

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

August 6, 1966

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MEMORANDUM FOR THE PRESIDENT

Subject: Weekly Balance of Payments Report

1. For the second week in a row, the weekly balance-of-payments returns make poor reading. In the week ended August 3, we registered

-- a \$162 deficit on liquidity and

-- a \$108 million deficit on official settlements.

. There is as yet no real explanation for the large deficits of the last two weeks. This is normally a rough time of the year for the balance of payments, partly because of tourist travel. Several weeks of especially large deficits were also recorded in midsummer in other recent years.

. The airline strike may be contributing to the deficit by the loss of TWA's trans-Atlantic revenues and by stranding some U.S. tourists abroad.

. While the poor figures are probably not significant, we can't rule out the possibility that they point to some more worrisome development.

2. Market reactions to the stringent new British measures have continued to be unenthusiastic.

. Substantial official support for the pound in foreign exchange markets was still required on Monday and Tuesday, just prior to the announcement of the end-of-July reserve figures.

. Curiously enough, the market calmed down when July losses were announced as \$70 million, even though everyone recognized that the published figure was a magnificent understatement of the true loss.

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- . Since then, the pound has held its own. The price of sterling wound up somewhat below last week's close, but British reserves approximately broke even for the week.
- . The new measures have dispelled the storm clouds of crisis. But they have not generated any gains in reserves, as might have been hoped.
- 3. Skepticism and speculation in the press have complicated the sterling problem. A possible devaluation is being discussed on the front pages throughout the world. In that atmosphere, it is not surprising that the foreign exchange markets remain unsettled.
 - . The London Economist examined the case for and against devaluation in detail, saying that "the unthinkable has become very thinkable." But it stopped short of advocating devaluation.
 - . Paris' Le Monde had a way-out story. It alleged that you had warned Wilson not to count on further U.S. support for sterling. In turn, Wilson is supposed to have indicated that he favored a rise in the price of gold.
 - . The U.S. press was well represented in the debate with a variety of views
 - Henry Wallich in Newsweek intimating that devaluation may be inevitable; ✓
 - Joe Livingston insisting it would do no good;
 - First National City Bank's Monthly Letter taking a very optimistic (but unconvincing) view of Britain's basic competitive position; and
 - the Wall Street Journal offering a lead article today on the consequences "If Sterling Sinks."
 - . On the other hand, after studying Wilson's restrictive fiscal program, European central bankers told our delegation at the Group of Ten meetings that they were much impressed by Britain's determination to defend the pound.] ✓



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