FEDERAL RESERVE BANK OF NEW YORK

[Circular No. 5616
February 10, 1965]

President's Balance of Payments Program

*To All Member and Nonmember Banks
in the Second Federal Reserve District:*

The President of the United States has today sent to Congress a message setting forth his program to improve the U. S. balance of payments.

In addition to stressing the vital importance of stability of domestic costs and prices, the President's program includes:

(1) Legislation to continue the interest equalization tax through December 31, 1967;

(2) Immediate action under the existing statute to impose the interest equalization tax on bank loans with maturity of one year or more;

(3) Legislation to apply the interest equalization tax, retroactive to February 10, 1965, to non-bank credits to foreigners if such credits have a maturity of one year or more;

(4) A call on the Federal Reserve System—in cooperation with the Treasury—to work with all banks to limit lending to foreigners;

(5) Legislation to provide immunity from antitrust laws for specified voluntary programs, if needed, with respect to foreign loans by banks;

(6) A call on the Department of Commerce to work with corporations with business interests abroad to effectuate a reduction of their capital outflows;

(7) A more vigorous export promotion drive;

(8) Encouragement of foreign investment in the United States through appropriate tax legislation;

(9) Legislation to reduce from $100 to $50 the duty-free allowance of tourists returning from abroad, and a "See the U.S.A. First" program designed to increase tourism in the United States;

(10) An intensified effort to reduce military expenditures abroad;

(11) Continued action to minimize adverse balance-of-payments effects of the foreign aid program.

The Federal Reserve System shares the President's concern about the deterioration in our balance of payments and his determination to improve our payments position and to strengthen confidence in the dollar. The System and the banking and financial community have been assigned major roles in the President's program.

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The central focus of the program is on measures that will reduce the outflow of United States capital. Such flows have been heavy in recent years, and were particularly so in recent months. In the fourth quarter of 1964, for example, bank credit to foreigners expanded by $1 billion.

To assure the success of the program, the System is requesting all banks to limit credits to foreigners that are not clearly and directly for the purpose of financing exports of U. S. goods and services. Over all, the objective is to hold outstanding credits (including export credits) to foreigners during 1965 to a level not over five per cent above the December 31, 1964 outstandings. In most instances, this should be the minimum goal for individual banks. Within the overall limits, certain countries may need to be given preferential treatment. You will be advised later concerning this.

Outstanding credit to foreigners includes loans, acceptance credits, deposits with foreign banks (including foreign branches and subsidiaries of U. S. banks), and investments and acquisitions of assets abroad regardless of maturity, whether or not they are subject to the interest equalization tax.

The Federal Reserve program will be further explained under the following procedures:

(1) The President is asking representatives of the financial community to meet with him to discuss the program set forth in his message to the Congress;

(2) The Chairman of the Board of Governors is asking the bank representatives present at the President's meeting to confer with him and the other members of the Board of Governors, and presidents of the Reserve Banks following that meeting;

(3) Each bank that has foreign loans and investments outstanding in excess of $5 million will be requested to meet individually with representatives of the Reserve Bank of its District for further discussion of the program;

(4) Technical advisory committees may be invited to meet with Federal Reserve officials concerning problems that arise under the System's program.

Implementation of the program limiting lending to foreigners will result inevitably in some hardships for individual lenders and borrowers. This is unfortunate, but the overriding long-run international position of the dollar is dependent upon your wholehearted cooperation.

I am confident that the financial community stands prepared to join with the Federal Reserve System in this urgent national effort to restore balance-of-payments equilibrium and to maintain the dollar "as good as gold." In good part, the success of the President's program depends on us.

ALFRED HAYES,
President.