FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5633
March 18, 1965]

Program of Department of Commerce for Business Concerns
Under the President's Balance of Payments Program

To All Banks and Other Financial Institutions
in the Second Federal Reserve District:

The President's program to improve the Nation's balance-of-payments position, in part through voluntary efforts by American industrial concerns to effectuate reductions in their capital outflow, has been implemented with respect to such concerns by the Department of Commerce. In a letter to the chief executive officers of over 600 industrial concerns, which was released on March 17, Secretary of Commerce John T. Connor set forth the program proposed by the Department of Commerce.

For your information, the following documents are printed on the following pages:

Press release of the Department of Commerce, dated March 17, 1965;

Letter of the Secretary of Commerce;

Press release of the Department of Commerce, dated February 24, 1965; and

Summary Worksheet for nonfinancial industrial concerns.

You will note from the letter that the Secretary of Commerce expects corporations planning substantial investments abroad to take care to minimize the balance-of-payments effects of such investments. He states that the Department of Commerce or the appropriate Federal Reserve officials, when the System's program for banks is involved, would be glad to discuss such situations with the concerns. The Secretary also points out that repatriation of short-term financial funds invested abroad should be done with caution in the case of balances in countries subject to balance-of-payments problems, and suggests that it would be desirable for companies with large balances to consider consulting with the appropriate Federal Reserve Bank on this problem.

If you have any questions or comments regarding the program to improve our international balance-of-payments position, please contact our Foreign Department (Telephone Extension 1000), which is in charge of its administration at this Bank. Questions regarding statistical information should be directed to our Balance of Payments Division (Telephone Extension 2000).

Additional copies of this circular will be furnished upon request.

ALFRED HAYES,
President.

(*Press release of the Department of Commerce, dated March 17, 1965*)

Secretary of Commerce John T. Connor today called upon American business executives engaged in international operations to "make an extraordinary effort" to help improve the Nation's balance of payments position.

The Secretary issued his call in a letter to 600 corporate executives, enlisting their personal support in a voluntary program to produce "significant reductions" in the balance of payments deficit.

The Secretary said the list of 600 companies did not necessarily encompass all firms engaged in international business, and he extended an open invitation to other firms with sizable international activities to participate. Such firms should write him if they feel they can make a substantial contribution to the voluntary program.

In his letter, the text of which he made public today, the Secretary asked each company to set up a balance of payments "ledger" for 1964, showing selected debits and credits, to consider how their 1964 results could be improved for 1965 and 1966, and to give him their personal estimates of the dollar amount of prospective improvement for 1965.

"We have been thinking in terms of an average improvement in balance of payment terms, in 1965 of 15 to 20 percent over the 1964 results,'' Secretary Connor said. ''We realize, however, that any such target will be inappropriate for many corporations—either on the low or high side—but the important thing is to make an extraordinary effort. . . . only you are in a position to set up a reasonable but meaningful objective for your own company, in the light of your operating facts and problems."

The Secretary also asked for 1963 and 1964 figures for short-term assets held abroad "because of the unique opportunity" to shift such assets and register an early improvement in the balance of payments.

He requested that first reports be submitted by April 15th, and quarterly reports through 1965 and 1966.

He said he had decided against a formalized system of prior notification of new investments and expansions abroad, including financing, expressing the belief that the estimates and reports being requested would prove to be adequate.

"We, of course, expect that care will be taken to minimize the balance of payments effects of large investments," the Secretary said, "and either we, or the appropriate Federal Reserve officials when their program is involved, would be glad to discuss such situations should you so desire."

In his letter, the Secretary stated that individual reports and estimates would be kept confidential and periodic summaries of the data collected would be compiled for use by the government and for release to the public.

In the category of "special problems," the Secretary mentioned the national objective of increasing private investment in less developed countries, and said he did not wish the program to inhibit the flow of such investment.

A second "special problem" dealt with the repatriation of short-term financial funds, the Secretary requesting the exercise of caution in countries having balance of payments problems.

On a third "special problem" involving Canada, the Secretary said he did not anticipate cutbacks in direct investments. He asked, however, that firms "take particular care to assure that short-term funds put at the disposal of subsidiaries in Canada serve only to meet operating needs."

Secretary Connor closed his letter to the corporate executives stating, "President Johnson is confident, as I am, that you will cooperate with us in this extremely important program of serious concern to you and to our country. We urgently need your help."

The text of Secretary Connor's letter, together with a suggested summary worksheet, a listing of ''developed countries,''* and instructions for the worksheet, are attached.

* The ''developed countries'' are: Australia, Austria, Belgium, Canada, Denmark, France, Germany (Federal Republic), Hong Kong, Italy, Japan, Liechtenstein, Luxembourg, Monaco, Netherlands, New Zealand, Norway, Republic of South Africa, San Marino, Spain, Sweden, Switzerland, United Kingdom. This list is subject to some modification at a later date.

(*Letter of the Secretary of Commerce*)

The President has asked me to handle the voluntary cooperation program with American industry which is a key part of our overall effort to improve our Nation's balance of payments situation. Since the success of this program depends entirely on full cooperation and help from the heads of the U. S. corporations doing a significant amount of business internationally, I am writing to you to enlist your personal support.

As you can see from the enclosed press release, the Advisory Committee for this industry program, chaired by Mr. Albert L. Nickerson, Chairman of the Board of Socony Mobil Oil Company, is composed of outstanding leaders from the business community who have been active in direct overseas investments and international trade. That Advisory Committee met with me on February 26, and strongly urged that our program be set up on as informal and personal a basis as possible, with a minimum of formal reporting requirements and other "red tape." All members of the Advisory Committee have given me their judgment that the leaders of American industry will respond quickly and favorably to that kind of approach and that, as a result of such leaders taking personal responsibility for this effort, our voluntary program will produce significant reductions in the balance of payments deficit. The Advisory Committee is particularly in favor of a flexible approach that enables each company head to work out his own program, based on the operating facts of his own business, rather than limit the means of meeting each company's objective by having the government prescribe some formula of general application.

That advice makes sense to me, and the form of the program that we had been planning has been modified along the lines suggested.

Consequently, I ask for your help specifically as follows:

1. Please set up for your company a balance of payments "ledger" for the year 1964 which shows the selected debits and credits. I enclose a summary work sheet to indicate the needed figures, and some instructions to help your technical people in preparing it for you.

2. After looking at your 1964 results — and we realize in most cases a significant favorable balance will be shown — please consider how that 1964 result can be improved for the years 1965 and 1966. We have been thinking in terms of an average improvement in balance of payments terms, in 1965 of 15-20 per cent over the 1964 results. We realize, however, that any such target will be inappropriate for many corporations — either on the low or high side — but the important thing is to make an extraordinary effort. Therefore, we have concluded that only you are in a position to set up a reasonable but meaningful objective for your own company, in light of your operating facts and problems. The nine suggestions listed on the enclosed press release do not exhaust the list of possibilities that you and your associates can put together in devising an approach meeting the national purpose, yet tailored to your particular circumstances. In short, I am asking you to establish, *and then let me know,* your best *personal* estimate of how much of an improvement in terms of net dollars you think your company can make overall in 1965, compared with 1964 by taking all feasible steps to help the Nation deal with this serious problem.

3. It would also be helpful for us to have a few of your summary figures for the year 1964 showing credit and debit items separately. The work sheet referred to in paragraph 1 would be appropriate for your 1964 report and should be returned to us. It may also be helpful in calculating your 1965 target. We understand that for many firms or industries, such as petroleum operations or contract construction, there may be a need to include in their "ledger" other information on foreign transactions in order to show a realistic balance of payments performance. In such situations, we would welcome any supplementary figures you wish to supply, and will take them into consideration in reviewing your results.

4. Because of the unique opportunity to shift short-term assets and make an early improvement in the balance of payments, I would also like to have your figures at the end of 1963 and 1964 for short-term assets held abroad either directly or through U.S. banking or other financial institutions. In addition, we would like to have figures on such assets held in developed countries by your subsidiaries and branches.

5. I would like to receive your first set of figures by April 15, if this is possible, and I hope it is.

6. Thereafter, I am asking you to send me quarterly reports through the years 1965 and 1966 showing the data in paragraphs 2, 3 and 4 above and revisions, if any, in your overall goal for the year. You should also give your personal evaluation of points or problems you consider to be of particular significance.

7. While prior notification regarding substantial new investments or expansions abroad, including information indicating how they would be financed, would be helpful, we have decided against a formalized program asking for such information. It is our hope that the overall estimates and reports that I am requesting will prove to be adequate, and that the results will be clear enough to obviate the need for prior notification of new investments. We, of course, expect that care will be taken to minimize the balance of payments effects of large investments and either we, or the appropriate Federal Reserve officials when their program is involved, would be glad to discuss such situations should you so desire.

8. We shall be very glad to talk on the telephone or meet with you to discuss this or any other aspect of this voluntary program of interest or concern to you as it moves along.

Your company's report and estimates will be treated by us as strictly "Confidential" and shown only to those few government officials who are working with us directly in this program. We do plan to put together a periodic summary of the reports in aggregate terms for consideration with the Advisory Committee and for reports to the President, the Cabinet, and the public.

There are a few special problems which I would like to call to your particular attention.

First, we regard the national objective of increasing the contribution by private enterprise to growth in less developed countries of such importance that we do not wish this program to inhibit the flow of these investments.

Second, while relatively rapid progress in repatriating short-term financial funds invested abroad, wherever appropriate, would be helpful, we request that this be done with caution in the case of balances in countries subject to balance of payments problems. We are naturally concerned not to cause difficulties on the exchanges and it would be desirable for companies with large balances to consider consulting with the appropriate Federal Reserve Bank on this problem.

Third, we do not anticipate cutbacks in Canadian direct investments, but firms should take particular care to assure that short-term funds put at the disposal of your subsidiaries in Canada serve only to meet operating needs in Canada. Opportunities should be explored for obtaining at least a portion of working capital requirements from the Canadian market. In this process, we hope that short-term investments in Canada by parents or subsidiaries clearly in excess of working requirements will not be increased. No doubt opportunities will arise to reduce these balances, particularly those denominated in U. S. dollars, but this should be done only in a gradual and orderly way.

I am sure you are aware of the vital importance of improving the U. S. balance of payments position. Such improvement is essential to international monetary stability, to this Nation's economy, and to continued business progress. The capability of this Nation to manage its international fiscal affairs is being carefully watched around the world.

President Johnson is confident, as am I, that you will cooperate with us in this extremely important program of serious concern to you and to our country. We urgently need your help.

(*Press release of the Department of Commerce, dated February 24, 1965*)

Secretary of Commerce John T. Connor today named a committee of nine prominent business executives to advise him on the conduct of the program of voluntary cooperation by the business community to improve the U. S. balance of payments position.

The committee, known as the Balance of Payments Advisory Committee of the Department of Commerce, is headed by Albert L. Nickerson, chairman of the board of Socony Mobil Oil Company, New York, N. Y., as chairman, with Carter L. Burgess, chairman of the board of American Machine & Foundry Company, New York, N. Y., as vice chairman.

Other members of the committee are:

Fred J. Borch, president, General Electric Company, New York, N. Y.;
Carl J. Gilbert, chairman, The Gillette Company, Boston, Mass.;
Elisha Gray, II, chairman, Whirlpool Corporation, Benton Harbor, Michigan;
J. Ward Keener, president, B. F. Goodrich Company, Akron, Ohio;
George S. Moore, president, First National City Bank, New York, N. Y.;
Stuart T. Saunders, chairman, Pennsylvania Railroad Company, Philadelphia, Pa.;
Sidney J. Weinberg, general partner, Goldman, Sachs & Company, New York, N. Y.

The voluntary program has been instituted at the direction of President Johnson. The President asked Secretary Connor to enlist the American businessmen in a concerted campaign to conduct their overseas operations in ways which will increase the contribution of the business community to an improvement in the U. S. balance of payments.

Secretary Connor described the voluntary program at a conference of business executives held at the Commerce Department February 18, following a meeting at the White House addressed by President Johnson. He outlined nine techniques available to business in achieving additional contributions to the overall balance of payments:

(1) expansion of exports;
(2) development of new export markets;
(3) acceleration in the repatriation of income earned in developed countries;
(4) avoidance or postponement of direct investment in marginal projects;
(5) restraint in financing new direct investments in developed countries with funds raised in the United States;
(6) greater use of funds raised in developed countries to finance direct investments in those countries;
(7) where appropriate to the company and the country, sale of equities in foreign subsidiaries to residents of the host countries;
(8) increased use of American flag vessels and airlines; and
(9) minimizing the outflow of short-term financial funds and repatriation of funds previously invested abroad.

U.S. DEPARTMENT OF COMMERCE
OFFICE OF THE SECRETARY

BUDGET BUREAU NO. 41-R2289
APPROVAL EXPIRES FEBRUARY 28, 1967

Name of Company

SUMMARY WORKSHEET

Selected Foreign Transactions by U.S. Business Enterprises to be Considered in Achieving Improvements of Balance of Payments

Return Worksheet To:
Secretary of Commerce
U.S. Department of Commerce
Washington, D. C. 20230

Check rounding used
☐ Thousands of dollars
☐ Other *(Specify)*

NOTE - Please read instructions below and on reverse before completing this Worksheet.

SELECTED FOREIGN TRANSACTIONS	1964			
	Total except Canada		Canada	
	Credits	Debits	Credits	Debits
A. Exports from the United States to all Countries				
B. Earnings on investments, and other specified current transactions with affiliated companies in developed countries*				
C. Earnings on other investments, and specified current transactions with other foreigners in developed countries				
D. Capital transactions with affiliates in developed countries, net (increase in assets: debits; decrease; credits)..................				
E. Other capital transactions in long-term assets in or claims on developed countries, net (increase in assets: debits; increase in liabilities: credits:				
TOTAL CREDITS AND DEBITS				
Balance of credits (+) or debits (–), 1964				
Balance of credits (+) or debits (–), estimate for 1965				

SHORT-TERM FINANCIAL ASSETS	Outstanding amount	
	Dec. 31, 1963	Dec. 31, 1964
A. Total held directly and through U.S. banks in all countries and currencies....................		
Of which		
1. In all listed developed countries except Canada..		
2. In Canada		
B. Total held in Canada and listed developed countries by your controlled foreign affiliates in all countries		
Of which		
1. Assets in Canada..		

* Current list of developed countries attached.

GENERAL INSTRUCTIONS

Coverage - This worksheet covers (1)all exports, (2) investment income, fees, and capital transactions with foreign affiliates in listed developed countries, (3) other investment income, fees, and transactions in long-term capital assets in or claims on listed developed countries, and (4) short-term financial assets held by you in all foreign countries and held by your controlled foreign affiliates in developed countries. Most of this information is reported to the Office of Business Economics or Federal Reserve Banks on the forms identified below.

DEFINITIONS - "Developed Countries" for purposes of this worksheet are as listed in the enclosure.

"Foreign Affiliates" includes unincorporated foreign branches, or foreign corporations in which you directly own at least a 10 percent equity interest.

Other definitions appear in the underlying instructions and regulations governing the existing forms mentioned below.

Amounts - It is recommended that entries in the worksheet be rounded uniformly to the nearest thousand dollars; if other roundings are used they should be specified. If actual accounting data are not available, or are delayed, your best estimate should be used. Exemptions for minor transactions provided in the existing reports mentioned below should also be applied herein.

Consolidations - This worksheet should include all relevant transactions of your company and its U.S. subsidiaries, following the same consolidation principles used in reporting on OBE Forms BE-577 and BE-578. If preferred, separate worksheets may be prepared by individual domestic subsidiaries or divisions, but these should be reported through the top U.S. company.

GENERAL INSTRUCTIONS (Continued)

Joint ownership or operations - In cases where there are two or more U.S. companies jointly owning or operating a foreign affiliate, each U.S. company may elect to prepare a separate worksheet reflecting its direct or pro-rata share of transactions with the affiliate, or a joint worksheet may be prepared, if preferred, with each U.S. owner identified. Joint owners should arrange to avoid duplication or omissions in final consolidated worksheets.

Where there is a U.S. company with relevant foreign transactions, which is in turn controlled by one or more U.S. parent companies, the worksheet may be prepared by the operating U.S. company, or by the U.S. parent companies, if preferred, including their direct or pro-rata shares of transactions with foreign affiliates.

In general, procedures used in preparing the worksheet should preferably follow those used in reporting on OBE Forms BE-577 and BE-578. If special procedures are used in preparing worksheets covering joint ventures or consolidated domestic affiliates, an explanation should be provided with the first worksheet.

Frequency and timing - The initial worksheet is for the year 1964, with a single figure for 1965, and should be prepared as soon as possible but no later than April 15. Quarterly worksheets should be prepared, beginning with one covering the first calendar quarter of 1965, giving the same items of information for each successive quarter through the year, and supplying a revision of the annual 1965 estimate if that should be necessary. The quarterly worksheets should be prepared as soon as the relevant information has been filled in on the existing OBE and FRB reporting forms, where these are relevant. A supply of quarterly worksheets will be made available.

Filing of report - A single copy of each worksheet, with associated correspondence, comments, or supplementary information, should be sent to the Secretary of Commerce, Washington, D. C. 20230. Questions about the worksheets, filing procedures, or balance of payments voluntary program, should be directed to the Assistant Secretary of Commerce for Economic Affairs.

SPECIFIC INSTRUCTIONS

Selected Foreign Transactions

Item A - The definition of exports used here is consistent with that used in existing reports to the Bureau of the Census, as follows: Exports include (a) shipments by your company from the United States directly to foreign countries of products which are not subjected to further manufacture, fabrication or assembly in this country before being shipped abroad, (b) sales to the U.S. Government of products which are to be shipped abroad to a foreign nation, and (c) sales for export of your product to or on order of export firms and other sales known to you to be for export. Include your shipments to foreign subsidiaries or divisions of your company and its affiliates. Do not include sales to the U.S. Government of products shipped abroad for use by the U.S. Armed Forces.

Shipments to customers in Canada are classified as exports. Shipments to Alaska, Hawaii, and Puerto Rico are not classified as exports. Exports do not include products shipped to domestic customers who will further manufacture, fabricate, or assemble them.

Exports values should preferably be on an F.O.B. U.S. port basis. If some other basis is more convenient, please specify.

Item B - Net earnings includes dividends, interest and branch profits (losses) plus the U.S. firm's share in the undistributed profits (losses) of foreign incorporated affiliates. Dividends and interest corresponds to the amounts reported (after withholding taxes) in items 1 and 2 of Form BE-577 and item 5 of Form BE-578. Branch profits corresponds to item 6 of Form BE-578.

Undistributed profits can be computed annually from Form BE-577, using the U.S. firm's equity in earnings as given in item 5 and deducting common dividends before withholding taxes as given in item 1, and are entered in this item as a credit. Quarterly worksheets should include undistributed profits data for those foreign affiliates for which such information is available. If this omits figures for some affiliates included in the annual data, please supply the amount included in the annual worksheet for the undistributed profits of affiliates not included in the quarterly data.

Other specified current transactions are receipts (credits) of royalties, fees, and home office charges, and correspond to items 3 and 4 of Forms BE-577 and BE-578. Similar payments to these foreign affiliates should be shown separately as debits.

Item C - Current transactions included in this item are income in the form of dividends and interest from sources other than affiliates, and fees corresponding to the amounts reported in column (a), Sections A and B of Form BE-93. Do not include dividend or interest payments by the U.S. company to foreigners.

Item D - The entry for this item should be either a debit or a credit entry obtained by consolidating capital transactions with all affiliates in all developed countries. The data to be supplied in this item are related to information supplied to the Office of Business Economics, U.S. Department of Commerce, on Forms BE-577 and BE-578. Specifically, the net capital outflows (debit) from the United States, or inflows (credit) can be computed by summing the changes in intercompany accounts, notes, advances, and securities of foreign affiliates as reported in items 7, 8, and 9 of Form BE-577, the change in net branch assets computed as the net difference between items 1 and 15 of Form BE-578, and the undistributed profits of foreign affiliates computed as indicated in item B (counted as a **debit** entry in this item). For annual computations, the outstanding balance of intercompany accounts and debt, and net branch investments at the beginning and end of the year may be used, plus all transactions in equity securities during the year and the calculated undistributed profits.

Item E - This item should be either a debit or credit entry. In calculating it include (1) changes in the amounts outstanding of long-term commercial credits of the type reported on Treasury Foreign Exchange Form C 1/2, Column 10; (2) purchases (debit) or sales (credit) of foreign securities, mortgages, and similar marketable items; and (3) other acquisitions of property or property rights.

Short-term financial assets

A. Firms holding substantial amounts of liquid assets abroad report such items on the monthly Treasury Form, Supplement to Foreign Exchange Form C 1/2. In general, the amounts to be reported for this item on this worksheet represent corporate funds invested directly abroad (not through affiliates) in liquid form. Foreign assets of this type would include demand and time deposits and holdings of negotiable and readily transferable commercial and financial instruments, including obligations of foreign governments. Claims such as commercial loans and accounts receivable should not be included in this worksheet.

This item should include similar short-term foreign assets held for your account by U.S. Banks.

B. This item includes the same types of assets described in (a) above held in developed countries by your controlled foreign subsidiaries and branches. Do not duplicate in (a) holdings included in (b) where consolidated branches or subsidiaries are involved.