1966 Guidelines under the President's Balance of Payments Program

Statements of the Board of Governors and the United States Department of Commerce

BANKS AND NONBANK FINANCIAL INSTITUTIONS

The following statement was released by the Board of Governors of the Federal Reserve System on December 6, 1965:

The Board of Governors of the Federal Reserve System today issued new guidelines for financial institutions to follow during 1966 in cooperating with the President's program to improve the nation's balance of payments.

For the year 1966 the guidelines for both banks and nonbank financial institutions have been revised to suggest limitations on expansion of foreign credits which are comparable to the limitations suggested for 1965, but with variations to remove certain inequities inherent in the 1965 program.

The basic feature of the guidelines for 1965 has been a percentage limitation on increases in foreign credits from the base date of December 31, 1964. In general, each bank was requested to restrict its foreign credits outstanding to an amount not in excess of 105 per cent of the amount outstanding at the end of 1964, and each nonbank financial institution was requested to operate within a framework roughly comparable with that suggested for banks.

Although the banking system as a whole has stayed well under the suggested ceiling for 1965, some further expansion has been provided for in the 1966 program for two reasons: (1) it is believed that banks will continue to cooperate with the spirit as well as the letter of the program and will utilize the expansion suggested only to the extent needed to meet priority credit requirements; and (2) it is intended to make certain that export financing is available in adequate amounts, and that the bona fide credit needs of less developed countries will continue to be met.

Under the 1966 program, commercial banks are requested to restrain any expansion in foreign credits to such an extent that the amount outstanding does not exceed 109 per cent of the amount outstanding on December 31, 1964. Further, in order to spread throughout the year any outflow necessary to meet priority credit requirements, it is requested that the expansion be utilized at a rate of not more than 1 per cent per calendar quarter; that is, the target would be 106 per cent of the 1964 base during the first quarter, 107 per cent during the second, 108 per cent during the third, and 109 per cent for the remainder of the year. Special consideration for banks with small bases will add about 1 per cent to the total, bringing the possible expansion for 1966 for the banking system as a whole to about the same amount as that provided for 1965.

The 1966 guidelines for nonbank financial institutions have been made broadly comparable with those of the bank guidelines. But the foreign financial assets of such institutions continue to be classified into three groups—liquid funds, investments and credits maturing in ten years or less and in financial subsidiaries, and long-term investments—each subject in whole or part to a guideline ceiling. In some cases the guidelines for 1966 are based on outstanding amounts at September 30, 1965, where the use of a December 1964 base might be inequitable to individual institutions.

The priorities established by the 1965 guidelines remain in effect; i.e., an absolute priority for bona fide export credits, and highest priority in nonexport loans to credit to less developed countries.

The Board expressed its appreciation for the cooperation of the financial institutions since February 10, 1965, and its confidence in the continued cooperation of the banks and other financial institutions—so essential to the success of the President's balance of payments program.

Copies of the new guidelines are being made available through the Federal Reserve Banks. Banks and other financial institutions having questions concerning their application are urged to consult with the Federal Reserve Bank of their District.

BUSINESS CONCERNS

The following statement was released by the United States Department of Commerce on December 6, 1965:

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 United States 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 over-all 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 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 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 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 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 United States companies, partly because we did not ask for restraint in 1965, have under way firm investment commitments in Canada (for example those incurred under the United States-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 United States 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 Vietnam 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 United States 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 United States 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.