

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5738]
December 7, 1965]

1966 Program of U. S. 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 following statement was issued by the U. S. Department of Commerce and released for publication in morning newspapers, Monday, December 6:

Secretary of Commerce John T. Connor announced today more ambitious targets for President Johnson's voluntary balance-of-payments program in which some 500 business corporations are now cooperating in the national effort to reduce the dollar outflow.

While calling for a "special effort" to restrain the outflow of funds for direct investments abroad, the Secretary said that "we will also continue in 1966 the basic strategy followed in 1965 under which each chief executive is asked to maximize his company's contribution to the balance of payments through a variety of means—including export expansion, repatriation of income from abroad, repatriation of short-term foreign financial assets, and the maximum use of funds obtained abroad for investment purposes."

The Secretary said he anticipated this effort may raise industry's net contribution to the balance of payments by about \$3.4 billion in 1966 compared with 1965.

The Secretary recommended that each company set a separate target on direct investment for 1965-66 combined based on a general formula.

The 1966 program also provides:

— Geographic focus of the program will continue to be on developed countries, but the coverage will be broadened to include direct investment in Canada, Abu-Dhabi, Bahrain, Indonesia, Iran, Iraq, Libya, Qatar, Kuwait-Saudi Arabia Neutral Zone, and Saudi Arabia. The new list again will be the same as that prepared for application of the Interest Equalization Tax.

— Some 400 additional companies will be asked to join the program in 1966. Between 500 and 600 companies are currently participating.

— The reporting system will be improved to provide the government more detailed information on the progress of the program.

— The chief executive of each company will be asked to make a personal appraisal each quarter of his company's progress in achieving targets forecast for 1966, together with a commentary on company experience quarter-by-quarter on transactions projected for 1966.

Secretary Connor revealed the new program in a letter written to companies cooperating in the program.

"In making our program more effective, it will remain *voluntary*," Secretary Connor said. "The President is convinced that the voluntary approach adopted this year was the correct way to proceed, and it will continue during 1966."

In calling for restraints on direct investment outflows, the Secretary said: "The basic aim is *not* to restrain expenditures by U. S. companies on plant facilities abroad. Rather it is to minimize the impact of the outflow of funds on the United States balance of payments."

Although geographic coverage of the program is being extended, the Secretary said, "we still wish to encourage American private enterprise to help raise standards of living in the developing countries of the Free World."

He estimated that the business community may improve its net contribution to the balance of payments by \$1.3 billion in 1965 compared with 1964. In 1966 he hoped that this overall improvement could be raised to \$3.4 billion — "if the business community is successful in restraining direct investment, maximizing export shipments, repatriating income and foreign financial assets — along with other measures."

He recommended the following target to American industry in planning its direct investment for 1966:

Direct investment in the two-year period 1965-66 combined should be limited to 90 percent of the amount during the three-year period 1962-64. For this purpose, direct investment is defined to include the net outflow of funds from the United States plus undistributed profits of subsidiaries abroad.

"For industry as a whole," Secretary Connor said, "this target would permit a rate of direct investment during the two years 1965 and 1966 combined approximately 35 percent above the annual average during the 1962-64 base period. This rate of increase should result in a level of direct investment outflow of about \$2.4 billion in 1966 — roughly the same as in 1964, following an expected substantial rise in 1965 compared with the previous year. The expected result can also be expressed as a projected increase of more than \$1 billion in the surplus of total direct investment income over direct investment outflow in 1966 compared with the level anticipated in 1965."

Each company head was asked to use the above formula in estimating his own target for direct investment in 1966, using the same base period of 1962-64. Because of the varying impact of the formula on different companies, the Secretary indicated that Commerce officials will be prepared to discuss particular situations with individual companies.

Commenting on his request for moderation of direct investment in Canada in 1966, Secretary Connor asked companies to continue efforts to expand exports to Canada and to repatriate income and short-term financial assets held with Canadian institutions.

Explaining his request for inclusion of Canada in the direct investment program in 1966, Secretary Connor said: "In view of the large prospective increase in direct investment in Canada by American firms next year, we think it is desirable to ask for moderation on the outflow of direct investment funds to that country along with other developed areas. At the same time, we realize that U. S. companies, partly because we did not ask for restraint in 1965, have underway firm investment commitments in Canada (for example those incurred under the U. S.-Canadian automotive parts agreement) which they will find it necessary to carry out. But it is our impression that companies will have ample opportunity within the direct investment target to fulfill these commitments, and we are certain they would want to give them the highest priority."

On his recommendation to expand geographic coverage, the Secretary noted that the additional countries "possess large reserves of internationally traded natural resources in which U. S. direct investment is substantial. We think it reasonable and equitable to include the substantial flows of investment funds to these countries in the base and target for balance-of-payments improvement during 1966."

In his letter, the Secretary said the revisions in the program for 1966 have been approved by his Balance of Payments Advisory Committee, which consists of: Albert L. Nickerson, Chairman of the Board, Socony Mobil Oil Company, Committee Chairman; Carter L. Burgess, Chairman of the Board, American Machine and Foundry Company; George S. Moore, President, First National City Bank; Elisha Gray, II, Chairman, Whirlpool Corporation; Sidney J. Weinberg, General Partner, Goldman, Sachs and Company; Carl J. Gilbert, Chairman, The Gillette Company; Stuart T. Saunders, Chairman, Pennsylvania Railroad Company; J. Ward Keener, President, B. F. Goodrich Company and Fred J. Borch, President, General Electric Company.

"I am personally confident," he said, "that the leaders of American business fully understand the seriousness of the foreign situation which we face. Furthermore, the increased military effort in Viet Nam will put further pressure on our balance of payments. To help compensate for the added drain, we have found it necessary to strengthen the voluntary program for 1966."

Pending the transmittal of detailed worksheets, the Secretary outlined principal features of revisions in the reporting system. Companies will be asked to report quarterly on a number of international

transactions as in 1965 — but with the following geographic classification: all areas; all developed countries, with Canada, Western Europe and other developed countries shown separately; and all less developed countries combined.

Initially, each firm will be requested to review its transactions for 1964 and 1965 and to recast them on a quarterly basis comparable to the categories to be shown in the 1966 worksheet. Companies will be asked to prepare and report as early as possible after receipt of the worksheet (and in any case by next February 15) a forecast for 1966 for a number of transactions listed on the worksheet. The forecast should include data on exports, imports, direct investment income (consisting of dividends, interest, and branch profits); undistributed profits of subsidiaries; royalties; management fees, and other service incomes; and capital outflows from the U. S. for direct investment. Companies should forecast these principal headings for all geographical areas combined, showing a division only for all developed vs. all less developed countries. Firms will be asked to review these forecasts each quarter and to make revisions where appropriate.

The items above would also be reported on a quarterly basis in the greater geographic detail previously indicated. Also, companies will be asked to report long-term capital transactions with foreigners other than their affiliates and changes in short-term financial assets held abroad in the name of the parent company. The transactions listed can be used by the company to develop its own balance-of-payments ledger quarter-by-quarter and for the year as a whole. In developing this balance-of-payments statement, companies should show the net balance in two ways — (1) including imports, (2) excluding imports.

Secretary Connor said he would also ask for reports on quarterly changes in the amounts outstanding of long-term capital obtained from foreign residents (including branches and subsidiaries of U. S. banks). If foreign subsidiaries obtain long-term debt capital in the United States (including bank loans, bonds, notes or commercial credits), changes during the quarter in the amounts outstanding should be reported in the quarterly worksheet. If the parent company obtains equity capital from foreign residents through the sale of its securities abroad, the amount of proceeds is to be reported in the worksheet.

(Text of Secretary Connor's letter to the business executives)

The President has again called upon American industry to make an extra effort during 1966 to help reduce further the deficit in our balance of payments. At his direction, I am again writing to you personally to ask your assistance.

The voluntary program in which you and other corporate executives have cooperated has been a major factor behind the substantial improvement in our balance of payments during 1965. The evidence clearly indicates that the program is working well. However, because it is necessary to continue our efforts to bring our balance of payments into equilibrium, the voluntary program must be strengthened.

In making our program more effective, it will remain *voluntary*. The President is convinced that the voluntary approach adopted this year was the correct way to proceed, and it will continue during 1966.

In the year ahead, we will also continue the basic strategy followed in 1965 under which each chief executive is asked to maximize his company's contribution to the balance of payments through a variety of means — including export expansion, repatriation of income from abroad, repatriation of short-term foreign financial assets, and the maximum use of funds obtained abroad for investment purposes. The result of these efforts should be a considerable overall improvement by American industry as a whole compared with 1965.

In addition, we must ask each company to make a special effort to restrain the outflow of funds from the United States for direct investment abroad. To help achieve this objective, we are recommending a separate target for direct investment for business corporations as a group. The basic aim is not to restrain expenditures by U. S. companies on plant facilities abroad. Rather it is to minimize the impact of the outflow of funds on the United States balance of payments.

We are also suggesting to individual companies a separate formula for direct investment which will enable them to fix their own direct investment targets in a meaningful way and yet permit companies to continue their business abroad in an orderly fashion.

We are modifying the geographic coverage of the program, but it will still apply primarily to developed countries. We still wish to encourage American private enterprise to help raise standards of living in the developing countries of the free world.

To assist us in the administration and appraisal of the program through the year ahead, we are making some improvements in the voluntary reporting system adopted for 1965.

The revised worksheet and some instructions to aid your technical people in its preparation will be sent to you in the very near future. In the meantime, I can describe the principal features of the general program for 1966.

It is estimated that the business community may improve its net contribution to the balance of payments by \$1.3 billion in 1965 compared with 1964. During 1966, we are hopeful that this overall improvement can be raised to \$3.4 billion — if the business community is successful in restraining direct investment, maximizing export shipments, repatriating income and foreign financial assets — along with other measures. I am asking you and other corporate executives to review the situation of your company and determine your own best estimate of the overall improvement which you think is possible during 1966 compared with 1965.

I am recommending the following target to American industry in planning its direct investment for 1966: Direct investment during the two-year period 1965-66 combined should be limited to 90 per cent of the amount during the three-year period 1962-64. For this purpose, direct investment is defined to include the net outflow of funds from the United States plus the undistributed profits of subsidiaries abroad. For industry as a whole, this target would permit a rate of direct investment during the two years 1965 and 1966 combined approximately 35 per cent above the annual average during the 1962-64 base period. This rate of increase should result in a level of direct investment outflow of about \$2.4 billion in 1966 — roughly the same as in 1964, following an expected substantial rise in 1965 compared with the previous year. The expected result can also be expressed as a projected increase of more than \$1.0 billion in the surplus of total direct investment income over direct investment outflow in 1966 compared with the level anticipated in 1965.

I am also recommending that each company head use the above formula in estimating his own target for direct investment during 1966. In calculating the target, companies should use the same base period of 1962-64. In defining direct investment, they should add together the net outflow from the United States and the undistributed profits of their subsidiaries. (This is the same definition used in Line "D" of the 1965 worksheet.) They should make the same calculations for 1965-66. For the latter two years combined, direct investment as defined should not exceed 90 per cent of such outflow during the three-year base period. In suggesting this formula, I realize fully that it will catch individual companies in different circumstances. For some it would undoubtedly place a severe strain on their ability to carry out projects abroad already in the advanced stages of planning or actual construction. For others, it may result in a target considerably in excess of what the companies would actually need to fulfill their plans, and we hope they would use only the minimum amount necessary. But in all of these cases, we are fully prepared — and would want — to discuss particular situations with individual companies.

The overall industry improvement target of \$3.4 billion in 1966 would include the balance of payments savings expected through the restraint on direct investment. For the individual company, the estimated improvement for the next year should also include the savings on direct investment outflow which corporate executives think they can make during 1966.

The target as formulated for direct investment has several advantages. In the first place, the three-year base period allows companies to account for direct investment activities in a way which reduces the influence of numerous aberrations which might occur in a single year, and it puts individual companies on a more equal footing. Secondly, by combining direct investment flows for 1965 and 1966, there is greater flexibility allowed companies who have been the most cooperative under the 1965 voluntary program. Those companies which have repatriated a substantial share of their earnings and have restrained capital outflow this year will have considerable headroom in 1966. Those companies whose situations did not permit them to make a similar contribution in 1965 would be called upon to make a correspondingly greater effort next year. Thus, the two-year planning period seems to be desirable from the point of view of equity. Moreover, the target essentially permits companies on the average to invest in two years up to 90 per cent of the amount they invested during the previous three years. Thus, it allows an average annual rate of investment during the two years 35 per cent higher than the average for the three years 1962-64.

The geographical coverage of the program in 1966 will again apply principally to developed countries. However, the list of developed countries will be expanded. The new list will be the same

as that prepared for the application of the Interest Equalization Tax. The targets will apply to direct investment in countries defined as developed for the 1965 program together with Canada, Abu-Dhabi, Bahrain, Indonesia, Iran, Iraq, Libya, Qatar, Kuwait-Saudi Arabia Neutral Zone, and Saudi-Arabia.

We are asking for moderation on direct investment in Canada during 1966. This was not the case in 1965. However, this year we did ask companies to expand exports to Canada and to repatriate income and short-term financial assets held with Canadian institutions. We are repeating this request for 1966. In view of the large prospective increase in direct investment in Canada by American firms next year, we think it is desirable to ask for moderation on the outflow of direct investment funds to that country along with other developed areas. At the same time, we realize that U. S. companies, partly because we did not ask for restraint in 1965, have underway firm investment commitments in Canada (for example those incurred under the U. S.-Canadian automotive parts agreement) which they will find it necessary to carry out. But it is our impression that companies will have ample opportunity within the direct investment target to fulfill these commitments, and we are certain they would want to give them the highest priority.

The other countries included in the expanded geographic coverage of the program possess large reserves of internationally traded natural resources in which U. S. direct investment is substantial. We think it is reasonable and equitable to include the substantial flows of investment funds to these countries in the base and target for balance of payments improvement during 1966.

This year between 500 and 600 companies cooperating in the program are submitting quarterly reports on their progress. In 1966 we are asking an additional 400-odd companies to do the same. We are particularly interested in expanding the list of companies to include more firms with direct investments abroad although the individual amounts involved may not be large. Initially, I am asking each company to report if it had direct investments abroad of \$2 million or more at the end of 1964 (and if it is not currently reporting under the voluntary program).

During this year we have found the statistical information submitted by companies each quarter to be helpful in administering the program. However, we have also found that the lack of somewhat more detailed information has made it difficult for us to appraise the progress of the program and to chart the contributions which the cooperating companies are making compared with developments in the balance of payments as a whole. For this reason, we have adopted several improvements in the reporting system. The specific types of information requested will be detailed in the revised worksheet and the instructions which will accompany it.

We will repeat this year's request for a quarterly report on the amount of short-term financial assets held abroad by the parent company and by its foreign affiliates. This year we requested that parent companies reduce these assets at least to the level outstanding at the end of 1963. Many companies have responded, and a large number have cut their holdings even below the 1963 level. We are hopeful that other companies will make the reduction as soon as possible, consistent with the maintenance of orderly conditions in money markets abroad, and that others will not rebuild previously reduced holdings. I also asked companies in 1965 to economize on holdings of short-term assets by their foreign affiliates. I hope they will continue this effort in 1966.

During the year ahead, we will want to work closely with individual companies in the management of the voluntary program. During 1965, I have communicated periodically on an informal basis with the chief executives of the cooperating companies. I plan to continue this procedure in 1966. However, experience this year has also demonstrated that the management of the program would have been facilitated by an additional level of communication. I am now recommending that such a level of contact be established and maintained during 1966. Consequently, I am asking you and other principal officers of each company to name an alternate who is familiar with company policy and yet who may be somewhat more available for periodic discussions of the company's progress. Commerce Department officials who are assisting me in the management of the program would maintain liaison with your designee in those matters not requiring your personal attention.

I am requesting that the chief executive of each company continue to review the worksheets reported each quarter to the Department of Commerce. It would be helpful if you could give me each quarter your *personal* appraisal of the extent to which your company is making progress toward achieving its overall target forecast for 1966. I am also requesting company officials to enclose with their quarterly statistical report a commentary on their company's experience during the quarter from the point of view of the main items reported in the worksheet.

In making the revisions in the voluntary program for 1966, I have worked closely with the leaders of American business — particularly with the Balance of Payments Advisory Committee of the Department

of Commerce. In administering the program in 1966 — as in 1965 — I will continue to benefit from the advice and counsel of this distinguished group of American businessmen. As you will recall, this Committee is chaired by Mr. Albert L. Nickerson, Chairman of the Board, Socony Mobil Oil Company. The other members are: Carter L. Burgess, Chairman of the Board, American Machine and Foundry Company; George S. Moore, President, First National City Bank; Elisha Gray, II, Chairman, Whirlpool Corporation; Sidney J. Weinberg, General Partner, Goldman, Sachs and Company; Carl J. Gilbert, Chairman, The Gillette Company; Stuart T. Saunders, Chairman, Pennsylvania Railroad Company; J. Ward Keener, President, B. F. Goodrich Company; and Fred J. Borch, President, General Electric Company.

These members of our Advisory Committee have approved the revisions in the voluntary program for 1966. They join me in asking the continued support of the business community in our efforts to improve the balance of payments.

This year I have also benefited from the advice and counsel of many other leaders of American industry; I am certain they will continue to volunteer such guidance in the year ahead and it will be welcomed.

Finally, I am personally confident that the leaders of American business fully understand the seriousness of the foreign situation which we face. Furthermore, the increased military effort in Viet Nam will put further pressure on our balance of payments. To help compensate for the added drain, we have found it necessary to strengthen the voluntary program for 1966.

But I am confident that the business community appreciates the urgency of the task to reduce further the deficit in our balance of payments. I also have no doubt whatsoever that they will cooperate on a voluntary basis in our extraordinary effort to achieve this vital national goal.

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).

Additional copies of this circular will be furnished upon request.

ALFRED HAYES,
President.