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TREASURY PRESS RELEASE

SECRETARY DILLON'S MESSAGE TO PRESIDENT
KENNEDY ON BALANCE OF PAYMENTS

March 26, 1962

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THE SECRETARY OF THE TREASURY
WASHINGTON

MAR 26 1962

Dear Mr. President:

In accordance with my responsibilities for continuous review of all the programs and policies of this Administration with respect to the balance of payments, I am submitting to you herewith a report summarizing our progress of the past year and the nature of the tasks that lie ahead.

Faithfully yours,

/s/ Douglas Dillon

Douglas Dillon

The President

The White House

REPORT TO THE PRESIDENT BY THE
SECRETARY OF THE TREASURY ON THE
BALANCE OF PAYMENTS

A little more than a year ago, shortly after taking office, you outlined in a special message to the Congress a broad and energetic attack on the balance of payments problem facing this country. In response to the clear and urgent need, a wide variety of measures have been introduced and pursued with vigor by all agencies concerned. At your direction, I have assumed special responsibility for continuous review of all these activities, and for reporting to you at frequent intervals on the status of our international accounts. It is time now for me to measure our progress over the past year, and to assess the hard tasks that still lie ahead.

During 1961, the immediate pressures apparent at the time you took office were relieved. Confidence in the dollar was strengthened; the gold outflow slowed; and the deterioration in our world competitive position arrested. Nevertheless, I must report that the task of eliminating our balance of payments deficit has only begun. Until it is finished, we cannot rest easy.

The main responsibility for righting our deficit lies in our own hands - in the sustained efforts of Government, business, and labor. But the cooperation of other free countries is also essential

if we are to build a stronger international financial system. That system must be capable not only of supporting and nourishing expanded trade among the free nations but also of withstanding the strains and pressures that are an inevitable part of progress in this restless world.

The results of our efforts thus far have been good enough to justify confidence that we have made the right start; they are not so good as to justify complacency. Part of our improvement in 1961 came from palliatives, and palliatives must be continued in 1962. But the cure has also begun to work, and it can be a lasting cure, so long as we recognize that it can be neither simple nor painless.

Full success will require time. The necessary time is ours - if we use it effectively. Today the dollar is still strong, bulwarked by over 40% of the monetary gold stock of the free world. Time will not be our ally if we waste it, for then confidence will be shaken, the basis for essential cooperation among the leading financial powers lost, and the future will be in doubt.

The Nature of the Problem

In 1961, our basic accounts - which sum up all our recorded transactions with foreigners except flows of short-term capital -

were in deficit to the extent of \$600 million, a substantial reduction from the basic deficits of \$1.9 billion in 1960 and \$4.3 billion in 1959. This reduction reflected both a larger export surplus and reduced net payments abroad on Government account - progress in the directions we must move. But, it is clear that our progress did not stem entirely from factors of a lasting sort.

The large surplus of over \$3 billion in our trade accounts - excluding those exports financed by Government grants and capital - resulted in part from the low import levels that accompanied the recent recession. In addition, special debt prepayments to the United States - by the Federal Republic of Germany, the Netherlands, the Philippines, and Italy - contributed almost \$700 million to our receipts, a much larger amount than can be expected year after year. Because these special factors were concentrated in the early part of the year, our basic deficit increased appreciably during the final six months.

Moreover, on top of the basic deficit, short-term capital continued to flow abroad in amounts only slightly less than during 1960. These flows were much less disturbing than in 1960, when speculation against the dollar developed. They did not reflect or arouse the same doubts over the future of the

dollar. Instead, more of the outflow in 1961 consisted of commercial credits to other countries, which helped to support a continued expansion of trade. But this was only part of the cause, and last year the size of the short-term capital outflow clearly aggravated our problem.

Altogether, our deficit in 1961 amounted to nearly \$2.5 billion. While sharply below the average of \$3.7 billion for the three previous years, this is still far from our target of equilibrium in our international accounts. A deficit of the proportions of 1961 could be, and was, financed without placing new strains on the monetary system only because confidence in the dollar was strong and our determination to meet our problem was apparent.

A little over a third of our deficit in 1961, or \$857 million, was reflected in gold sales from our monetary stocks. Of this, \$324 million was purchased by foreigners in the single month of January, before you had made clear the determination of this Administration to maintain the value of the dollar and to take the vigorous measures necessary to restore a balance to our international accounts without resort to direct controls or restrictions.

Our ability to finance our deficit in 1961 cannot be permitted to obscure the nature of the continuing problem before us.

This country is agreed on its vital responsibilities for leadership in the defense of the free world and for assisting the developing nations to find a better life in free societies. But it is not always understood that these burdens cannot be carried if we do not, over a series of years, earn a larger surplus in our commercial accounts.

Equally important is the fact that a sound dollar is essential to the strength and stability of the whole international monetary system, and thus a vital concern to all our allies and trading partners. American dollars, side by side with gold, are a part of the basic reserves of nearly every country in the free world. They use dollars to finance much of their world-wide trade, to pay for shipping and transportation, and to support their foreign investment or borrowing. It is this universal acceptability of the dollar as a reserve and trading currency that has made possible a vast expansion in world trade.

The dollar can continue to perform these functions only so long as it is reliable. It must be immediately reliable as a currency that can be converted into gold at a fixed price.

It must be ultimately reliable as a solid claim on the enormous and richly varied resources of our abundant economy - a claim undiluted by inflation, creeping or rapid.

The broad challenge before us is to maintain the value of the dollar unquestioned - and to do so without impairing our vital domestic objectives, the strength of our mutual defense, or our ability to assist the less fortunate nations along the path to prosperity and freedom. In the end, these tasks are mutually reinforcing. We cannot afford to neglect one for another, for only when our economy is expanding at home, our defenses strong, and the poorer countries are making visible progress can we command the sort of confidence in our own future that is necessary.

The Over-all Objective

Our programs and policies to maintain the strength of the dollar within a framework of free and expanding markets at home and abroad are focused on two broad and related objectives:

First, we must eliminate the deficits in our international accounts, taking the good years and the bad together, so that prolonged and excessive drains on our own reserves cease. This will require, above all, that we achieve a still larger commercial surplus by competing more vigorously with producers of other

countries both in foreign markets and at home. It also requires that we reduce our net payments to other countries on Government account to the minimum required by national security and economic development objectives. And, we must eliminate from our tax system artificial incentives - grounded in neither equity nor economic efficiency - to moving capital abroad.

Second, on this firm base, we must build a stronger framework of mutual cooperation among governments and monetary authorities. Acting with our partners, we must be able to defend the international monetary structure from speculative excesses and other strains. In particular, while allowing short-term funds to move freely from country to country in accordance with private initiative, we must make it impossible for sudden and capricious movements to undermine the stability of the payments system.

To achieve these objectives, the energies and resources of all agencies of the United States Government have been mobilized to specific tasks in the area of their responsibilities. To assure that the proper priorities are maintained and the appropriate sense of urgency prevails throughout Government, I have, under your authority, established procedures for continuous review of all these activities. Full reports on the actions of all Government

departments and agencies are, as you know, prepared for your review at least once every three months. Special actions being taken or needed throughout the Government to overcome our balance of payments problem are brought to your attention promptly, and you have issued a series of directives, and sent to Congress a number of proposals, to intensify and coordinate these efforts.

Eliminating the Deficit

The balance of payments is made up of countless individual transactions, each responding to a wide variety of factors. Among these factors, some are under the direct control of Government; others reflect the performance of our whole domestic economy, and still others the policies and performance of other nations. Amid these complexities, there can be no satisfactory single solution to the deficit. What is needed is a concerted effort on all fronts - by the Government, business, labor, and finance in this country and by other leading countries as well, particularly those whose balance of payments surpluses represent the opposite side of our deficit.

The first line of attack

The first line of attack on our balance of payments deficit consists of measures to curtail the outflow of dollars stemming

from the activities of Government itself. Many of these measures are now well advanced, and contributed to the improvement in 1961. Others are just now becoming effective, and should provide needed help this year. But still more can and is being done to assure that all Government programs are fully adjusted to the needs of today.

- The Secretary of Defense is conducting negotiations with certain of our allies to offset, through the purchase by them of additional U.S. military equipment and services, the heavy payments which we must make to maintain and support American forces in their countries participating in the common defense. Expenditures for defense purposes overseas were close to \$3 billion in 1961. It is expected that our total sales of military equipment and services will result in payments to the U. S. of more than \$1 billion this year, compared to less than half as much in 1961. This will help greatly in reducing our 1962 deficit.

- The Defense Department has also directed the return of procurement to United States sources of a portion of the major equipment, supplies, and services

formerly purchased in foreign countries for the supply of our armed forces overseas. It is streamlining overseas deployments and pruning installations with a view to conserving dollars within the framework of our needed defense requirements. Military and civilian personnel and their dependents are being urged to reduce their personal expenditures overseas and to channel their family savings into United States savings bonds and other American securities or savings institutions.

- In our economic assistance programs, we are reducing the portion transferred to foreign countries in the form of dollars rather than U. S. goods and services. Conversely, the share of our aid transferred in the form of U. S. goods and services is being increased. Because a substantial part of current expenditures stems from commitments made under earlier policies, the full results of our new emphasis have not yet been reflected in the balance of payments data. Roughly two-thirds of the funds expended for all our foreign economic assistance programs in 1961 (including foreign currency sales

of agricultural surpluses) were initially utilized for expenditure in the United States. The portion spent in this country will increase as procurement orders under present directives become more fully reflected in our balance of payments. Ways are being developed to reduce still further the impact of economic assistance on our balance of payments - without damage to the objectives of the AID program.

- Our program for bartering agricultural surpluses under P. L. 480 is being reexamined to make sure it will not adversely affect the balance of payments of the United States. The danger is that, in some instances, potential export sales for dollars may be diverted into barter arrangements that return to this country imports for which there is no current need. This problem should be recognized in any modification of legislation or additional appropriations for the barter programs contemplated by the Congress.

Longer range programs

The task of reaching a balance in our international accounts is not one that Government can achieve alone. The private sector

of the economy has an even more vital role to play. Long run equilibrium will be reached and maintained only if private industry improves its efficiency more rapidly, produces goods and services fully competitive in world markets, and actively seeks out and fully exploits its export opportunities.

Here, Government can act as a prod and catalyst and help assure the proper environment. We have recognized that, if business moves ahead as we expect, a balanced budget in fiscal 1963 is an essential part of this environment. It will assure that the over-all fiscal program of the Government is in keeping with the need to avoid excesses in our domestic economy and to release savings and resources for productive investment. Moreover, our monetary policies are being conducted in a manner to assure that ample credit is available to finance domestic growth without providing new fuel for inflation. But, in the last analysis, the critical decisions and the crucial actions are those of private citizens.

Above all else is the compelling need for business and labor to exert conscious restraint in shaping wage and price policies. Our industry cannot remain competitive if we repeat the pattern of

the 1950's, when prices of industrial goods in this country advanced more rapidly than those of our leading competitors. Prices of American manufactured goods exports, for instance, rose 14% relative to those of other industrialized nations from 1953 to 1960. Over the same period, our share of world exports of manufactures declined from 25.9% to 21.6%.

All the agencies of Government directly concerned - the Council of Economic Advisers, the Departments of Labor and Commerce, and we in the Treasury - are cooperating in the effort to bring home to all Americans the key fact that the United States can, in this intensely competitive world, win the battle for markets only by doing a better job in restraining our own prices and costs. Your Labor and Management Advisory Committee, too, is fully aware of the importance of price stability to our international payments situation, as well as to our domestic economic welfare. That Committee can be of continued and even greater help in the future.

The Council of Economic Advisers has set forth guideposts for wage and price decisions consistent with our long-run needs. These guideposts would permit increases in average wages over

time in line with increases in national productivity. They would allow for the correction of existing inequities in the wage structure, and would permit market forces to be appropriately reflected in relative wages and prices. They do not provide precise answers to every question that arises amid the tug and pull of collective bargaining and pricing decisions. But they can indicate, amid the strong pressures on both labor and management to seek whatever bargaining advantage the moment offers, where the public interest lies.

Fortunately, we have so far come out of the recent recession without price increases. Wholesale prices of industrial commodities are actually a bit lower than a year ago despite a gain in production of over 12% - altogether the best performance of the postwar years. At the same time, prices in most foreign countries have tended to rise. But, as the domestic economy moves ahead, and the benefits of extraordinary gains in productivity typical of the early stages of recovery are absorbed, we cannot relax our vigilance.

A year ago, in taking office, you suggested that it was the responsibility of every citizen to ask what he could do for his country. In this area of price and wage decision, that challenge is clear and specific.

More rapid modernization of our industrial plants, so that the United States can retain its leadership in efficient production, is another essential part of our longer-run effort to achieve and maintain a stronger position in export markets. Improved efficiency is the only way that we can hope to achieve faster growth at home and a better life for all of our citizens, while still meeting our commitments abroad and remaining competitive in world markets.

This improved efficiency is in good part dependent on bringing to our factories the fruits of modern science and technology. Congress now has before it a bill that would provide a tax credit to be applied against purchases of new industrial equipment. Within the framework of existing laws, the Treasury also has underway a program of depreciation reform, updating the outmoded guidelines set years ago and permitting faster write-offs in line with current experience and technology. Together, these key reforms will provide incentives for new investment in the United States comparable to those available to investment in productive facilities in other industrialized countries of the free world.

At the same time, our payments situation underlines the importance of removing from our tax laws those provisions that

give an unwarranted stimulus to investment by American firms in the developed countries abroad. American business does not require the use of special tax privileges, and particularly access to tax havens that avoid practically all taxes, to operate effectively in developed countries with business tax systems comparable to ours.

Price stability and improved efficiency provide the essential underpinnings for any effort to expand our commercial trade surplus by penetrating export markets aggressively while at the same time meeting import competition without resort to restrictions. But, in addition, Government officials and businessmen alike must become export-minded - much more so than ever before. To assure that the opportunities open to us are fully exploited, efforts within Government to facilitate and encourage the flow of American goods and services to foreign markets have been greatly increased.

- The foreign trade functions of the Foreign Service and the Department of Commerce have been reshaped and infused with fresh energy so that American business can be made aware of export opportunities as they arise. Foreign market surveys by our Foreign Service numbered

over 34,000 in 1961, an increase of 73% over 1960. The Commerce Department has established a National Export Expansion Council, linked to 14 regional councils throughout the United States on which 1,000 business executives are being asked to serve.

- Efforts to familiarize foreign businessmen with American products and firms are also being intensified. The U. S. Trade Center Program, initiated successfully in London last year, is being expanded - centers in Bangkok, Frankfurt, and Tokyo will open in 1962. Last year we participated in 11 international trade fairs and sent special trade missions to 12 countries.

- The Department of Agriculture, utilizing foreign currencies received from our sales of surpluses abroad, has expanded its program to develop foreign markets for American wheat, feed grains, rice and other agricultural products. Forty private trade groups are associated with the Department in this effort. In 1961 alone, agricultural trade promotion exhibits were provided at 20 international fairs in Europe, Africa, the Far East, and Latin America.

- The Export-Import Bank, in cooperation with 60 insurance companies, has developed a broad program of export credit insurance to be carried out through the newly created Foreign Credit Insurance Association. The FCIA, which began operations early in February, is offering to exporters throughout the United States a single insurance policy, backed by extensive Government guarantees, covering both commercial and political risks connected with U. S. export sales to buyers in friendly foreign countries. When fully effective, this new insurance program, together with existing Government and private facilities, should permit the American exporter to offer export credit on a footing at least as favorable as available to his foreign competitors.

- To promote foreign travel to the United States, and thereby reduce our deficit of roughly \$1 billion a year on foreign travel account, the Department of Commerce has established a new agency - the United States Travel Service - assisted by a 36-man Travel Advisory Committee drawn from our private travel and

tourist industry. United States travel promotion personnel are now established in seven foreign cities and are working with travel agents, carriers and the general public in 30 foreign countries.

- Procedures for entry into the U. S. for foreign business and vacation travellers have been simplified. Most visas for such visitors are now issued in less than 30 minutes. The Department of State last year recommended legislation designed to simplify visa requirements for travellers still further and eliminate them entirely on the basis of reciprocity. Congress failed to act on this proposal last year, but it will be resubmitted at the present session.

To assure that the maximum potential from this wide variety of efforts is reached, Secretary Hodges and I recommend that you appoint an Export Coordinator in the Department of Commerce. He should be a top level official, concentrating wholly on the overriding need to expand our export sales.

The Export Coordinator would be responsible for developing, in consultation with private business, meaningful export targets by industry, and by country and region of destination. He would assure that the vast facilities of Government are used to best

advantage in helping our exporters to reach these targets. He would keep a close watch on performance, pursuing through his own small staff and existing channels the reasons for any shortfalls and assisting in the removal of obstacles as they develop. Finally, he should identify new problems that might arise, and make recommendations for dealing with them to the proper officials.

The role of other countries

The deficit in our own balance of payments has its counterpart in the surpluses of other countries. These surpluses, in recent years, have been largely concentrated in several of the industrialized countries in Continental Western Europe. These countries have as great a responsibility for cutting down their surpluses as we have for reducing our deficit, if the international monetary system is to be both strong and stable.

Substantial advances have occurred over the past year in this sharing of responsibility. There were the military arrangements and sizable debt prepayments by certain of our allies already mentioned. Further agreements along these lines are anticipated during 1962. But there must be more. We are hard at work now developing the means.

Only a beginning has been made in mutual support for the expanding needs of the developing countries for economic assistance,

on terms and conditions suited to their circumstances. Conventional loans, repayable within relatively short periods at high rates of interest, do not adequately meet these needs. Other industrialized countries, in the years ahead, must contribute much more assistance to the developing countries, and on better terms. This must be a continuing objective of our foreign policy.

In most industrialized countries, businesses and individuals are still not free to invest where and when they wish - outside their own currency areas. Frequently, they are not free to invest in the United States when they want to, and in ways they prefer. Such restrictions can no longer be generally justified on balance of payments grounds. Continued use of them is especially anomalous in the case of the countries with large and growing monetary reserves.

Surplus countries should move boldly now in freeing those capital movements. Moreover, our long-time objective - removal of controls over trade itself - is only partially fulfilled. To be sure, quotas and other quantitative restrictions, so common earlier in the postwar period, are now largely gone for manufactured goods in the industrialized countries. That has been a great gain. But barriers remain for agricultural goods. And the progress of

the Common Market, desirable as it is, will bring into being a common external tariff - a barrier which must be lowered if the United States is to expand its sales to this great and growing market.

A breakthrough is imperative in this area. Broad-scale trade negotiations under the authority of the Trade Expansion Act that you have already proposed to the Congress offers the only realistic opportunity.

Strengthening the World Monetary System

The first requisite for a strong and healthy international monetary system is progress toward resolving our own basic balance of payments problem. Only in that way can there be a firm basis for continuing confidence in the dollar. But even then the system will remain exposed to potential shocks and strains arising from large-scale shifts of liquid funds from one country to another.

Normally, these short-term capital flows serve a constructive purpose in moving funds to the point of greatest need. But, these flows can also magnify temporary fluctuations in a nation's balance of payments and become a vehicle for speculation against one currency or another. No nation, however strong in reserves,

could withstand alone the potential pressures that could conceivably arise. The industrialized nations therefore have a common interest in protecting the system upon which we all rely to facilitate the flow of trade among us.

Basic to progress in meeting this problem are frank consultations and close understanding among the leading financial nations. The working groups within the OECD and the regular meetings of European Central Bankers at Basle, to which the Federal Reserve now regularly sends an observer, have provided appropriate forums for such discussions, and I can report that the cooperative spirit displayed has been gratifying. As a result, we can now shape our policies with fuller understanding of the needs and responses of others. The uncertainties and lack of information that can be a breeding ground for speculation and instability have been largely dissipated.

It was this understanding and cooperative approach toward our mutual problems which made possible the agreement announced in December by ten leading industrialized countries to supplement the resources of the International Monetary Fund by means of a new system of lending arrangements totaling \$6 billion. These arrangements will greatly enhance the ability of the Fund to cushion any significant shocks to the monetary system, from

whatever source, and to diffuse the impact among the surplus countries best able to bear it. In particular, the new arrangements would greatly increase the potential resources of the Fund in currencies of the surplus countries of Western Europe, upon which the United States would need to draw in the event of need. We are awaiting final approval of the enabling legislation by the Congress.

The Treasury also began, during the past year, to operate directly in the foreign exchange markets. Using in part currencies borrowed in foreign markets, this intervention was helpful in damping down the kinds of temporary fluctuations in the exchanges that can set off excessive short-term capital movements. The Federal Reserve, acting under its existing statutory authority, began in March to engage in foreign exchange operations in full consultation and cooperation with the Treasury. This participation by the Federal Reserve will strengthen this country's resources and facilities for countering any threatening pressures against the dollar in world exchange markets. It will, in the end, contribute to the further use of the dollar as a reserve and trading currency.

There is one area in which the U. S. can itself take action to eliminate an incentive for short-term capital flows that serve

no real economic purpose. Certain recently imposed taxes abroad, in combination with the current provisions of our tax laws permitting a credit for foreign taxes paid, have created, for some companies, an entirely artificial incentive to transfer liquid balances abroad. A specific recommendation for dealing with this quirk in the application of our tax laws is being prepared by the Treasury so that an appropriate remedy may be included in the tax bill now before Congress.

Prospects for 1962

Changes in any nation's balance of payments from year to year, reflecting a mass of cross currents in both the domestic and foreign economies, are never fully predictable. Nevertheless, it is clear that the measures already taken and proposed will not have had time to work their full effect in the space of 1962. We must therefore be prepared for another deficit this year.

The principal factor working against a balance in 1962 is the prospect of a sharp increase in imports over the unusually low level during the early part of 1961. This can be expected in response to the growth of our domestic economy. The same sort of increase cannot safely be assumed for exports, tied closely to market

conditions abroad, although we will be doing all we can to expand our foreign markets. Our commitments for defense and economic assistance should, however, impose a smaller burden, because of offsetting payments to the United States - related both to military purchases and debt prepayments - and necessary tying of aid.

We must also be prepared for a possible further outflow of short-term capital. Borrowings in the American market by residents of other countries and foreign governments, unusually large over the past two years, are likely to slacken, but not to cease. In the conduct of our monetary and debt management policies, we must remain continually alert to assure that our own short-term market does not become so liquid that credit spills over unnecessarily into foreign lending.

The means for financing our prospective deficit in 1962 are available. In the process, some portion will need to be settled in gold as some countries exchange part of their dollar holdings for gold to restore or maintain their varied rule of thumb ratios of gold to their total international reserves, although ratios of that sort have less relevance as international cooperation becomes closer and the payments system is strengthened.

These gold losses in 1962 should not be of a size or character to cause dismay. But they will be a forceful reminder that, until our accounts are fully in order, we are using our reserves to buy time.

We still have the time for the most important element in any real cure consistent with the maintenance of our commitments to free world security and economic progress in the developing countries - an expanded commercial surplus. To achieve that expanded commercial surplus we shall have to apply ourselves to the job at hand with the same urgency it would need if little or no time were left. And we shall also have to insist that other free countries able to do so assume and discharge their full share of the common burden, and provide us with the sort of trading opportunities that will permit us to carry our own full share.

Needed Legislative Action

Essential parts of this over-all program still require legislative action for their full implementation:

- * Authority to participate in the supplementary IMF arrangements.
- * Authority to bargain effectively for lower tariffs with the European Common Market and other countries

- under the terms of the Trade Expansion Act.
- * Incentives for more rapid modernization of industrial equipment by means of an investment tax credit.
- * The removal of special inducements to invest abroad by eliminating the possibilities for tax avoidance on foreign operations through the use of tax havens and unwarranted deferrals of taxes on operations of foreign subsidiaries.
- * New appropriations adequate to staff and operate effectively the Office of the recommended Export Coordinator and the enlarged functions of the Departments of Commerce and State in stimulating exports.
- * Simplified visa requirements for foreign visitors.
- * Continuation of P. L. 480 in a form that will not adversely affect our balance of payments.

Conclusion

Recognition of the problems before us, the wisdom to devise and ~~for~~ forcefully apply appropriate remedies, the understanding

cooperation of our allies abroad - all of these are critical elements in a successful resolution of our current difficulties. But in the end we will succeed, as in all our endeavors, only as all Americans grasp the challenge, and demonstrate that combination of restraint in setting wages and prices and bold initiative in seizing export opportunities that the circumstances require. The stability of the dollar is a key to economic progress at home and abroad. Beyond that, it will stand as a symbol of our own determination to discharge the responsibility that is ours for leadership of the free world.

March 26, 1962



THE SECRETARY OF THE TREASURY
WASHINGTON

9/ Secretary
[Signature]

JUN 26 1962

MEMORANDUM FOR: The Secretary of Defense
The Secretary of Commerce
The Under Secretary of State
The Administrator, AID
The Director, Bureau of the Budget
The Chairman, Council of Economic
Advisers

The President has asked me to form a small inter-Cabinet Committee on the balance of payments, not only to consider broad policy but, in the President's words, to "keep a sharp eye on the management of our own disbursements within the Executive Branch." He has asked Dave Bell to bring to the new committee proposals for a "gold budget" for controlling federal expenditures affecting the balance of payments.

Copies of the President's memoranda to me on this subject, of June 7 and 22, and of my memorandum to him of June 14, are enclosed.

Arrangements will be made for a first meeting of the committee at an early convenient date.

/s/ Douglas Dillon

Douglas Dillon

Enclosures:

The President's memoranda
of June 7 and 22.

Memo of June 14 to the
President.

JMLddy:cvb:6/25/62

THE WHITE HOUSE

WASHINGTON

June 22, 1962

Kennedy

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

I like the proposals in your memorandum of June 14th on the ways of carrying forward a small inter-Cabinet committee on the balance of payments. I agree with you that the Director of the Bureau of the Budget should be added, and I also believe that we should have representation from the State Department -- presumably George Ball -- and from the Council of Economic Advisers. I doubt if we would need any further White House representation at this stage.

I agree with your view that the group should begin to think hard about broad policy on the balance of payments, but I also want it to be a working committee that will keep a sharp eye on the management of our own disbursements within the Executive Branch. For this purpose I am asking Dave Bell to be prepared to bring to the new committee proposals for what might be called a "gold budget" for use in controlling all federal expenditures that affect the balance of payments. A number of instances in recent weeks have made it clear that our Executive control in this area is not what it ought to be, and I think the basic budgetary process provides an excellent analogy to the sort of thing we now need in the balance of payments field.

John F. Kennedy

*Handled for Chairman's Committee
and arrange first frequent
meeting.*

cc: Messrs. Fowler, Roosa, Ladd

JUN 14 1962

MEMORANDUM FOR THE PRESIDENT

I welcome your suggestion that a small inter-Cabinet Committee on the balance of payments be established under my chairmanship, including the Secretary of Defense, the Secretary of Commerce and the Director of the AID Agency. I would suggest adding the Director of the Bureau of the Budget to the group. I believe that we should operate this group informally in order not to impair the wider inter-agency coordination which I am carrying out in accordance with the directive in your memorandum to me of February 17, 1961, a copy of which is attached.

I suggest that we might proceed as follows: When the draft of my next report to you on the balance of payments is ready -- about the end of next month -- I would call a meeting of the new informal Cabinet Committee to go over the report and begin thinking about the further steps, or intensified action on existing steps, which could be put together in a program or report toward the end of the year. This program or report would, among other things, assess the realism of the targets for achieving balance by 1964, which I sent to you in my memorandum of June 1. It would also list any alternative steps that may be required to achieve such balance.

I think it would be helpful to designate someone from the White House staff to sit in on the July meeting.

If you agree, I will proceed accordingly on the basis of the authority in your memorandum of February 17, 1961.

signed
Douglas Dillon

Douglas Dillon

Enclosure:

Copy of February 17, 1961 memo.

9125

THE WHITE HOUSE

WASHINGTON

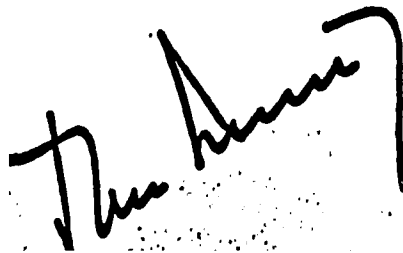
• June 7, 1962

MEMORANDUM FOR

SECRETARY DILLON

I think we should have established an inter-Cabinet Committee with you as Chairman, Secretary of Defense, Secretary of Commerce and the Director of the Aid Agency to work on this balance of payments problem. It may be desirable to assign a permanent staff member to the White House to work with this Committee.

This inter-Cabinet Committee should come forward with a program perhaps in November with assurances of bringing this problem under control within a reasonable period of time. I would appreciate your thoughts on this.



Callender

MAR 26 1962

Dear Ralph:

I understand that you have already been informed by Alan Holmes that Secretary Dillon has agreed to reconstitute the Ad Hoc Committee on Balance-of-Payments Statistics, in order to deal with broader aspects of the balance of payments. I will serve as Chairman of the Committee, and we have added Walther Lederer of the Department of Commerce to its membership. Please inform me if you wish to make any change in the representation of the Board.

I suggest that the initial meeting of the Committee take place at 11:00 a.m. on Wednesday, March 28, in Room 4426, Treasury Department. We will be in touch by telephone with your representatives with respect to the agenda for the first meeting.

I trust these arrangements will be satisfactory.

Sincerely yours,

(Signed) John M. Leddy

John M. Leddy

Mr. Ralph A. Young
Advisory to the Board
Federal Reserve System
Washington 25, D. C.

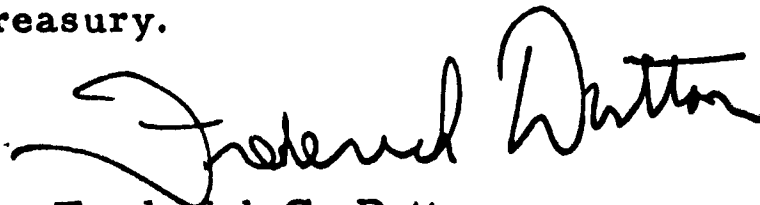
THE WHITE HOUSE

WASHINGTON

March 9, 1961

MEMORANDUM FOR THE HONORABLE
DOUGLAS DILLON

This memorandum is to confirm the action of the President today in terminating the informal Cabinet Committee on Balance of Payments Problems. The action was taken in conjunction with the directive of the President that responsibility for coordinating the government-wide effort on balance of payments problems will be lodged with the Secretary of the Treasury.



Frederick G. Dutton
Special Assistant to
the President

THE WHITE HOUSE
WASHINGTON

COPY

February 17, 1961

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

In my Message of February 6, 1961 to the Congress dealing with the balance of payments and gold, I assigned to the individual Departments and Agencies most immediately concerned the responsibility for implementing the measures which I directed to be taken.

I should like you, as the chief financial officer of the Government, acting in close cooperation with the Bureau of the Budget, to undertake coordinating responsibility for that program and to report to me periodically on the progress achieved, along with any recommendations for additional action deemed necessary on the balance of payments problem. In carrying out this responsibility, you should consult with the heads of other Departments and Agencies concerned.

I am sending copies of this memorandum to heads of the other Departments and Agencies which have been assigned specific implementing tasks.

Signed by President Kennedy

MS/3/100

Balance of Payments 1961

THE WHITE HOUSE
WASHINGTON

File
2/17/61

February 17, 1961

MEMORANDUM

TO: The Secretaries of State, Treasury, Commerce and the Attorney General

FROM: The President

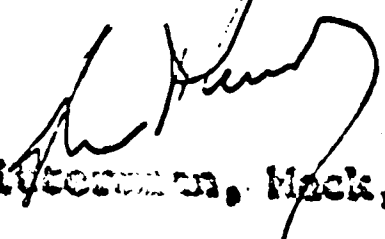
As one of the measures to correct the basic balance of payments deficit, I have directed the Secretaries of State and Commerce to develop a major new program to encourage foreign travel in the United States.

As I stated in my Message of February 6, 1961, an essential part of this program is "action to simplify our visa and entry procedures for temporary visitors."

Therefore, the appropriate departments are requested:

- 1) Immediately to take all necessary administrative steps to facilitate the granting of nonimmigrant visas overseas where now required by law, recognizing that the Congress will be asked to amend applicable statutes to waive nonimmigrant visas insofar as security considerations permit.
- F* 2) To take other administrative steps necessary to encourage an inflow of foreign tourists and expedite their entry, including easing of financial capacity requirements and customs procedures. *F*
- 3) To prepare for submission to Congress amendments to the Immigration and Nationality Act to waive nonimmigrant visas, on a basis of reciprocity, and particularly with respect to nationals of non-quota countries and of countries whose quotas are normally undersubscribed.

The Secretary of Commerce shall be responsible for coordinating this program and keeping me currently informed on its progress.



: Messrs. Abramson, Hall, Widman, Bitterman, Mack, US/3/100

MAR 8 1960

Gentlemen:

Your Reference: OIC

Reference is made to the request of the Secretary of State, dated February 17, 1960, for the designation of a Treasury Department nominee to serve as Adviser to the United States Delegations to the Balance of Payments Consultations and the Sixteenth Session of the Contracting Parties.

This Department wishes to nominate for this purpose Mr. Morris J. Fields. The required security clearance for Mr. Fields is enclosed herewith.

Sincerely yours,

W. A. Gilmore
Assistant Secretary of
the Treasury

Office of International Conferences,
Department of State,
Washington 25, D. C.

Enclosure:
The clearance referred to
above.

JAN 20 1960

Dear ^{Tom} Mr. Gates:

You will remember that last Fall you and others met with Secretary Anderson as an informal MAC group on the U. S. balance of payments. Since that time work has progressed on some aspects of this problem without the need for a full meeting of the committee. On the other hand, it has become apparent that a large number of aspects of this problem, which by their nature need not be restricted to the Secretary's group itself, could be best handled by a staff group of the agencies that are now in the Secretary's group, and that the work could be distributed amongst them. Secretary Anderson hopes that you could appoint a deputy to represent your Department in this connection. Alfred H. Von Klemmner, who is Assistant to the Secretary and acts as T. Graydon Upton's deputy, has been asked to coordinate the work of this group. It would be appreciated if your deputy could communicate with him so that he can call a meeting of the group at an early date.

Secretary Anderson has asked me to tell you that in view of the interest shown by the Bureau of the Budget in the balance of payments problem, Maurice Stans has been added to his balance of payments group.

Sincerely,

/s/ Julian

Julian B. Baird
Under Secretary

Honorable Thomas S. Gates, Jr.
Secretary of Defense
Department of Defense
Washington 25, D. C.

AVK/ish 1-20-60

JAN 20 1960

Doug
Dear Mr. Dillon:

You will remember that last Fall you and others met with Secretary Anderson as an informal NAC group on the U. S. balance of payments. Since that time work has progressed on some aspects of this problem without the need for a full meeting of the committee. On the other hand, it has become apparent that a large number of aspects of this problem, which by their nature need not be restricted to the Secretary's group itself, could be best handled by a staff group of the agencies that are now in the Secretary's group, and that the work could be distributed amongst them. Secretary Anderson hopes that you could appoint a deputy to represent your Department in this connection. Alfred H. Von Klemperer, who is Assistant to the Secretary and acts as T. Graydon Upton's deputy, has been asked to coordinate the work of this group. It would be appreciated if your deputy could communicate with him so that he can call a meeting of the group at an early date.

Secretary Anderson has asked me to tell you that in view of the interest shown by the Bureau of the Budget in the balance of payments problem, Maurice Stans has been added to his balance of payments group.

Sincerely,

/s/ Julian

Julian B. Baird
Under Secretary

Honorable Douglas Dillon
Under Secretary of State
Department of State
Washington, D. C.
AVK/ish 1-20-60

cc to Laddy

JAN 20 1960

Bill

Dear Mr. Martin:

You will remember that last Fall you and others met with Secretary Anderson as an informal NAC group on the U. S. balance of payments. Since that time work has progressed on some aspects of this problem without the need for a full meeting of the committee. On the other hand, it has become apparent that a large number of aspects of this problem, which by their nature need not be restricted to the Secretary's group itself, could be best handled by a staff group of the agencies that are now in the Secretary's group, and that the work could be distributed amongst them. Secretary Anderson hopes that you could appoint a deputy to represent the Board in this connection. Alfred H. Von Klempner, who is Assistant to the Secretary and T. Oreydon Ipton's deputy, has been asked to coordinate the work of this group. It would be appreciated if your deputy could communicate with him so that he can call a meeting of the group at an early date.

Secretary Anderson has asked me to tell you that in view of the interest shown by the Bureau of the Budget in the balance of payments problem, Maurice Stans has been added to his balance of payments group.

Sincerely,

/s/ Julian
Julian B. Baird
Under Secretary

Honorable William McChesney Martin
Chairman, Federal Reserve Board
Washington, D. C.

AVK/ish
1-20-60

S. Blair

JAN 20 1960

Fritz
Dear Mr. Mueller:

You will remember that last Fall you and others met with Secretary Anderson as an informal NAC group on the U. S. balance of payments. Since that time work has progressed on some aspects of this problem without the need for a full meeting of the committee. On the other hand, it has become apparent that a large number of aspects of this problem, which by their nature need not be restricted to the Secretary's group itself, could be best handled by a staff group of the agencies that are now in the Secretary's group, and that the work could be distributed amongst them. Secretary Anderson hopes that you could appoint a deputy to represent your Department in this connection. Alfred H. Von Alexander, who is Assistant to the Secretary and acts as T. Graydon Upton's deputy, has been asked to coordinate the work of this group. It would be appreciated if your deputy could communicate with him so that he can call a meeting of the group at an early date.

Secretary Anderson has asked me to tell you that in view of the interest shown by the Bureau of the Budget in the balance of payments problem, Maurice Stans has been added to his balance of payments group.

Sincerely,

15/ John

Julian B. Baird
Under Secretary

Honorable Frederick H. Mueller
Secretary of Commerce
Department of Commerce
Washington 25, D. C.

AVK/ish 1-20-60

JAN 20 1960

Sam
Dear ~~Sr.~~ *Waugh*:

You will remember that last Fall you and others met with Secretary Anderson as an informal MAC group on the U. S. balance of payments. Since that time work has progressed on some aspects of this problem without the need for a full meeting of the committee. On the other hand, it has become apparent that a large number of aspects of this problem, which by their nature need not be restricted to the Secretary's group itself, could be best handled by a staff group of the agencies that are now in the Secretary's group, and that the work could be distributed amongst them. Secretary Anderson hopes that you could appoint a deputy to represent the Export-Import Bank in this connection. Alfred H. Von Klemperer, who is Assistant to the Secretary and acts as T. Graydon Upton's deputy, has been asked to coordinate the work of this group. It would be appreciated if your deputy could communicate with him so that he can call a meeting of the group at an early date.

Secretary Anderson has asked me to tell you that in view of the interest shown by the Bureau of the Budget in the balance of payments problem, Maurice Stans has been added to his balance of payments group.

Sincerely,

15/ Julian

Julian B. Baird
Under Secretary

Honorable Samuel C. Waugh
President and Chairman
Export-Import Bank of Washington
811 Vermont Avenue, N. W.
Washington, D. C.
AVK/ish 1-20-60

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