

FEDERAL RESERVE BANK
OF NEW YORK

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November 21, 1967]

1968 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 made public November 16 by the U. S. Department of Commerce:

Continuation of the voluntary balance of payments program with some tightening of the investment target and in the administration of the program was announced today by Secretary of Commerce Alexander B. Trowbridge.

In a letter to the chief executives of reporting companies, Secretary Trowbridge emphasized that the seriousness of the balance of payments situation, aggravated by the strains imposed by the heavy military commitments of the United States in Southeast Asia, made this step necessary. Noting that the deficit persisted despite all that the business community and government had done to correct the imbalance—"and significant gains have been made in this direction," Secretary Trowbridge added: "Clearly, we cannot—indeed, we must not—in any way slacken our individual or joint efforts to narrow the gap that still exists."

During the development of the 1968 program the views and recommendations of the Advisory Committee on the Balance of Payments, composed of outstanding business leaders, were sought. Secretary Trowbridge specifically noted that the Committee approved his renewed appeal to the executive officers to continue an active personal interest to assure that every effort is made by their companies to step up overall contributions to the balance of payments.

With respect to direct investment transactions, defined as net capital outflows from the United States plus reinvested earnings, the letter asks that these be limited "during the two years 1967-68 combined to 66% percent of the total of such transactions during the three years 1962-64, the same base period as in the past." This target will permit an average rate of direct investment during each of the two years 1967 and 1968 equal to the annual average for the three base years. (The comparable target set a year ago for the two years 1966-1967 allowed an annual average rate of investment 20% higher than the annual average for the base period.)

Secretary Trowbridge explicitly recognized that the impact of the formula on individual companies could vary widely, with a firm's position in 1968 being determined by its record in 1967. Companies exceeding 100% of the base years' average in 1967 will have less leeway within the target than those which were below this level.

All firms are expressly urged to explore the various alternative sources of funds abroad, with even greater emphasis being placed in the 1968 program on borrowing abroad, and they are again requested to use such funds in advance of the transfer of new funds from the United States. The arrangement whereby offsetting credits against the specific investment target may be taken for funds borrowed abroad is being continued, but with a slight modification to encourage their early use for direct investment purposes rather than their placement for extended periods in bank deposits or other similar accounts abroad.

The overall improvement goal (which takes into account export performance, income from existing investments abroad, royalties, and anticipated reductions in net capital outflows) calls for additional contributions to the balance of payments during the program year 1968 of \$2.6 billion compared with an improvement of \$2.5 billion now expected for 1967. Secretary Trowbridge acknowledged, however, that "a number of exceptionally favorable circumstances have contributed to this year's fine showing," and not all of these can be counted on to recur in 1968. "Our improvement goal for 1968, therefore, is ambitious and will require your determined efforts if it is to be realized. On the average, it implies an increase of around 5% in total contributions."

Looking toward the immediate future, Secretary Trowbridge indicated that, at the urging of the Advisory Committee, he will invite individual companies to review with him "their performance record and expectations, to discuss their special problems, and to explore jointly what more they can and will do to meet the program targets." To which he added in closing: "I am confident that you and all the other leaders of the business community are as concerned about the balance of payments as I am, and that we can continue to count on you to work with us in making the voluntary program effective and successful."

(Text of Secretary Trowbridge's letter)

The President has decided that the voluntary balance of payments program must be continued in 1968. The seriousness of our international balance of payments position, of which I know you are acutely aware, aggravated by the strains imposed by our heavy military commitments in South-east Asia, makes this step necessary. Despite all that the business community and the various agencies of government have done to correct the imbalance — and significant gains have been made in this direction — the deficit persists. Clearly, we cannot — indeed, we must not — in any way slacken our individual or joint efforts to narrow the gap that still exists. The situation requires that both the government and the private sector intensify their endeavors through 1968.

The business community repeatedly has expressed concern over the deficit and affirmed its vital stake in the success of our national effort to meet the problem. I, therefore, asked the Advisory Committee on the Balance of Payments, composed, as you know, of outstanding business leaders under the able chairmanship of Stuart Saunders, for their views and recommendations on a course of action for 1968. The Committee concurred in the need for a continuation and a tightening of the voluntary program.

A survey of leading exporters, taken at the suggestion of the Advisory Committee, indicates that prospects are favorable for further export increases in 1968. The Advisory Committee also looks for a larger inflow of dividends, interest and royalties. If these expectations — which we in the Department of Commerce share — are realized, there will be substantial additional contributions to the balance of payments. But this is not enough.

Accordingly, with the Committee's approval, we again ask you and the chief executive officers of other leading American business firms to cooperate in a strengthened voluntary program. We ask you and your executive associates to continue an active personal interest which will assure that every effort is made to step up still further your company's overall contributions to the balance of payments. In connection with direct investment abroad, we particularly urge companies to hold their transactions within the limits set by the new specific target.

The new target provides that direct investment, defined as net capital outflows from the United States plus reinvested earnings, in the same countries as are currently designated developed, should be limited during the two years 1967-68 combined to 66 $\frac{2}{3}$ percent of the total of such transactions during the three years 1962-64, the same base period as in the past. This target will permit an average rate of direct investment during each of the two years 1967 and 1968 equal to the annual average for the three base years.

We recognize that the impact of this formula on individual companies can vary widely. Some corporations, especially those with minimal investments during the base period, may find it extremely difficult to remain within the limits set by the target. Others should experience little, if any, difficulty. I very much hope that, regardless of the initial position of your company with respect to the target or the overall improvement goal, you will do your utmost to bring direct investment transactions below the target level and to expand overall contributions.

The program places main emphasis on easing pressures on the balance of payments by limiting capital outflows and the reinvestment of earnings abroad, not on discouraging expenditures by affiliates of American companies on plant facilities or equipment. I would stress, however, the importance of continued postponing or cancelling of projects which are either marginal or do not offer early prospects of substantial returns in the form of higher export earnings or investment income.

I am urging all firms to explore the various alternative sources of funds abroad. In response to a recent direct appeal, many have indicated to me that they were already borrowing substantial sums abroad or looking closely into availabilities. Under the 1968 program, we are placing even greater emphasis on this aspect, and renewing our request that the funds so obtained be used in advance of any new funds from the United States. Continuing provision is made for offset credits to be taken against the specific investment target for funds borrowed abroad, but with the timing of the credit being slightly modified to encourage the early use of these funds for direct investment purposes.

I also again ask that firms with short-term assets abroad limit their holdings to a minimum level, retaining only what is necessary to cover working requirements. We are hopeful that companies which have not reduced their holdings to or below the amount held at the end of 1963 will take early and vigorous steps to do so.

Our overall improvement goal for 1968 which, as in the past, is based on export performance, income from existing investments abroad, royalties, and the anticipated reduction in net capital outflows from the United States, calls for additional contributions to the balance of payments of \$2.6 billion, compared with the \$2.5 billion improvement which may well be achieved in 1967, according to the midyear projections of reporting companies. I recognize that a number of exceptionally favorable circumstances have contributed to this year's fine showing, which promises to exceed by 25 percent the improvement goal initially set for 1967. Not all of these favorable factors can be counted on to recur in 1968. Our improvement goal for 1968, therefore, is ambitious and will require your determined efforts if it is to be realized. On the average it implies an increase of around 5 percent in total contributions. We believe that the goal is realistic and, with your help, are confident that it can and will be reached.

Since the inception of the voluntary program, many company executives have sought the advice and guidance of the Department of Commerce in determining how their particular investment plans might best be coordinated with the program and its objectives. I feel that these discussions have been mutually beneficial and instructive. During the coming weeks, not only will we welcome your letters and personal calls at the Department, but I shall be inviting individual companies to review with us their performance record and expectations, to discuss their special problems, and to explore jointly what more they can and will do to meet the program targets.

In the near future you will be receiving the reporting forms for the calculation of the target and for the preparation of your 1968 projections. Accompanying the forms will be a more detailed description of the program.

All of us concerned with the voluntary program appreciate the widespread cooperation we have received. Without it a voluntary program would have been impossible. I am confident that you and all the other leaders of the business community are as concerned about the balance of payments as I am, and that we can continue to count on you to work with us in making the voluntary program effective and successful.

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.