

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5917]
[December 15, 1966]

1967 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, December 13:

Secretary of Commerce John T. Connor called on corporate participants in the voluntary balance-of-payments program to renew their support of the program which will be continued in 1967.

In a letter to the chief executives of participating companies, Secretary Connor said that the program next year will operate with a set of targets similar to those in 1966, but that at the same time "we must find the means to raise the contributions of the business community more rapidly in 1967, and this will demand more rigorous restraint on capital outflows or a more rapid expansion in foreign earnings."

"Circumstances, which I believe are fully understood throughout the business community," Secretary Connor said, "are prolonging and intensifying our balance-of-payments problems. Although the U. S. deficit has been significantly reduced since the President announced the balance-of-payments program early in 1965, any relaxation of effort at this stage could lead to a rapid reversal of that progress. . . . The added drain caused by military expenditures abroad must be offset by more vigorous effort to cut the deficit in other sectors and expand our foreign earnings."

In developing the 1967 program, Secretary Connor had the advice of the Advisory Committee on the Balance of Payments. The Committee expressed support for continuation of the voluntary program, and outlined the areas where the program is likely to increase balance-of-payments contributions in 1967.

The voluntary program for 1967 incorporates the same general objectives as the 1966 program. Each company is asked to improve its overall balance-of-payments result and to make a special effort to limit the amount of U. S. funds sent abroad to finance investment activity.

The Secretary's letter states: "Our objective for overall improvement by the reporting companies is to increase 1967 contributions on the major selected transactions by at least \$2 billion above the 1966 level. This is an ambitious goal compared with the expected increase of about \$2½ billion over the past two years, but it represents the minimum improvement needed to keep the overall deficit at manageable levels."

In that part of the program related to the direct investment capital transactions, the target will again be based on the 1962-1964 experience of the companies, and will take into account the combined investment activity during 1966 and 1967. For these two years each firm is asked to limit its capital outflow to an annual average no more than 20 percent higher than the annual average during the three-year 1962-1964 period. Thus the total for the two years combined is 240 percent of the annual average during the 1962-64 base period, and the amount available for 1967 is determined by subtracting the current year's transactions from the two-year total.

"The President is encouraged, as we all are," Secretary Connor said, "that our experience to date justifies our continued reliance upon a voluntary program. During periods of serious national concern, we all have a duty to contribute to the achievement of national objectives. We must accept this duty and should welcome the opportunity to participate in shaping the outcome just as surely as the men who are engaged in the struggle in Vietnam.

"I am confident that you and all other leaders of our business community fully appreciate the vital significance of limiting the balance-of-payments deficit in order to strengthen the dollar and

maintain an international economic environment favorable for continued growth. I am equally confident that you will continue your contributions to the solution of these problems by giving your fullest support to the voluntary program during the coming year."

(Text of Secretary Connor's letter)

Circumstances, which I believe are fully understood throughout the business community, are prolonging and intensifying our balance of payments problems. Although the U. S. deficit has been significantly reduced since the President announced the balance of payments program early in 1965, any relaxation of effort at this stage could lead to a rapid reversal of that progress. The continued need for special measures has become increasingly apparent as the U. S. commitments in Southeast Asia are reflected directly and indirectly in our balance of payments. The added drain caused by military expenditures abroad must be offset by more vigorous effort to cut the deficit in other sectors and expand our foreign earnings.

In view of these developments, I asked the Advisory Committee on the Balance of Payments for its recommendations on a course of action for 1967. The Committee expressed support for the continuation of the voluntary program, and outlined the areas where the program is likely to increase balance of payments contributions in 1967. They pointed out that, ". . . in 1967, it is reasonable to hope that exports by participating companies, encouraged by the voluntary program, will continue to increase, provided that rising costs and domestic shortages do not prove to be a severely limiting factor. It is likewise reasonable to expect further increases in remitted earnings, royalties, and fees from foreign operations." The Committee indicated, "While we cannot expect that foreign borrowings will increase at the same rate as heretofore, due to limited availability of overseas credit, continuance of the voluntary program should provide an adequate incentive for companies to maintain borrowings substantially above pre-program levels."

On the basis of the Committee's advice and our confidence in the continued support of the leaders of American business, we have decided to appeal once more for your voluntary cooperation in a joint effort to strengthen the nation's balance of payments position. In one sense this is a grateful tribute to the effectiveness of your efforts in the last two years, but it is also a request that you continue to make the sacrifices that have contributed to the success of the voluntary program.

Our confidence that the voluntary program will continue to work effectively is further strengthened by the excellent record of our joint accomplishments since the program was launched in March 1965. An early result was the rapid repatriation of short-term assets held abroad. The 722 companies, included in a tabulation of annual data, reported increases in such assets by more than \$400 million in 1964. During 1965, the return flow was slightly larger than the 1964 outflow, providing a net change in this item of more than \$800 million. This was a most gratifying response, more than fulfilling our request for reductions to a level not exceeding the amount outstanding on December 31, 1963.

This year, the participants indicate that their total balance of payments contributions on other selected transactions will reach \$17.8 billion, or about \$2.5 billion more than in the pre-program year of 1964. The largest part of this improvement is the expected increase in exports of \$2.2 billion, and nearly all of the remainder is accounted for by increased dividends and other income from foreign investments.

The surplus of direct investment income over capital outflows has been running at about \$1.5 billion in each of the two years under the voluntary program, compared to a little over \$1.1 billion in 1964. This has been accomplished by preventing capital outflows during the past two years from rising above the level reported for 1964. In spite of mounting capital expenditures by foreign affiliates, their dependence on U. S. funds has not increased. Greater reliance on foreign financing has made this possible. The average level of foreign borrowing in 1965 and 1966 has exceeded the 1964 level by about \$1 billion.

Through the special efforts of the participating companies to limit the adverse effects of capital investment programs, the increase in their total net contributions matched their gains in exports and other foreign earnings. In the coming year we must continue to rely upon the business community for a sizeable share of increased contributions needed to meet the growing costs of our obligations in Vietnam.

The operation and form of next year's program will be changed as little as possible in order to minimize administrative problems. The system of reporting will be continued in the same form, and the program will operate with a similar set of goals or targets. At the same time, we must find the

means to raise the contributions of the business community more rapidly in 1967, and this will demand more rigorous restraint on capital outflows or a more rapid expansion in foreign earnings.

Our objective for overall improvement by the reporting companies is to increase 1967 contributions on the major selected transactions by at least \$2 billion above the 1966 level. This is an ambitious goal compared with the expected increase of about \$2½ billion over the past two years, but it represents the minimum improvement needed to keep the overall deficit at manageable levels. This goal cannot be accomplished without renewed effort, but we are hopeful that the more favorable 1967 outlook for economic growth abroad will foster a more rapid growth in foreign earnings and make the task somewhat less difficult.

It appears highly unlikely, however, that the necessary improvement will be attained without special restraint on the outflow of funds to finance capital expenditure plans of foreign affiliates. I would like to urge you and each of the corporate chief executives to review your individual plans to see if any projects in program countries can be cancelled, postponed, or refinanced in order to lessen the adverse impacts on the balance of payments during 1967. As I suggested in March 1965, when the voluntary program was launched, projects that are of marginal importance for your company and do not soon result in higher exports or larger investment incomes should be cancelled or, at least, postponed until a later date. I would hope that you will make a careful review of the expectations for "pay-out" under proposed projects to see if they might not, in fact, be marginal in these terms.

We are again asking for a specific limitation on your direct investment capital transactions (capital outflows plus reinvested earnings) with your affiliates in the same countries designated for the current program. The new specific target utilizes the same base period as the current program, and provides during the two years 1966 and 1967 for an annual average rate of capital transactions 20 percent higher than the annual average during the three years 1962-64. Thus the total for the two years combined is 240 percent of the annual average during the 1962-64 base period, and the amount available for 1967 is determined by subtracting the current year's transactions from the two-year total. A more detailed description will accompany the statistical forms for the calculation of the target and for the preparation of 1967 projections. These are being prepared and will be mailed at a later date.

Applied to the total direct investment capital transactions of all firms, this formula would have the effect of maintaining 1967 transactions close to the level presently expected for 1966.

We recognize that the results of the direct investment target formula will vary widely among individual firms. Some firms will find less difficulty than others in staying under the suggested target, and I hope they will in no way relax their efforts to cut their investment outflow even further. In particular, I hope that all firms will increase their efforts to obtain funds abroad in 1967. In spite of the inconvenience and the added costs, foreign borrowing has made it possible for companies to carry out their investment commitments while meeting the needs of the voluntary program.

Some firms, especially those with minimal investments during the 1962-1964 base period, may find it exceedingly difficult to meet the specific requirements of the direct investment target. Executives of companies confronted with special problems under the program should feel free to consult with us at any time. One of the greatest innate strengths of the voluntary approach is the flexibility it permits in handling the exceptional cases which are bound to arise under any program.

The President is encouraged, as we all are, that our experience to date justifies our continued reliance upon a voluntary program. During periods of serious national concern we all have a duty to contribute to the achievement of national objectives. We must accept this duty and should welcome the opportunity to participate in shaping the outcome just as surely as the men who are engaged in the struggle in Vietnam.

I am confident that you and all other leaders of our business community fully appreciate the vital significance of limiting the balance of payments deficit in order to strengthen the dollar and maintain an international economic environment favorable for continued growth. I am equally confident that you will continue your contributions to the solution of these problems by giving your fullest support to the voluntary program during the coming year.

If you have any questions 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.