly.

These deficits during the period have totaled a net of \$26 billion. In financing these deficits, the United States has sold \$8 billion in gold,

and has watched liquid claims against U.S. gold reach \$18 billion.

Many steps have been taken to restore equilibrium to our international accounts. Mechanisms have also been set up to reduce the chances of speculative runs on the dollar.

These moves include offset purchases of military equipment in the United States by countries in which the United States maintains military troops, prepayment of debts to the United States, the tying of foreign aid, commonly known as our buy American policy, currency swap arrangements and many others.

Yet, in spite of all these efforts, there has been no improvement recently in our payments position. Deficits during the first quarter of this year, seasonally adjusted, ran at an annual rate of \$3.3 billion.

The alarming part about the lack of improvement is that our gold stock--the measure of our international liquidity--is continuing to dwindle. Our gold supply--now at \$15.6 billion--is at the lowest point it has hit since 1939. Furthermore, if improvement does not become evident, foreigners will doubt our ability to get our financial house in order. As dollars flow into central foreign banks, they can be converted to gold, which we have pledged to sell at the rate of \$35 per ounce.

Confidence in the dollar, is, of course, a difficult element to measure. But it is apparent that many Europeans are showing concern over the U.S. payments position.

Against this background, The American Bankers Association made a detailed analysis of the balance of payments problem. This study, which

was in progress for several months, was published July 14.

The study, which emphasized the need for further action, made 12 recommendations:

1. The restoration of equilibrium in the balance of payments must be elevated to the highest order of national priority.

2. Public policy should be directed firmly toward preserving the existing gold parity of the dollar. Devaluation or the adoption of floating exchange rates would do irreparable damage to the international monetary system, and to the economic, military, and political strength of the entire Free World.

3. We recommend the enactment, in this session of Congress, of an across-the-board reduction in personal and corporate tax rates designed to improve the climate for direct business investment in this country, strengthen the prospects for cost-price stability, and restrain the large outflow of private long-term capital.

4. We recommend that the monetary authorities permit less credit ease and some firming of interest rates. Such a move would restrain the outflow of short-term funds to overseas markets, arrest the trend toward deterioration in the quality of credit, and avoid an excessive buildup of liquidity which could jeopardize cost-price stability in the future.

5. To preserve international confidence in the dollar and to safeguard stability in costs and prices, we urge that Federal spending be held at present levels during the transition to lower tax rates. This will require sharp reductions in new obligational authority voted by Congress.

6. Further progress in reducing the foreign-exchange costs of the nation's defense establishment is imperative. Such progress should begin with--but cannot be confined to--an intensification of efforts to obtain a more equitable distribution of the costs of maintaining the military strength of the Free World.

7. Reductions in the foreign-exchange costs of the foreign aid program are urgently needed. These reductions can best be accomplished through maximum tying of aid to United States exports and through the assumption of a larger part of the responsibility for aid by our prosperous allies. Barring success in these efforts, we see no alternative to a net reduction in the flow of Free World aid to developing nations.

8. We urge public officials to marshal all of the nation's international bargaining strength, which is great, in carrying out its trade and tariff negotiations with the Common Market and in pushing for removal of existing discriminations against dollar goods.

9. We endorse the efforts of government officials in encouraging the freeing and enlargement of European capital markets. Success in these efforts, coupled with more aggressive efforts to promote foreign purchases of securities issued in the United States, should produce reductions in the outflow of private capital.

10. Government leadership in the field of export promotion has been constructive and should be continued. In the private sector of the economy, increased aggressiveness in exploring and developing export opportunities is called for.

11. Resort to the imposition of direct controls over international capital movements, or other forms of foreign-exchange control, must be avoided. We endorse the rejection of such controls by responsible government officials.

12. The creation of a supranational credit-creating institution which might facilitate the financing of the deficit in the United States balance of payments is neither necessary nor desirable. Impressions that the United States is seeking an escape from balance-of-payments disciplines through expansions in international liquidity could seriously strain international confidence in the dollar.

From these recommendations you can see that the banking industry believes that steps to achieve equilibrium in our balance of payments constitute the nation's number one economic problem.

Needless to say, bankers were in full agreement with the Federal Reserve's move to raise the discount rate from 3 to $3\frac{1}{2}\%$ on July 16. This should firm up short-term rates and help keep short-term investment capital here in the United States and possibly even attract some additional funds from abroad.

At the same time, the Fed raised the ceiling on the amount of interest commercial banks could pay on funds deposited for a period of from 90 days to one year. This, too, should help slow the flight of dollars abroad.

The tax on foreign securities proposed by the President in his balance-of-payments speech on July 18 is not as easy to appraise as the other two moves.

A special A.B.A. committee is now considering all aspects of the

President's proposal. We are trying to see if other alternatives to retard the outflow of portfolio capital are available. We also want to know if these alternatives would be feasible, adequate and sufficient to bring results in a short period of time.

But If suitable alternatives cannot be found, then I believe we will support the President's proposal in spite of the risks involved, because of the overriding importance of the balance-of-payments situation. Hopefully, the duration of such a tax would be as short as possible.

I am firmly convinced that one of the best ways to reduce or stop outflow of investment capital is to make the investment outlook in this country more attractive.

The investment incentive provision of the Revenue Act of 1962 and the new depreciation schedules drawn up last year have been steps in the right direction. But the most important step this nation can take today to improve our rate of economic growth, which would renew incentive for investors to invest their money here, would be a properly structured tax reduction.

Lately there have been many arguments in the newspapers to the effect that a tax reduction is not needed because we did not have the recession that many pessimists had forecast a year ago. I would hope that people discussing the tax proposals get back to the basic idea that the purpose of the cut would be to spur long-term economic growth. Those who argue for or against a tax on the basis of the changing economic indicators every month are engaging in academic debates.

The tax proposal is now being considered by the House Ways and

The plan is being questioned in some quarters not because it is too severe, but because it is not strong enough under the existing circumstances. People argue that more drastic moves are required and the Administration will not do anything more if the investment tax is passed.

Means Committee. I understand that the committee will complete its final ~~re~~consideration of the reform aspects by the end of this week, and that a bill will be submitted to the House before mid-August.

Some observers have stated that there is not enough time to complete Senate hearings on the bill and get a tax law this year. I believe there is plenty of time. Congress will be in session for a long time to consider the civil rights legislation and other matters, and since they will be in session, there will be time to hammer out a tax bill.

In closing, let me again stress the seriousness of our balance-of-payments position. It requires our most urgent attention. Moreover, I believe a tax cut, in addition to giving a boost to our economy, would go ~~some~~ a long way toward reversing ~~the~~ the flow of investment capital, which is now seeking higher return abroad.