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THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

C. F.

See p 2
re: France

June 19, 1965

MEMORANDUM FOR THE PRESIDENT

Subject: Weekly Balance of Payments Report

1. During the past two weeks, our balance of payments showed moderate deficits adding to \$79 million
 - reflecting (Confidential) British official sales of American securities, but
 - still comparing favorably with the deficit of \$174 in the corresponding period last year.
2. For the month of May, preliminary data indicate an \$87 million surplus, in contrast with
 - a deficit of \$39 million last year; and
 - an average May deficit of \$214 million between 1959 and 1964.
3. Thus far in the second quarter, we have a cumulative surplus of more than \$200 million. Although there are uncertainties about the next two weeks (including the size of further British security sales), the full April-June period has a good chance to show the first quarterly surplus since late 1957.
4. Disappointing figures on U. K. foreign trade in May produced substantial pressure on the pound in foreign exchange markets.
 - . The Bank of England had to part with a substantial chunk of needed reserves to support the pound.
 - . Forward exchange prices indicate growing doubts about the prospects for sterling in late fall and winter.
 - . The week ended on a better note, however, as the price of sterling recovered somewhat without further official support.

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5. Meanwhile, the dollar fared very well in foreign exchange markets, especially relative to the German mark and the Swiss franc. The mark sold below par for the first time in 2 years, as Germany has been losing reserves under the influence of our balance of payments program.

6. Socony announced this week that it plans to raise \$28 million of debt financing in Europe.

- . This is the first instance of a major U.S. firm cooperating with the voluntary program by using the European capital market.
- . It is reported that Socony will pay an interest rate of 6.05% on its European funds, about 1-1/2% more than a U.S. offering would cost.

7. The French blew hot and cold all at once in the international monetary area.

- ✓ . Just before his visit to the U.K. to confer with the British Chancellor of the Exchequer, Finance Minister Giscard d'Estaing announced a prepayment to us of \$178.5 million on its outstanding debt. Giscard was quoted as calling this payment "an olive branch."
- ✓ . Foreign Minister Couve de Murville also sounded friendly, insisting that "Since the beginning, ties have existed between Frenchmen and Americans which nothing can alter for us French, not even a monetary quarrel."
- ✓ . Giscard insisted that France does not support a return to the pure gold standard, or any "appreciable" rise in the price of gold.
- . At the same time, however, the French ordered another monthly gold purchase from the U.S. (Confidential), even though they actually lost reserves last month. This month they are gaining a lot of reserves, and they may hit us hard.
- . Giscard also said all the wrong things about international monetary reform
 - formally endorsing the "Composite Reserve Unit" proposal, and
 - opposing any plan that centers on the IMF.

(Press reports in today's Times, however, say he took a "flexible" approach to reform in his talks with Callaghan.)

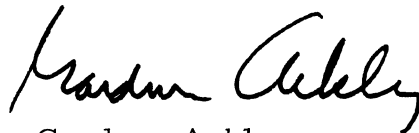
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8. Doug Dillon still sounds good, speaking as a private citizen at a commencement exercise.
 - . He urged action on monetary reform: "There is plenty of time to consider the issues fully and carefully so that we may act wisely [but] there is no longer any time to dally. A strengthened international monetary system must be installed before it is needed, and not after the crash."
 - . He emphasized the benefits obtainable through relatively modest changes in the functioning of the International Monetary Fund.
 - . He endorsed the recommendations of the "Bernstein Committee" to change our balance of payments bookkeeping in order to stop exaggerating our deficit.

9. Keith Funston, President of the New York Stock Exchange, called for repeal of the interest equalization tax on American purchases of outstanding foreign securities (leaving it on new issues only). So far as we and Treasury can see, his argument makes no sense.



Gardner Ackley

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