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UNITED STATES DEPARTMENT OF
COMMERCE
John T. Connor, Secretary Washington, D.C.

Office of the Secretary

FOR RELEASE AT NOON, WEDNESDAY, DECEMBER 1, 1965

ADDRESS BY SECRETARY OF COMMERCE JOHN T. CONNOR TO LUNCHEON MEETING OF THE CANADIAN EXPORT ASSOCIATION, ROYAL YORK HOTEL, TORONTO, CANADA, WEDNESDAY, DECEMBER 1, 1965

It is a pleasure to be here with you -- and to have Minister Mitchell Sharp here with us. You are fortunate to have in him and in his staff men of such outstanding competence and enterprise in matters of trade and commerce.

I always enjoy the company of good customers and first-rate salesmen like you.

I say good customers, and I mean it, because Canada is by far the most important market for the United States. Year in and year out, over 18 per cent of our exports go to you -- more than to any other single country. They represent over two-thirds of your total imports, and amount to about $250 a year for every man, woman, and child in Canada.

I say first-rate salesmen, as well, because you have proven your effectiveness in our highly competitive United States market.

U.S. Comm--DC--33,342

Almost one-quarter of our imports come from you, more by far than from any other country. They account for somewhat over half of your exports.

Since we are your principal customer, I take it that you have more than a passing interest in the well-being of our economy in the States, and I shall begin with a few words on that subject.

We are this day entering our 58th month of continuous economic expansion. For some years past, we have had good reason to feel sure that there will never be another economic depression like that of the 1930's. Now we are gaining confidence in our ability to maintain a steady rate of sustained growth. That means, of course, that we feel we can iron out the kind of intermittent recessions which, in some of the earlier post-war years, made ours something of a stop-and-go, off-again-on-again, economy. We do not claim that there will never be any recessions again, in spite of the "new economics," but we are reasonably sure that, when they do occur, they will be much less frequent than in the past, and far milder.

But, in case we get too conceited, we can always look north and see that your progress matches ours -- and a little more. While our economy has grown at a real rate of 4.3 per cent from 1960 to 1964, Canadian growth during this same period has been 4.7 per cent, a shade better. While our rate of unemployment fell from 6.7 per cent to 4.3 per cent, yours fell from 7.2 per cent to 4.0 per cent.

Ours, like yours, is an economy which draws its vigor from private enterprise and individual initiative. However, our Government has played its full part in this economic expansion, and will continue to do so, through appropriate fiscal and monetary policies.

Both of us have good reason to be satisfied with the stability of our labor costs per unit of manufacturing, which in 1964 were about the same as in 1960. In contrast, unit labor costs during the same 1960-1964 period rose 10 per cent in Britain, 13 per cent in Japan, 17 per cent in Germany, and 23 per cent in France.

A word as to the immediate future. We shall have need of increased vigilance to maintain the dynamic balance of productive forces which has made our vigorous growth and real economic gains possible.

In particular, the danger of inflation has to be watched most carefully -- and, indeed, our Government has recently given rather convincing evidence of its determination to avert it. I am confident that we shall be able to do so, despite the increased requirements of the war in Vietnam. We find real assurance of this in the new productive capacities which have been built into our economy in recent years and will be built into it in the months and years ahead. Despite the shortages of skilled workers which are beginning to appear in some industries and some areas of our country, we look to our special manpower training programs and the growing number of young people entering the work force to meet the expanding demands.

Another problem to which we have had to give constant attention is our balance of payments deficit. As you know, last month we announced that President Johnson's voluntary program to bring our international accounts into balance will continue through 1966. Our business community has made a substantial contribution toward reducing the deficit this year, but a continued unremitting effort is needed if we are to reach an equilibrium.

Summing up, I believe that 1966 will be another good year for our economy and that, I think, will make it a good year for our Canadian friends and suppliers as well.

Your brisk trade with us amounts, both ways, to $9 billion. more than between any other two countries in the world. But I am even more impressed by the overall, world-wide effectiveness of your export salesmanship. According to the figures my officials have given me, your exports last year amounted to almost 18 per cent of your Gross National Product -- two percentage points up from your excellent performance only two years earlier.

One thing is certain -- the members of your Association must have been doing a good job. The figures speak for themselves.

We ourselves have been working hard in recent years on the expansion of our exports, and have just this year stepped up our efforts further. In his message to our National Foreign Trade Convention last month, President Johnson stressed that the best solution to our balance of payments problem lies in increased foreign trade, and said:

"Your endeavors have never been more important than now. I ask you to renew and redouble your efforts to increase our share of foreign trade."

Last year, our exports achieved a new record. This year they have continued to expand, but at a slower pace -- although I am pleased to say that, at the end of the first three quarters of this year, our exports of manufactured goods were running 5 per cent ahead of last year. Our imports, however, have been moving up at a faster gait than exports. Based on seasonally adjusted figures for the first three quarters, they are running 12 per cent above last year, with imports from Canada increasing by 13 per cent, mainly in machinery, motor vehicles and parts, non-ferrous metals and paper.

I am informed that your experience has been the same -- a slackening in the rate of increase of your exports, plus a continued brisk increase in imports. In both our cases, I believe, the basic cause is the pressure of demand in the home market, powered by continued prosperity, while an economic slowdown prevails in some of our major overseas markets.

I believe that export prospects will be more favorable next year in most of these markets, including Western Europe, Japan, and some of the Latin American countries. Therefore, now is the time to intensify our efforts, so that we can catch a strongly rising tide.

I have been very much interested, looking through your membership list, in the wide variety of business enterprises which are represented. I counted, according to your "business classification" index, exporters of well over a hundred kinds of manufactured products, ranging all the way from confectionery products to electrolytic hydrogen and oxygen systems.

The time is indeed long past when Canada depended almost entirely upon the products of her farms, her mines, and her fisheries for her exports to other countries.

You have established your position in the world markets in a wide range of manufactured products, and you are ready, willing, and eager to push further.

There's a point about this that is often overlooked. The industry which has shown that it can be competitive in world markets is, by definition, producing goods efficiently for the home market as well. Domestic consumers benefit from the kind of high quality and competitive prices which attract foreign customers.

Your keen interest in expanding world trade is clearly evidenced by the active role your country is taking in the sixth round of major international trade negotiations under the auspices of the General Agreement on Tariffs and Trade -- widely known as the Kennedy Round.

The participation of the United States in this round of negotiations was made possible, as you know, by the passage of the Trade Expansion Act of 1962, one of the major legislative achievements of President Kennedy. President Johnson has repeatedly expressed his commitment to pressing these negotiations forward, and has recently said in this respect:

"We must build on past success to achieve greater well-being for America and for all the world's peoples."

As you know, the progress of the Kennedy Round has been much slower than most of us had hoped. Indeed, I am often reminded of a cartoon which appeared in one of our magazines, THE NEW YORKER. It showed a young couple bidding a fond and tearful farewell at the Geneva airport, The caption read: "Don't cry, Marie - there'll be another round of talks!"

Well, there have certainly been round after round of talks in these trade negotiations. You may recall that King Charles II, a gentleman at all times, apologized on his deathbed for taking an unconscionable time about dying. Many of you must feel that the Kennedy Round is taking an unconscionable time coming to life. Things have indeed moved slowly -- not at the glacial pace of disarmament negotiations, but more slowly than those of us who favor freer trade among nations would have liked.

These negotiations were bound to be difficult and complex, because the vital interests of most of the trading nations of the free world -- including all the major ones -- are involved.

They have been further complicated by the internal problems which the European Common Market is experiencing -- and which made it impossible for that trading bloc to submit its agricultural offers on September 16, as the United States, Canada, and other nations did.

However, all the major trading nations, including the Common Market, did exchange offers of tariff concessions on industrial projects a year ago. Although these offers are confidential and must remain so, it is well known that the list of products withheld from the negotiations by the Common Market is much larger than the exceptions lists of the United States and the countries of the European Free Trade Association. That also poses problems.

I should remind you at this point that the Kennedy Round deals not only with tariffs but with non-tariff barriers as well. Many non-tariff barriers, particularly quantitative restrictions imposed by the European nations during the post-war period of reconstruction, have already been largely eliminated. The hard core of non-tariff barriers that remain have deep fiscal, social, political, or economic roots. They will not be easy to reduce or eliminate them by negotiation -- but we are making a real effort to do so.

I hope that these important trade negotiations will ultimately be successful.

Their success can lay the solid foundation in freer trade and accelerated economic growth for the kind of Atlantic partnership on which the future of freedom depends. Their failure might set off a fresh wave of protectionism which would leave the free world balkanized economically, and thereby less able to cope with the challenges and dangers which confront it.

Their success could greatly mitigate the division within Europe which would otherwise result when the Common Market and the European Free Trade Association each eliminate most tariffs among their member nations, opening up a "tariff gap" between the two blocs. Their failure would leave free Europe split down the middle economically.

The success of the Kennedy Round could open up fresh trading opportunities for the developing nations. Its failure would mean increased pressure by them for special preferences of all kinds. This might result in the erosion of the non-discriminatory, most-favored-nation, principle on which world trade has been conducted -- and has mightily prospered -- during these past decades.

In the Kennedy Round, as in many other good causes, Americans and Canadians are working shoulder to shoulder.

Meanwhile, as you know, there has been a very significant breakthrough in the promotion of freer trade between our two countries -- the negotiation and implementation of the United States-Canada Automotive Products Agreement.

Here is an industry which is a very major one on both sides of the border. Many of the Canadian companies have U. S. affiliates. American and Canadian auto workers are organized in the same union. Therefore, the integration of efforts and results make sound economic sense.

Yet, because of the relative size of the two markets, automobiles have been substantially more expensive in Canada than in the United States. Like consumers in the States, Canadians have insisted on a wide choice of models. Producing all these models in Canadian factories has required shorter production runs and resulted in higher costs and higher prices.

In effect, this agreement created one unified North American industry out of the huge United States industry and its smaller, but still very substantial, Candian counterpart. The companies will now be able to organize their production so as to use their Canadian as well as their U. S. factories at maximum efficiency. Canadians have already benefited in the form of substantially lower automobile prices, and can hope to benefit still more. In your country -- which, even more than mine, is one of magnificent distances -- this is a very real boon, and should step up further the already rapid expansion in the sale of automobiles.

The automobile industry confronted us with a unique problem, which as you may recall might have led to some difficulties between our two countries. Working together, we were able to arrive at a unique and constructive solution.

What is not unique is the degree of statesmanship which was brought to bear from both sides upon this problem -- and I can pay tribute to it without any self-consciousness, because the agreement was negotiated before I accepted President Johnson's call to Government service.

I hope that, to all the problems which arise from time to time between our two countries, we can bring statesmanship of the same creative and constructive kind -- and I am confident that we shall do so.

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Two years from now, you will be celebrating your hundredth anniversary as a nation. We in the United States look forward with keen anticipation to these festivities, and to the World's Fair at Montreal which will highlight them. We hope -- if I can do some salesmanship of my own here -- that some of your visitors from abroad will drop down across the border, and thus help us with the serious travel gap in our balance of payments ledger. This type of tourist attraction, like the New York World's Fair, illustrates another area in which our two countries can cooperate.

On behalf of my own country and Government, I should like to say that we could not have had a better and more helpful neighbor. The intimacy and interdependence of our relationship has taken many forms -- in NATO, in NORAD, in the defense production sharing agreement, in the development and operation of the St. Lawrence Seaway, in the Columbia River Treaty, and in many other ways. Just three days ago, the second Alouette satellite was launched -- another instance of constructive cooperation between our two countries.

Yes, it has been a good century we are completing together -- and I am sure the next hundred years will be even more rewarding to both of us!

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UNITED STATES DEPARTMENT OF
COMMERCE
John T. Connor, Secretary Washington, D.C.

Office of the Secretary

For Immediate Release Tuesday, Dec. 7, 1965

STATEMENT BY SECRETARY OF COMMERCE JOHN T. CONNOR

The Department of Commerce and the Securities and Exchange Commission have issued today the results of their regular quarterly survey of plant and equipment expenditures. These results cover actual spending through the third quarter of 1965 and spending plans for the fourth quarter of 1965 and the first half of 1966. The survey indicates very strong capital expenditures by American business. Spending plans for 1965 have been revised upward. The increase of 1965 over 1964 now indicated is 15 percent as compared with about 13 1/2 percent three months ago. Capital spending in the second quarter of 1966 is expected to be at a rate 14 percent higher than for the full year 1965. The increases are broadly based industrially.

Capital expenditures by American business have been a mainspring of the current business expansion. They have helped to secure the gains in employment and productivity we have been experiencing and have been an important factor in improving our international competitive position. It is reassuring to note that the tone of business confidence remains high and that we can count on the continued contribution of American business to the prosperity of the American economy.

These new data on capital expenditures are further evidence of the strength of demand in the months to come. Under these circumstances it is essential to stress the importance of deliberate and constant moderation in wage and price decisions in the period ahead and to reaffirm the Government's commitment to a proper balance of fiscal, monetary and other policies. Observance of the wage-price guideposts has been essential in achieving the unparalleled economic expansion we have witnessed the past five years.

The maintenance of price stability will continue to be of vital importance to our national economic health, and I am confident that American labor and American business will continue to be conscious of their role in achieving this objective. The Government, in turn, will carry out its responsibility to ensure continuation of the balanced economic expansion which has benefited equally all segments of the American economy.

UNITED STATES DEPARTMENT OF
COMMERCE
John T. Connor, Secretary Washington, D.C.

Office of
Business Economics
OBE 65-73

FOR IMMEDIATE RELEASE TUESDAY
DECEMBER 7, 1965
Lawrence Bridge: WOrth 7-3273

PLANT AND EQUIPMENT SPENDING TO RISE IN FIRST HALF OF 1966

Businessmen reported substantial advances in expenditures for new plant and equipment in the third quarter of 1965 and anticipate further sharp increases in the fourth quarter of the year and the first 6 months of 1966, according to the quarterly survey conducted in late October and November by the Department of Commerce and the Securities and Exchange Commission. The new anticipations for the first and second quarters of 1966 imply a continuation of the expansion in fixed capital outlays which has been underway for more than 4 years.

With the seasonally adjusted annual rate of capital spending estimated at $52-3/4 billion in the third quarter, if present plans are realized outlays will rise steadily to a rate of $58.8 billion in the second quarter of 1966, or 14 percent above the full year 1965. The following table presents quarterly expenditures, at seasonally adjusted annual rates, for 1965 and the first half of 1966.

(Billions of dollars)

	1965				1966		Percent change
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr. 1/	1st Qtr. 1/	2nd Qtr. 1/	1965 full year to 1966 2nd qtr.
All industries ...	49.00	50.35	52.75	54.85	56.70	58.85	14
Manufacturing	20.75	21.55	23.00	24.35	24.70	25.85	15
Durable goods ..	10.40	10.80	11.75	12.20	12.40	13.25	17
Nondurable goods	10.40	10.70	11.25	12.15	12.25	12.60	13
Nonmanufacturing .	28.25	28.80	29.75	30.50	32.00	33.00	13

1/ Anticipated in November.

The rise in new plant and equipment expenditures programed for the first six months of 1966 is broadly based. Among manufacturers, transportation equipment, nonelectrical machinery, food and paper companies expect the most substantial increases in investment from the second half of this year to the first half of 1966. Increased outlays by gas utilities and airlines are expected to be particularly significant during the early part of 1966.

[More]

Manufacturers started $6.0 billion of new investment projects in the third quarter, up $700 million from the corresponding period of 1964, with most major industries contributing to the rise. At $1.4 billion, third quarter starts by the public utilities were up $200 million over the year.

Coverage of report

The analysis of plant and equipment expenditures is based on estimates by nonagricultural industry groups presented in the attached tables. The basic data are derived from reports submitted by corporations registered with the Securities and Exchange Commission; by transportation companies under Interstate Commerce Commission jurisdiction, and from a large sample of non-registered companies, undncorporated as well as corporate, reporting to the Department of Commerce. The estimates presented are universe totals of expenditures for new plant and equipment in the United States based on the sample data. They are compiled from reports on a company basis and not from separate reports for plants or establishments. The total company capital expenditures are assigned to a single industry in accordance with the industry classification of the company's principal products.

Further statistical detail is provided in the tables following.

Table 1.

Expenditures for New Plant and Equipment by U. S. Business1/, Quarterly 1963-66

Seasonally Adjusted at Annual Rates

(Billions of dollars)

	1963				1964				1965				1966
	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.2/	Jan.-Mar.2/
ALL INDUSTRIES	36.95	38.05	40.00	41.20	42.55	43.50	45.65	47.75	49.00	50.35	52.75	54.85	56.70
Manufacturing industries	14.85	15.30	15.95	16.45	17.40	17.80	18.85	20.15	20.75	21.55	23.00	24.35	24.70
Durable goods industries3/	7.35	7.65	8.00	8.30	8.85	9.00	9.60	10.15	10.40	10.80	11.75	12.20	12.40
Primary iron and steel	1.05	1.15	1.30	1.40	1.60	1.60	1.65	1.90	1.70	1.80	1.95	2.15	1.90
Primary nonferrous metal	.40	.40	.45	.40	.40	.45	.50	.55	.60	.60	.65	.80	.85
Electrical machinery & equipment	.75	.75	.65	.65	.70	.65	.65	.70	.70	.80	.90	.95	.85
Machinery, except electrical	1.20	1.15	1.20	1.40	1.45	1.55	1.75	1.80	1.80	2.00	2.35	2.50	2.45
Motor vehicles and parts	.90	1.05	1.10	1.10	1.25	1.35	1.65	1.80	2.10	1.95	2.00	2.10	2.20
Transportation equipment, excluding motor vehicles	.50	.55	.50	.55	.50	.45	.45	.50	.45	.55	.65	.60	.70
Nondurable goods industries4/	7.50	7.65	8.00	8.15	8.55	8.80	9.20	10.00	10.40	10.70	11.25	12.15	12.25
Food and beverage	.95	.95	1.00	.95	1.05	1.00	1.10	1.10	1.10	1.20	1.25	1.15	1.30
Textile	.65	.65	.60	.65	.60	.65	.80	.95	.85	.85	1.05	1.15	1.05
Paper	.65	.70	.75	.80	.80	.90	.95	1.05	1.05	1.05	1.20	1.30	1.35
Chemical	1.60	1.55	1.60	1.65	1.65	1.80	2.05	2.25	2.50	2.50	2.60	2.65	2.65
Petroleum	2.80	2.80	3.00	3.05	3.30	3.35	3.30	3.50	3.70	3.75	3.80	4.40	4.30
Mining	1.05	1.00	1.05	1.05	1.15	1.15	1.20	1.30	1.25	1.30	1.25	1.40	1.35
Railroad	.90	1.00	1.20	1.35	1.40	1.25	1.50	1.55	1.75	1.55	1.70	1.70	1.80
Transportation, other than rail	1.70	2.05	1.85	2.10	2.30	2.25	2.40	2.60	2.55	2.70	3.00	3.10	3.90
Public utilities	5.20	5.45	5.90	5.80	5.95	6.30	6.30	6.35	6.80	6.85	6.75	6.95	7.65
Communication	3.55	3.65	3.85	4.05	4.05	4.30	4.40	4.40	4.55	4.80	5.05)		
Commercial and other5/	9.65	9.65	10.20	10.45	10.25	10.45	11.00	11.40	11.30	11.60	11.95)	)17.30	17.30

1. Data exclude expenditures of agricultural business and outlays charged to current account.
2. Estimates are based on anticipated capital expenditures reported by business in late October and November 1965. The estimates for the fourth quarter of 1965 and the first quarter of 1966 have been adjusted when necessary for systematic tendencies in anticipatory data.
3. Includes stone, clay and glass, fabricated metal, lumber, furniture, instrument, ordnance, and miscellaneous industries.
4. Includes rubber, apparel, tobacco, leather, and printing-publishing.
5. Includes trade, service, finance, and construction.

NOTE: Details may not add to totals due to rounding.

Table 2.

Expenditures for New Plant and Equipment by U. S. Business[1/], 1963-66
(Billions of dollars)

	1963	1964	1965[2/]	1963 Jan.-Mar.	1963 Apr.-June	1963 July-Sept.	1963 Oct.-Dec.	1964 Jan.-Mar.	1964 Apr.-June	1964 July-Sept.	1964 Oct.-Dec.	1965 Jan.-Mar.	1965 Apr.-June	1965 July-Sept.	1965 Oct.-Dec.[2/]	1966 Jan.-Mar.[2/]
ALL INDUSTRIES	39.22	44.90	51.83	8.25	9.74	10.14	11.09	9.40	11.11	11.54	12.84	10.79	12.81	13.41	14.82	12.48
Manufacturing industries	15.69	18.58	22.51	3.27	3.92	3.95	4.56	3.79	4.53	4.67	5.59	4.54	5.47	5.73	6.78	5.40
Durable goods industries	7.85	9.43	11.34	1.62	1.96	1.96	2.31	1.93	2.30	2.37	2.83	2.25	2.76	2.91	3.41	2.70
Primary iron and steel	1.24	1.69	1.91	.23	.30	.33	.39	.34	.40	.42	.54	.36	.44	.50	.61	.41
Primary nonferrous metal	.41	.48	.67	.09	.10	.12	.11	.09	.11	.13	.15	.14	.15	.16	.22	.18
Electrical machinery & equipment	.69	.66	.84	.15	.18	.16	.20	.14	.16	.16	.20	.15	.20	.22	.28	.18
Machinery, except electrical	1.24	1.64	2.17	.27	.30	.28	.39	.33	.40	.40	.51	.41	.51	.55	.71	.55
Motor vehicles and parts	1.06	1.51	2.03	.19	.28	.29	.30	.25	.37	.43	.47	.43	.53	.52	.55	.45
Transportation equipment, excluding motor vehicles	.53	.48	.57	.12	.13	.13	.16	.11	.12	.11	.14	.10	.13	.16	.17	.15
Stone, clay and glass	.61	.68	.77	.13	.16	.15	.17	.14	.17	.17	.19	.16	.20	.20	.20	.17
Other durable goods[3/]	2.05	2.28	2.38	.44	.51	.51	.60	.51	.58	.56	.62	.51	.60	.60	.68	.60
Nondurable goods industries	7.84	9.16	11.18	1.65	1.95	1.99	2.25	1.87	2.23	2.30	2.76	2.28	2.70	2.82	3.37	2.70
Food and beverage	.97	1.06	1.19	.22	.26	.25	.24	.24	.27	.27	.28	.25	.32	.32	.30	.30
Textile	.64	.76	.99	.15	.18	.15	.17	.14	.18	.20	.25	.20	.22	.26	.31	.24
Paper	.72	.94	1.16	.14	.18	.19	.21	.18	.22	.24	.30	.22	.26	.30	.37	.29
Chemical	1.61	1.97	2.57	.36	.40	.39	.47	.37	.47	.50	.63	.55	.64	.63	.75	.58
Petroleum	2.92	3.36	3.93	.59	.70	.76	.87	.70	.84	.84	.99	.79	.92	.97	1.24	.92
Rubber	.24	.27	.35	.05	.06	.07	.07	.06	.06	.07	.08	.07	.09	.09	.10	.09
Other nondurable goods[4/]	.73	.80	.98	.15	.19	.18	.22	.18	.20	.19	.23	.19	.24	.25	.30	.27
Mining	1.04	1.19	1.30	.24	.26	.27	.28	.26	.29	.30	.33	.29	.33	.32	.35	.32
Railroad	1.10	1.41	1.68	.21	.28	.29	.33	.32	.36	.37	.35	.39	.44	.44	.40	.40
Transportation, other than rail	1.92	2.38	2.83	.39	.54	.45	.54	.51	.63	.59	.64	.58	.77	.72	.76	.89
Public utilities	5.65	6.22	6.84	1.04	1.40	1.60	1.61	1.18	1.58	1.71	1.76	1.32	1.71	1.88	1.94	1.47
Communication	3.79	4.30)		.85	.95	.93	1.06	.97	1.10	1.06	1.17	1.08	1.24	1.22)		
		)	16.66											)	4.59	4.01
Commercial and other[5/]	10.03	10.83)		2.26	2.41	2.64	2.72	2.37	2.61	2.84	3.01	2.59	2.85	3.10)		

1. Data exclude expenditures of agricultural business and outlays charged to current account.
2. Estimates are based on anticipated capital expenditures reported by business in late October and November 1965. The estimates for the fourth quarter of 1965 and the first quarter of 1966 have been adjusted when necessary for systematic tendencies in anticipatory data.
3. Includes fabricated metal, lumber, furniture, instrument, ordnance, and miscellaneous industries.
4. Includes apparel, tobacco, leather, and printing-publishing.
5. Includes trade, service, finance, and construction.

NOTE: Details may not add to totals due to rounding. Data for earlier years were published in the June 1956, March 1958, 1960, 1961, 1962, 1963, 1964, and 1965 issues of the Survey of Current Business.

UNITED STATES DEPARTMENT OF
COMMERCE
John T. Connor, Secretary Washington, D.C.

Office of the Secretary

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FOR RELEASE FRIDAY 1 P.M., DECEMBER 3, 1965

REMARKS BY SECRETARY OF COMMERCE JOHN T. CONNOR PREPARED FOR DELIVERY AT THE ANNUAL MEETING OF THE CREATIVE TOUR OPERATORS ASSOCIATION, MAYFLOWER HOTEL, WASHINGTON, D. C., 1 P. M. FRIDAY, DECEMBER 3, 1965

I appreciate your invitation to be here today. I accepted for three reasons:

One is that I just like to meet with businessmen and women who are helping to expand one of the greatest growth industries in America.

Two, I welcome this opportunity to say how grateful your Government is for your cooperation in helping to bring more foreign visitors to this country, and to ask you to redouble these efforts.

And three, as Secretary of Commerce, I am here by virtue of an Act of Congress. Section 2, paragraph 2 of the International Travel Act of 1961, states: "The Secretary shall encourage the development of tourists facilities, low cost unit tours, and other arrangements, within the United States for meeting the requirements of foreign visitors."

The four years since that Act was passed have been mostly just a tooling-up period for us. We've gotten ten U. S. Travel Service offices set up overseas. We've tied in the promotion machinery of the Federal, State and local governments with that of private industry. We've become conscious of the special needs of overseas visitors with regard to the language barrier. We've done some research to ascertain their desires on what they want to see most in America. We've reduced the formalities for entering the U. S. We've lowered the transportation fares. We've gotten our great Interstate Highway building program well underway. We've erected hundreds of fine new motels. We've put our magnificent national parks and recreation areas in order. And, in general, we've laid out a bright new welcome mat for one and all.

These four years have also provided us with the opportunity to hold something of a dry run of the real thing yet to come. During this period we've entertained more than three million visitors from overseas and almost a million from Mexico. That's almost double the number who came during the four years before USTS was created.

But that's just a beginning -- and the time is now ripe for some real action. I suppose this is the real reason I'm here today: to ask you to help get this machinery into high gear. For the master switch that can set this great assembly line of tourism into full production is in your hands, more than in anyone else's. Certainly we in Government can suggest, even stimulate, but you are the people who have to produce the results. We know that you have the abilities and experience and the talents needed to bring our overseas friends here -- not by ones and twos, but by the scores and hundreds and thousands. We know that you are the people who create, plan, operate, promote and sell the package and escorted tours for travelers the world over.

You are the people who put to use the materials, the facilities, the time schedules, and the friendly welcome we have ready and waiting. But these things lie here as under-utilized resources of the tourist industry until you tap their full potential. And as of right now, we have hardly scratched the surface when it comes to bringing this gold mine of tourist dollars into full operation.

It happens to be particularly appropriate that I meet with you here today to ask for your increased efforts in this area. I have just come from a Press conference in the White House where President Johnson's 1966 Balance of Payments program was announced and explained. We gave the details about the additional sacrifices we will ask from business in the voluntary program to correct our balance of payments deficit. Already through this program, business has made a substantial increase in its contribution toward bringing our accounts into balance.

Through increased exports, through repatriation of short-term assets held abroad, through restraint on foreign investment in the developed countries, and through other steps, business has helped reduce the deficit in a very successful manner, and by the end of the year will attain, we think, the total contribution of $1.3 billion in selected transactions that we set up as the 1965 target.

The measures being announced today focus on overseas investment -- which in the long run is one of the great earners of dollars for our country. But for the short term, business is being asked to moderate its investment flows for 1966 in order to contribute even more toward bringing our accounts into equilibrium by the end of 1966.

I know I don't have to spell out the reasons we must correct this deficit to this sophisticated audience whose operations form such a substantial part of the international economy. Tourism, in fact, is the largest single item in international trade, amounting to about $8 billion annually. And as such, it is a major factor in balancing--and sometimes unbalancing -- international accounts.

It is misleading, of course, to isolate any particular component of our total deficit and try to assign blame or responsibility, but I think it will be useful to consider the role travel plays in the whole picture.

Americans traveling abroad in 1964 spent $2.7 billion. Foreign visitors spent $1.1 billion in this country. Simple subtraction gives us a dollar loss of $1.6 billion. We could subtract from this the dollars spent by the six per cent of our travelers who go abroad for business reasons, or receipts from sales of our aircraft to foreign flag carriers, but after we add this and subtract that, it is still clear that the travel-gap contributes substantially to our deficit. In 1965 the dollar deficit for travel is expected to worsen to nearly $2 billion.

So, because of the decisive position you occupy in the travel field, we turn to you for help in correcting this deficit, in the same way that we have turned to others in the business community for their increased contribution.

Certainly your group has as great, or even greater stake, in its correction, as any in the world. As the principal medium of exchange in the international economy, the dollar sets in motion the wheels of commerce and travel throughout the globe. Continued world-wide confidence in its strength is essential if we are to widen the markets for the goods of business and labor, and if we are to increase international understanding and good will through travel.

But travel does more than promote the intangible of understanding, important as this is. It brings in its wake a train of prosperity that benefits millions of people on every continent. Tourist expenditures multiply in the economic blood stream of a country to nourish its carriers, hotels, restaurants, sightseeing operations, travel agents, and the manufacturers of many kinds of goods that travelers buy and take home.

International tourism has especially benefited the United States. Last year, we became the first country in history to earn more than $1 billion from foreign tourists.

Let me emphasize again, however, that we are convinced that this is only the beginning.

No other industry requires such full cooperation by so many independent elements, both in the private and public sectors, as does travel. Travelers are people in motion, constantly being passed from one set of hands to another -- from carriers, to hotels, to restaurants, to shops, to museums, to parks and recreational areas, to industrial exhibits, and to countless other places. And all in a strange country, whose speech, customs, money, and products and services, often differ markedly from those of their own country. To make their visit pleasant and rewarding, the closest kind of working relationship is required among many groups.

This especially includes cooperation between government and the entire travel industry. As your government's chief representative in this area, Mr. John Black offers the full resources of his outstanding promotional organization, and I hope you will make increasing use of the talents of his experienced people.

I'm sure that the USTS theme for the coming year, Festival USA '66, has struck a responsive chord with the travel industry. As Mr. Black has pointed out, surveys have shown that what the visitor from abroad wants to see and experience more than anything else is the day-to-day life of Americans.

Our many festivals, from the Tournament of Roses on January 1 to the Christmas festivities in Colonial Williamsburg, provide outstanding opportunities for foreign visitors to see our people at play, enjoying their leisure time.

This great promotional effort overseas also enables these various festivals to independently enter the international arena as travel attractions. And all the facilities which service these festivals likewise have the opportunity to join in the combined efforts.

You are acquainted, of course, with the Americans-at-Home Program which our First Lady launched last year. Some 48 American cities are being publicized overseas as communities in which travelers from abroad can visit Americans in their homes, and get to know them better through an informal exchange of ideas.

Your Federal, State, and local governments, cooperate, of course, in numerous other ways with the travel industry in order to make our country an interesting and attractive place to visit.

The historical and recreation centers administered by the National Park Service number more than 200. The Bureau of Land Management administers 465 million acres of public lands which include tourist facilities in wilderness areas The National Forest service provides camp grounds and facilities for winter sports.

The Small Business Administration provides loans for travel and recreation projects. And the Agriculture Department stimulates development of recreation resources through technical advice and loans.

Your Government is an active, working partner with you in the movement to make America the "Vacationland of the World."

And we are determined that it will be the most beautiful vacationland in the world. The Highway Beautification Act passed by Congress this year and which is administered by the Commerce Department is a first giant step in this direction. The variety and splendor of the natural beauty of this land are unsurpassed anywhere in the world, but we must preserve it from over-commercialization and the scars of rapid industrialization.

This new Act controls billboards and junk yards along Federal-aid highways, and helps provide for the cost of landscape and roadside development. As I have said many times, the people who are paying for our highways through special taxes deserve to have them built and protected so they will be open windows to the beauty of our country. They must be roads that will transport our citizens and visitors from abroad, not through scenes of blight and ugliness, but through the panorama of beauty and attractiveness which is the real America we must preserve.

But while we will continue to make improvements on this great Vacationland of the World, we are ready now with the best product on sale anywhere in the tourist industry.

And I'd like to suggest just one small area that I think would pay handsome dividends to anyone who mines it properly.

In 1964, 2300 trade organizations held international meetings throughout the world. The U. S. participated in 750 of these. But we played host to only 60 -- less than ten per cent of those we participated in and less than 3 per cent of the total.

If we played host to as few as 150 -- only 20 per cent of those we participate in -- we could add perhaps as much as $100 million to our tourist income.

Mr. Black has told you about the "Singer story." How many other foreign businessmen might be persuaded to hold their annual meeting in this country if they were offered a package that included the chance to view Shredded Wheat and Chevrolets in production; to visit a California winery and a Coca-Cola bottling plant; to inspect public housing and Mr. Hearst's castle; to go to the World Series and the Newport Jazz Festival? If we can get Europeans to New York City or Washington, there's a good chance that many of them will go on to visit the Redwoods or the Grand Tetons; to see cousin Dick in Pekin, Illinois, or to San Juan for the Casals Festival.

But the future of the American tourist industry lies not only in bringing many more overseas visitors here. To an even greater extent it lies in the increasing travel of the American family. Every indication leads us to believe that travel and recreation will, some day, move from its present third place showing, to the very first rank among all industries.

Already, this is a $30 billion industry, and by the year 2000 -- just 34 years away -- it is expected to account for 20 per cent of the consumer's budget. And let's not forget that we will have about double the number of consumers by that time.

Last January, soon after I assumed this job of Secretary of Commerce, I was rummaging one day in the desk I inherited and discovered a small, antique wooden box way in the back of a bottom drawer. Inside I found a card which said this was the only standard piece of equipment that traditionally went with the job of being Secretary, but it was for emergency use only. Underneath was a pair of gold-rimmed spectacles. I put them on and looked out across the Ellipse. Everything looked rosy.

To date, I am happy to say, my rose-colored glasses have not been needed. Nor do I need them now as I survey the future of your business. I believe that the package tour industry will grow in such size and scope in the years to come that it will dwarf your present undertaking. Not that tourist dollars will fall into your laps without effort, without intense promotion, marketing and salesmanship. But you obviously have the dynamic spirit that thrives on competition, or you'd never have built the thriving business you have going today.

It's the kind of spirit we need in this balance of payments effort -- and I hope you'll share it with us, for both your own good and the well being of the nation.

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UNITED STATES DEPARTMENT OF
COMMERCE
John T. Connor, Secretary Washington, D.C.

Office of the Secretary

FOR RELEASE WEDNESDAY A.M.
DECEMBER 8, 1965

REMARKS BY SECRETARY OF COMMERCE JOHN T. CONNOR PREPARED FOR DELIVERY BEFORE THE AMERICAN INSTITUTE OF CHEMICAL ENGINEERS, BELLEVUE STRATFORD HOTEL, PHILADELPHIA, PA., 8:15 P.M., DECEMBER 7, 1965

Thank you, Doctor Franklin.

It is a pleasure to be here with you tonight.

I want to congratulate your very distinguished and impressive award winners, and applaud the selection of your able incoming president, Doctor Churchill.

In addition, I believe your Institute's student award program is particularly noteworthy -- a stimulus and a contribution to the level of excellence that this nation must achieve in advanced education.

The American dream is founded on education. Modern industry and commerce are built upon it, and you ladies and gentlemen in this room are outstanding examples of its value. So there can be nothing more appropriate for this Institute than an annual student award program.

The winners and runners-up in this competition are here tonight, I understand, and I salute them.

In the language of Doctor Lewis' citation, you in the engineering profession "contribute immeasurably to the progress of mankind." These are not empty words. You and your compatriots in the several branches of engineering are the builders, the implementers, the synthesizers, the doers who translate vision into reality, hope into hardware, plans into products, and abstractions into abundance for your countrymen and peoples around the globe.

Never in the history of the world have the fruits of technological achievement been more apparent than they are today.

Never has the demand for your talents been greater in so many fields of endeavor -- industry, agriculture, commerce, transportation, medicine, urban development, national defense, and others. You are engaged in activities that range across the spectrum from soap to space, or perhaps I should say from detergents to the depths of the sea, around the world.

Never have opportunities so vast lain before you, and before all of us privileged to live in this great age of renewal and expansion and growth and revolution in the day-to-day lives of men everywhere.

Perhaps the most important message I can bring to you tonight is this: Keep up the good work. Only more so.

I have seen the role of the engineer in today's complex society characterized in the following way:

1. To understand the current and future needs of society.

2. To anticipate these needs and the potentials of science and technology to meet them.

3. To invent and design the products, processes, and systems required to meet these needs.

4. To foresee both the positive and negative consequences of their introduction.

These points establish rather stringent specifications for an individual engineer, and for the engineering community as a whole. I believe they are sound, however, and consistent with demands laid on the engineer by government and industry today.

Look, for example, at many of the major government programs. Development of weaponry for national defense. Space. Desalination. Anti-pollution. Transportation. Nuclear energy. Oceanography. Enhancement of our physical environment.

Which of these is not, in large measure, an "engineering project" dependent on decisions and execution by engineers?

And the reliance on the engineer inevitably will grow in a nation and a world of growing complexity, exploding population, and increasing expectations.

The sheer battle to keep up with physical growth, while retaining our standard of living within the framework of democracy and free enterprise, will lay down a mighty challenge.

As President Johnson has pointed out, during the remaining three-and-a-half decades of this century, the nation's "urban population will double, city land will double, and we will have to build homes, highways and facilities equal to all those built since this country was first settled." In other words, we will in effect have to rebuild the entire urban United States, and provide goods, services, transport, education, medical care, and recreational facilities to meet vastly enlarged requirements.

The time period, remember, is just 34 years. I am sure many of us here must feel that 1930 was "only yesterday." It is already 24 years -- 24 years today -- since Pearl Harbor. So the turn of the century will be "only tomorrow."

The challenge of these years will be met in many ways in many areas of national life. Many factors, tangible and intangible, will shape our lives and our nation in the years ahead.

One of the great challenges lies in the utilization of knowledge, of technology. This challenge applies, really, across the board in our society. And it applies most particularly in the technical fields and industries themselves.

Fundamentally, I think we are faced with a problem of understanding on a very broad scale. Through the years, with the proliferation of knowledge, we have obviously moved farther and farther from the Renaissance ideal -- the man who could, if he tried and had satisfactory aptitude, embrace a good proportion of the body of thought and experience of the human race. He could be the Universal Man.

This is still a pleasant ideal, and perhaps one worth dreaming of in an abstract way. I am afraid it is an ideal, however, far detached from modern reality. Any generalist who doubts this might try submitting himself to any number of simple tests that present themselves in everyday life.

For example, he might try glancing through the list of technical papers being presented throughout the nation, throughout the year, at meetings such as this one. I would be interested to know what percentage of our adult, educated population would comprehend to any reasonable degree even the titles of many of the papers that are being presented here in Philadelphia during this four day meeting of the American Institute of Chemical Engineers.

Nor is this the case in only certain isolated, highly specialized fields. It is the rule in our modern lives. More and more we are specialized in our knowledge and experience. More and more we deal in areas within areas of knowledge. And more and more, most of us deal throughout our professional and personal lives with abstractions that divorce us even from the physical and material realities of our environments.

Many of us, perhaps we might say everyone over about 30 years of age, were actually born into an entirely different world, a world in which the rate of social and technological change was vastly different. Our early experience, education, and training did not prepare us for the kind of world in which we are now living. The second world war, which changed so much in the world, vastly accelerated the rate of technological development in our lifetimes.

Our younger people, of course, have lived in this changing milieu from an earlier stage. But the world has not stood still for anyone -- not by a long shot -- and I don't expect that it will at anytime in the foreseeable future.

Now this whole subject of knowledge, of its accessibility and sharing and utilization, is of the utmost concern to all of us.

Apart from man's inherent desire to "know" about his world -- and we have always felt in America that this is his right -- it is a very practical necessity.

Government cannot function soundly today and in the years ahead unless its officials are knowledgeable in the area of advanced technology. The decisions to be made, the actions to be taken, are more and more based on technological considerations. Today, it might be noted, increasing numbers of scientists and engineers, and men of sound background in technical management, are assuming leading roles in the councils of government.

I am not talking about a government of engineers, any more than a government of lawyers or businessmen or doctors. But I am talking about the need, as time passes, for scientific and technological understanding to become standard intellectual equipment for the nation's legislators and administrators.

To say this is to say as well that the great reservoir of informed citizenry which produces the governmental leadership, and which selects and guides it, must share in this body of specialized knowledge to a reasonable extent. This is not only the "right" way in our democracy, it is probably the only way for our system to remain strong, durable, and effective throughout the years.

Although I have said that this is a subject of grave importance to us all, perhaps I have been speaking most particularly to the eminent educators among you. I think the time may be with us when we must consider not only a broadening of subject matter and its availability to all of our citizens, but perhaps also we must be considering some approach to continuing and updating our education and training at progressive stages of our lives as a general element in an advanced society.

For industry, of course, availability of educated and trained personnel is a vital, life-or-death matter. Utilization of advanced technology in most cases is not only "good business" but, once again, probably the only way to do business in the long term.

The use of research and development, the harnessing of advanced technology for specific industrial purposes, the infusion of technical talent and innovation are major factors in the remarkable record that has been achieved and is being achieved by American industry.

Chemical industry productivity, for instance, is now the highest of any category of manufacturing, according to the most recent Commerce Department figures. Chemical companies, on the average, are more than twice as productive as the average firm engaged in all other areas of manufacturing.

The figures use the concept of "value added." This is the value of finished production minus the cost of original materials.

By this yardstick, the average value added per employee in the chemical industry in 1964 was $26,000. The total for all manufacturing was $12,000.

These figures, which represent a substantial advance during the past decade, result in large measure from putting advanced technology to work. Or, in the more familiar language of business, from investment of capital in R & D.

This is clearly true throughout industry. Where there has been imaginative investment of time, money, and talent in technology, the result has been important progress in a gratifying number of cases, contributing more and better products to the national and international marketplaces.

The demonstrable value of applying new technology in itself poses one of our very real problems today. How do we stimulate even more widespread technological improvement and innovation in industry?

We at the Department of Commerce -- with perhaps the largest non-defense scientific capability in the Federal Government -- are very much aware of this problem, which upon analysis translates itself into dollars and cents very quickly.

For instance, we find that there is a tremendous spread in productivity between the most productive and least productive firms in many industries.

In the tire industry, for example, our figures indicate that the average company realizes a value added of $14,267 per employee. The most efficient companies, however, have a value added of $23,365.

For internal combustion engine manufacturers, the average is $10,199. The most productive firms, however, have a value added of $16,706.

These figures, I should note, somewhat predate the averages I have cited for chemicals and manufactures as a whole. They do not lend themselves to direct comparison.

But the lesson implicit in these figures is clear. A few companies in each of these industries, organized and managed in an up-to-date manner, and with modern plants, were highly productive.

What I am illustrating is the direct, measurable effect that technological progress can have on a company -- or, multiplied, on an industry, a region of the country, or a nation.

In international trade, it is clear that, with the highest paid labor force in the world, America finds that its products having a high labor content are increasingly at a competitive disadvantage unless technology and productivity can remain a jump ahead of our international rivals.

Today, imports are successfully competing in our domestic markets, even in advanced technological products such as machine tools, scientific instruments, office and computing machines, motors and generators, railway equipment, and aircraft.

The fact is that some European plants in these areas are more productive than our own, and others are in the process of becoming so, at the very time when we are striving to overcome the serious balance of payments problem.

Clearly, this is not generally the case, as the total export figures show. The products of this nation's technological know-how are the mainstays of our great export market. Of our export total of $25.6 billion last year, machinery and transport equipment accounted for $9.4 billion, other manufactured goods $4.9 billion, and chemicals and allied products $2.4 billion. These three categories, in other words, came to $16.7 billion, or almost two-thirds of the grand total of exports.

But I think it is fair to say that we are in a technology race, a productivity race, that is an important part of the over-all balance of payments equation.

This, again, is a challenge for all of us, because the process of technological improvement is very complex, particularly on a broad scale and over a long time period.

The government, from the earliest days, has seen as one of its functions the stimulation of invention and technical enterprise. There is a long history of interaction between the government and private enterprise in this area.

The Constitution itself set forth the governmental responsibility "to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." President Washington signed the first patent bill in 1790, establishing a system that Abraham Lincoln was later to characterize as adding "the fuel of interest to the fire of genius."

At the present time, in response specifically to direction from President Johnson, an increased effort is being mounted to work with private business and universities in development and utilization of new technologies.

At the Department of Commerce, this takes many forms within our many areas of activity. It includes ongoing programs of the Bureau of Standards, the Weather Bureau, and Coast and Geodetic Survey; important new approaches and new departures in land, sea, and air transportation; determined efforts to broaden the utilization of new technologies under the State Technical Services Program and Economic Development Administration; and the Clearinghouse for Federal Scientific and Technical Information, which makes reports of government-sponsored R&D and translations of foreign technical material available to the industrial community at a rate of some 6,500 new documents a month. The current study looking toward improvement of the nation's patent system is another part of this concerted over-all effort.

The United States, both government and industry, has spent more than $100 billion over the past 20 years in research and development. The rate now is some $20 billion a year. Broad oceans of technological data have been produced, and used in defense, space, and other national efforts. But there is serious question whether more than a fraction of the potentials of this vast and continuing R & D activity has been realized.

This is one of the dimensions of the problem. The payoff is in utilization of technology.

Nor are we dealing with fixed bodies of data. Science and technology, in fact, are the greatest "growth industries" of all. The curve of expenditures on R & D goes up year by year, the number of scientific papers produced doubles every 15 years, and the growing body of technical manpower in the world today already comes to 90 per cent of all scientists and engineers who have lived throughout history.

These curves will keep going up, and I believe they must, alongside the rising curve of human requirements.

I trust that, over the years, the curves will run parallel to each other -- that we will succeed in fully utilizing advanced technology for the service of our countrymen and peoples throughout the world.

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UNITED STATES DEPARTMENT OF
COMMERCE
John T. Connor, Secretary Washington, D.C.

Office of the Secretary

FOR RELEASE AT 1:30 P.M. MONDAY, DECEMBER 13, 1965

ADDRESS BY SECRETARY OF COMMERCE JOHN T. CONNOR PREPARED FOR DELIVERY AT A MEETING OF THE ATLANTIC COUNCIL OF THE U.S., CROTONVILLE, NEW YORK, 1:30 P.M., MONDAY, DECEMBER 13, 1965

This Conference is one more chapter in the continuing dialogue which encourages the movement toward a better understanding among the nations we have come to refer to as the Atlantic Community. The dialogue is conducted between individuals, companies, universities, Governments, and many other private and public bodies. It goes on over dinner tables, in the great deliberative councils of the world, and in smaller and more serene settings such as we enjoy today. Where, when, and how the meeting of minds occurs is not important. What is important is advancing the community of interests among the nations and peoples on both sides of the Atlantic.

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The range of interests has been eloquently described by General Norstad: "...faith in the dignity and worth of the individual, the rule of law, and the successful practice of democratic government." Against this commonality, the differences between one nation and another, between the points of view of business or labor or government, cannot help but pale into insignificance.

The Atlantic Council sees itself as a catalyst in encouraging the dialogue. My own background in business has given me some appreciation for the vital role of a catalyst. The catalytic agent initiates the chemical reaction, and improves the conditions under which the reaction will take place. At the end of the reaction, the catalyst is forgotten. Everyone admires the end product.

I have no doubt that the Atlantic Council is content to play a similar vital but anonymous role. But when the nations composing the Atlantic Community achieve better understanding and cooperation as an "end product", a great debt will be owed to the Atlantic Council, and to the other organizations which have helped further this cause. The complex, interdependent world we live in will be well served by that kind of cooperation.

I appreciate the importance of this concept even more in my present position as Secretary of Commerce. One of the subjects that has occupied my attention in recent months -- perhaps pre-occupied is the better term -- has been the balance of payments problem.

If I were trying to devise a challenging problem for university students, I would want them to grapple with such topics as international trade, economic policy, industrial productivity, the world monetary system, business-Government relations and foreign investment. I could accomplish all of these objectives by simply assigning term papers on the balance of payments.

Few contemporary problems encompass the complexity and interdependence of modern industrial society as does the balance of payments problem. At the same time, the problem highlights the interdependence of all nations which interact in the fields of trade and investment. This interdependence means that action taken in one sphere of economic life, has an inevitable consequence in other spheres of activity.

All too often the problem is presented in the dramatic terms of a confrontation between business and Government, or as a situation from which either the United States or a Western European nation, but not both, will emerge the winner. Who among us in this age can believe that America could be healthy while Europe was sick, or that Europe could thrive while America faltered? To the common bonds of culture, science, philosophy, social thought, and mutual defense, we must now add common economic viability.

The struggle to maintain the soundness of the dollar is much broader than an American battle. The dollar plays a key role in the international economy, and in the expanding trade of all the Free World nations. Accordingly, success in our balance of payments program will be a success for all the major trading nations of the world. Our difficulties are the difficulties of many other nations.

In a way, we are all in the same boat. I hasten to add that we are floating on a rising tide of prosperity, and not up some aimless creek. We have plenty of paddles, besides. One paddle comes from the mind, and the other paddle comes from the heart. Knowledge, based on understanding, and cooperation, based on mutual self-interest, are the paddles that will insure a safe voyage. And I can assure you that this is not a Polyanna point of view. The hard facts fully support an optimistic prognosis for the future of the balance of payments, just as the hard facts refute the notion that Government and business are somehow embarked on a collision course.

In the first place, as President Johnson said two weeks ago, "The program has worked."

This is evident in the significant reduction in the over-all balance of payments deficit so far this year. In the first three quarters of 1965 the deficit has been running at an average annual rate about $1-1/2 billion under the $2.8 billion deficit in 1964.

I am especially encouraged by the contributions to that improvement obtained through the Voluntary Program with the business community. It is reassuring to note that the business sector has a capacity for continuing growth in its balance of payments contributions.

Business efforts to expand exports, increase our income from foreign investments, and minimize the outflows of investment capital have been an important factor in our success to date. But even more important, they are the major source of hope for future progress.

Results recently reported under the Voluntary Program suggest that the improvement of 10 per cent over 1964 contributions based on the original estimates of participating companies will be realized. If the results in the fourth quarter are equal to the average of the second and third quarters, the 10 per cent goal will be attained. A sample tabulation of 1965 annual results estimated by 260 companies submitting fourth quarter projections indicates an improvement of over 11 per cent.

Much of the general improvement during the course of the year reflects changes in the companies' capital accounts. Capital transactions with foreign affiliates reported by 425 companies under the Voluntary Program were running at an annual rate slightly below the 1964 levels. These transactions with the designated developed countries totalled $464 million in the third quarter or 40 per cent below the $771 million they reported in the first quarter of 1965.

Since capital transactions with Canadian affiliates increased slightly from quarter to quarter, the improvements are being realized largely with Western Europe which was our primary area of concern.

These data are not directly comparable with the direct investment outflows reported regularly by the Office of Business Economics in the Department of Commerce, but they do correctly indicate the direction of change in general balance of payments data. In the official figures, direct investment outflows were $1.2 billion in the first quarter of 1965, $900 million in the second quarter, and preliminary tabulations indicate that they may be below $600 million in the third quarter.

These results tell me that the Voluntary Program is proving effective, and the participating companies are showing favorable results in the specific areas where we recommended improvements. This is the strongest indication of the cooperative spirit of American business leaders, and it is the strongest argument in favor of proceeding with the voluntary approach.

Second , the program will remain voluntary. This would hardly be the recommended course of action for a program that was running into trouble.

Third, there are no restrictions on imports, which might adversely affect the interest of both business at home and other nations with whom we trade.

Fourth, the voluntary program has been formulated and put into effect with the advice and consultation of leaders from business and industry. And this cooperation is not a pro-forma affair.

Mr. Albert L. Nickerson, Chairman of the Balance of Payments Advisory Committee, recently reported on this very aspect of the problem at a meeting of the Business Council. Mr. Nickerson stated that the role of the Advisory Committee throughout had been not merely to react to proposals of the Department of Commerce, but to give unsolicited advice to the Secretary of Commerce. I can confirm that this has, indeed, been the manner of operation of the Committee. As to whether or not the advice of this Committee of businessmen has been followed, let me simply repeat what Mr. Nickerson himself told the Business Council: "We have had a frank and thorough exchange of views with Secretary Connor. He has given careful consideration to the recommendations of the Advisory Committee. With certain exceptions that are not of over-riding importance, the 1966 program the Secretary has just announced, and that he expects the President to approve, reflects the Committee's advice." And he stated in conclusion that the Committee approved and would support the program.

Fifth, Government itself is making every effort to reduce the balance of payments impact of military and foreign aid programs. The adverse balance due to defense programs has gone down from $2.7 billion in 1960 to $1.6 billion last year. The foreign aid figures show a decrease--in terms of balance of payments consequences --from $1.1 billion in 1960 to $700 million last year.

Finally, there is the area of foreign investment by American businesses, the area which receives the most attention, and the area which is generally cited as a bone of contention between Government and business. Under the new program targets announced recently, business as a whole will be able to attain a level of direct foreign investments in 1966 at least as high as any year except 1965. Direct foreign expenditures for plant and equipment involving foreign financing will in no way be discouraged. And even the total outflow from the United States for the foreign investment program in 1966 is targetted at the 1964 level, although it will be down from the record high outflow anticipated in 1965. The relatively high level of investment confirms that the basic aim is not to restrain expenditures by U.S. companies on plant facilities abroad. Rather, it is to moderate the impact of the outflow of funds on the United States balance of payments by encouraging foreign financing and postponing marginal projects.

In view of all these factors -- the continued voluntary nature of the program, the fact that it is working, the absence of import restrictions, close consultation with business and industry leaders, the Government's successful efforts to reduce the unfavorable impact of its own programs, and the "headroom" allowed by the 1966 targets in overseas investments, I believe there are good grounds for taking a positive approach to the future of the program. In fact, if I had much more evidence to offer in support of my optimistic view, we might find that there wasn't any problem here at all.

But there is a problem. And the problem is made more difficult by events in the international arena -- specifically, the situation in Vietnam. There are two consequences which flow from the situation in that beleagured southeast Asia nation. In the first place, the increase in defense spending required by the military program in Vietnam is bound to have an adverse effect on the balance of payments. This is unavoidable, and places even more of a burden on other aspects of the total program. But there is also a qualitative consequence. The very nature of our commitment in Vietnam, and the nature of the duty it imposes on our soldiers there, casts our financial obligations in a new light. As the President said, "They have put the needs of their government and of their country ahead of their personal desires and personal hopes." Our support for them can take many forms. One form is to place in perspective the private and public interests. These interests don't really contradict each other. Instead, they must simply be meshed into gear with each other.

I said earlier that the program has worked so far. In fact, it has worked well. Our more ambitious goals for 1966 are simply a reflection of the fact that the need is greater, not that the program has failed. In our thinking about this problem, in planning and considering alternative courses of action, we are guided by one cardinal principle. The balance of payments problem must be solved. The Administration is committed to the attainment of equilibrium, and any other result is unthinkable in view of the consequences.

In emphasizing the flow of direct investments abroad, we are not unaware of the vital positive role that overseas investments play in our total balance of payments. Over the long run, foreign investments bring great benefit to our country. The key phrase, however, is "over the long run." The balance of payments problem today must be looked at over the short run as well as the long run. And it is in the context of the "short run" consequences that we are looking for gains to be made from moderating overseas investment programs by American businesses. I can assure you the President is fully aware that our investment targets for 1966 are not going to be reached by an easy stroke of the executive pen. In his own words, "this will involve some pain and sacrifice."

Investment, of course, is a two-way street. This fact should be automatically included in the thinking of people who are interested in the idea of an Atlantic Community. The United States has a direct investment in Europe of about $12 billion. But Europe has a direct investment in the United States of almost $6 billion, not a negligible sum by any standard of measure.

Investments carry more than capital funds from one geographical location to another. They carry new ideas, new technology, new attitudes, new relationships, new responsibilities, new obligations. Taken together, these things mean change, and change is not always welcomed, particularly if the change seems to be forced by the pressure of outside events.

We hear today about the "American invasion" of Europe, referring to our increasing investments. Let me quote something for you: "Watching the creation of giant corporations, the increase in industrial production, the growth of foreign trade, and the steady accumulation of wealth in America, British and continental newspapers and periodicals warned against the 'American peril' and the 'American invasions.'" This also was a reference to large capital investments in Europe. But this sentence happened to have been written in 1938 in a history of international investments--and it was referring to the period right after the turn of the 20th Century. Before that, throughout the 19th Century, America was subject to the "invasion" of European capital. Needless to say, the scale of development in the U.S. would have been impossible without the infusion of this capital into our economic bloodstream.

Sociologists tell us that if people believe something to be true, then it becomes true in its consequences. We see this principle at work in the fears that are expressed in some circles in Europe at the prospect of increased American investment over there. Yet, in reality, the amount of American investment in Europe represents such a small fraction of the total European economy that it is hard to reconcile the numbers with such terms as "remote control" and "foreign domination."

For our part, we welcome investments from the other side of the Atlantic. Perhaps this message has not been given out often enough or forcefully enough. There is no law of nature which ordains that the foreign investment route is a one-way street from the United States to Europe. We are presently seeking legislation to make such investments of a financial nature much easier, and I am not aware of any attitudes that would mitigate against such a trend in the future. In addition to the economic dividends, there would be substantial political, social, and cultural dividends, particularly for the establishment of new plants that would provide employment and participation in community activities.

There is a basic assumption underlying my invitation. Briefly, it is this. The task facing the nations of the Atlantic Community is not that of engaging in irrelevant discussions about the division of markets and investment resources. This approach is rooted in the theory of the constant pie. The real challenge ahead of us is based on a different theory -- the theory of the expanding pie. We should be applying our best thinking, our hardest efforts, our highest cooperation, our most imaginative ideas to the problem of integrating our vast resources -- on both sides of the Atlantic -- to expand the economies on both sides of the Atlantic. We have at our disposal a vast labor pool, a great capital market, enormous and growing markets for capital and consumer goods, and tremendous scientific and technological resources among the Western industrialized countries.

If we are to move in the direction of global companies, global marketing, global resources, and global cooperation, then the flow of ideas, people, products, investment, and technology must be a two way flow, and in many directions. We in the United States welcome this kind of two way traffic. And I believe that a realistic appraisal of all the advantages would erase the fears of those who are concerned at greater American involvement in the economies of Western European nations.

Unfortunately, fear can become a tangible factor in international economic relations. But fear can be allayed through the light of knowledge and understanding. The true facts concerning increased American investments in Europe will stand any reasonable test as to their consequences for national economies in Europe. If the European countries themselves feel that, in order to cope with the magnitude of size of American companies, it is necessary to forge new arrangements among themselves in such fields as capital markets and the development of new technology, then such trends would be welcomed, here as well as there.

There are two aspects of the broad problem which clearly merit more attention than they have received in the past. First, we need to do some imaginative work in explaining and interpreting the involvement of U.S. owned firms in European business life. The instinctive reflex is to say that our intentions are misinterpreted, or that the wrong emphasis is being placed on what we do, or that someone is not aware of all the facts. Well, it is up to us to make our intentions and our actions clearly understood in all segments of European life. We think that American investment in Europe is a good thing for all parties. But let's throw the spotlight on this idea for everyone to see. In the absence of specific machinery to accomplish this educational process, it is up to all of us, Government and business, to do the job.

The second task bears on the desirability of increasing European investments in the U. S. A private business that tried to attract investment capital without a prospectus of some sort would be at a severe disadvantage. People want to know about the company, its prospects, its assets and liabilities, its earning potential. This is an accepted part of business practice. But what is there to encourage investment in the U. S. ? Where is Prospectus USA? There may be many reasons why Europeans are reluctant to invest more in this country. Some are based on economic facts. Some may be based on psychological assumptions. Some we can remedy overnight. Some may be long term problems. But the dearth of information is one roadblock that could be removed with a minimum of real work, provided there is a maximum of good intentions.

I don't know whose responsibility it is to pierce the curtain of ignorance between European investors and the American opportunities. In a way, it's the responsibility of all of us. I suppose that's why it has never been satisfactorly accomplished. But I do know this. Government stands ready to cooperate with industry in developing ways to bridge this Prospectus gap. And I think everyone on both sides of the Atlantic would gain in the process.

I see that I have gone from the balance of payments problem, to the question of American-European investment. There's enough to be said on these subjects for three speeches, and even more. There is,. however, an essential unity to these topics. The balance of payments problem demonstrates that the Atlantic nations cannot exist as scattered islands in a sea of tranquility. We need bridges between us. Investments are one of the bridges. And no one has ever built a bridge yet that didn't open up new vistas on both ends of the span.

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UNITED STATES DEPARTMENT OF
COMMERCE
John T. Connor, Secretary Washington, D.C.

Office of the Secretary

FOR RELEASE AT 1:15 P.M. WEDNESDAY, DECEMBER 15, 1965

REMARKS BY SECRETARY OF COMMERCE JOHN T. CONNOR PREPARED FOR DELIVERY AT THE FIRST ANNUAL GOVERNMENT-BUSINESS PRESS EDITORS CONFERENCE, STATLER HILTON HOTEL, WASHINGTON, D. C., 1:15 P. M., DECEMBER 15, 1965

It is a pleasure to be with you today at this important meeting between government officials and professional communicators to the business and technical communities of the nation.

This can be a very useful conference. Certainly it is a timely one.

We are living today in what has been described as the Knowledge Revolution, a natural evolutionary stage, or refinement, of the Industrial Revolution.

We are all familiar with the components of that earlier Industrial Revolution that changed the world in an irrevocable manner.

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Today, some two centuries after its inception, we see an outpouring of knowledge that is parting the curtains on the mysteries of our environment and the secrets of life itself.

It is knowledge gathered in space and under the sea, in universities and industrial plants, at government facilities and private research laboratories. And it covers the whole range of human concerns, from findings in the behavioral sciences, to new materials, to food processing, to economic analysis.

Once again, as a result, the world is changing.

One aspect of this Knowledge Revolution is a broadly definable "knowledge industry" that today accounts for something like one-third of the Gross National Product -- education, communication, publishing, information services, industrial training, research and development.

Another aspect is the role played by the government through large-scale research and development programs in defense, space, and other areas crucial to the national interest. The investment in R & D in this country during the past 20 years, both government and industry, is more than $100 billion. The annual outlay now is some $20 billion, about two-thirds government-funded.

And a third aspect is recognition by industry that the Knowledge Revolution can hold the key to commercial success. The use of research and development, the harnessing of advanced technology for specific industrial purposes, the infusion of technical talent and innovation, are major factors in the remarkable record that has been achieved and is being achieved by American industry.

The results can be measured in many ways -- productivity, profit levels, jobs, competitive position in world markets, new and better products to serve the American people and other peoples of the world.

The productive utilization of talents and information and technology by the nation's industry also has a major influence on the balance of international payments. A large percentage of United States exports to world markets are the products of advanced technology put to work by our manufacturers. This has a broad public interest aspect because the export market must prosper and continue to grow in the face of increasing foreign competition in order to help achieve and maintain a healthy equilibrium of payments.

In this knowledge explosion going on around us, it is very clear that the press plays a central role.

More than ever, you in the specialized press are educators as well as communicators. And, in a world where knowledge resources have come to rival and often exceed natural resources in importance, you are in position to make profound contributions to your far-flung clientele.

We at the Department of Commerce, along with other departments in the Federal establishment, are also participants and communicators in the Knowledge Revolution.

We recognize an obligation to the public to disseminate knowledge generated within the government. And we also know the potential importance of this material -- technical and otherwise -- for businesses, industries, and professions directly concerned.

The Commerce Department's ongoing programs provide a massive flow of business, scientific, and technical information, and make the department one of the world's prime suppliers of such material. The sources include the Weather Bureau, the National Bureau of Standards, the Coast and Geodetic Survey, the Central Radio Propagation Laboratory, the Patent Office, the Census Bureau, the Office of Business Economics, and the Bureau of International Commerce.

In addition, the Clearinghouse for Federal Scientific and Technical Information makes available reports of government-sponsored R & D and translations of foreign technical material at a rate of some 6,500 new documents a month.

Under the State Technical Services Program and the Economic Development Administration, a determined effort is being mounted, in conjunction with state and local authorities, to broaden the utilization of new technologies in commerce and industry throughout the country. The primary tools are the tools of communication--distribution of technical reports, establishment of technical information centers and reference services, conduct of industrial workshops and seminars, training programs, and utilization of other like mechanisms.

The attempt is to solve a problem posed with the proliferation of scientific and technical knowledge through large scale, federally-funded research and development. It is, in business terms, a problem of distribution. How do we put the fruits of these endeavors on the tables of business and the public across the geographical and industrial reaches of the land?

This is our aim.

You in the business press are veterans in this area of communication. It is your stock in trade.

And the government is devoting new attention to communicating the kinds of information in which you are interested to the readerships that you serve.

Under these circumstances, I suggest that a close working relationship in areas of business and technical information will provide countless benefits.

It will be in the business interests of the business press itself. It will provide increasingly valuable service to your millions of specialized readers. And it will serve the broad national interest that is the primary concern of us all.

I am sure that today's activities -- this morning's briefing, our conversations here at lunch, the presentation you will receive from Doctor Schon, and the seminar sessions -- will mark an important step in the process of advancing such a relationship.

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UNITED STATES DEPARTMENT OF
COMMERCE
John T. Connor, Secretary Washington, D.C.

Office of the Secretary

ADDRESS BY ALEXANDER B. TROWBRIDGE, ASSISTANT SECRETARY FOR DOMESTIC AND INTERNATIONAL BUSINESS, U.S. DEPARTMENT OF COMMERCE, PREPARED FOR DELIVERY BEFORE THE WORLD TRADE COUNCIL, CHAMBER OF COMMERCE OF GREATER PITTSBURGH, AT THE PENN-SHERATON HOTEL, PITTSBURGH, DECEMBER 16, 1965, 12:15 P.M.

VOLUNTARY COOPERATION--THE BUSINESS COMMUNITY AND THE BALANCE OF PAYMENTS

Last February, President Johnson asked bankers and businessmen "to show the world that an aroused and responsible business community in America can close ranks and make a voluntary program work." The response of the Nation's business community was immediate, and the results are impressive.

The U.S. payments deficit in the first 9 months of this year ran at an annual rate of $1.3 billion--less than half the deficit in 1964. This is real progress. Businessmen and bankers here in the Pittsburgh area and throughout the United States have made a gratifying contribution.

The voluntary program has put us on the road to our goal of equilibrium in our international accounts in 1966, but the deficit--at $1.3 billion--is still too large. We have a long way to go to reach equilibrium, by which we mean not exact balance but about a quarter of a billion dollars on either side of overall balance.

To help us reach this goal, we have worked in close consultation with our advisors in the financial and business community to develop an improved and strengthened program for 1966. The program, announced about two weeks ago, remains voluntary. President Johnson is convinced that the voluntary approach is the right one.

The guidelines for financial institutions participating in the part of the President's program administered by the Federal Reserve, as well as those for business corporations cooperating in the part administered by Secretary of Commerce John T. Connor have been clarified and strengthened in the light of experience this year.

Ceilings on lending to foreigners by banks and non-bank financial institutions in general will be raised in stages of 1 percent per quarter to 109 percent of the base period. Banks with small bases--less than $5 million--will be given wider latitude.

The basic aim of the program for 1966, as for 1965, is not to keep U.S. companies from building or expanding plant facilities abroad. We recognize that direct investment abroad pays excellent dividends to the United States in the form of repatriated income. We have no wish to eliminate this source of strength from our balance-of-payments position. We do want to lessen the impact on the U.S. balance of payments by making greater use of financial resources obtained abroad.

The direct outflow of American business capital to industrialized countries is a matter of particular concern to us. The industrialized countries, especially those in continental Western Europe, are the ones that place the largest pressure on the preservation of the gold reserve backing of the U.S. dollar, which serves as the principal international reserve currency. The dollars we have paid out--and which have caused our large payments deficits since 1958--have gone into the reserves of other industrialized countries, notably in Western Europe. Some of these countries have then exchanged these dollars for our gold. Thus, as their reserves have grown, our reserves have declined.

The rapid growth of U.S. direct investment in Western Europe has been a factor in this development. Net capital outflow to that area has risen from $725 million in 1961 to $1.2 billion in 1964. About three-fifths of the total U.S. net capital outflow went to Western Europe in 1964.

We are continuing to encourage U.S. private investment in the developing countries of the free world to help them attain greater economic growth and higher living standards. The voluntary program is directed specifically toward reduction of capital outflows to the industrialized countries.

Geographic coverage of the program has been extended to include direct investment in 10 countries not covered in 1965. Canada and nine oil-producing countries where U.S. direct investment is substantial (Abu-Dhabi, Bahrain, Indonesia, Iran, Iraq, Libya, Qatar, Kuwait-Saudi Arabia Neutral Zone, and Saudi Arabia) have been added in the new list, which is the same as the one for application of the Interest Equalization Tax. It seems desirable to include the large flows of investment funds to these countries in the base and target for balance-of-payments improvement in 1966.

Previous arrangements giving Canada access to the U.S. Capital market and exempting new Canadian security issues from the Interest Equalization Tax will be continued under the new program. The reason for including Canada in our geographic coverage is that there has been a steady increase in direct investment there by American firms in 1965, and a further large increase is in prospect for 1966. Reports from companies participating in the voluntary program indicate that capital transactions with their Canadian affiliates in the first 9 months of this year climbed to 100 percent of the total for the full year 1964.

Partly because Canada was not included this year, some U.S. companies may have firm commitments which they will need to carry out--under the U.S.-Canadian automotive parts agreement, for example. We believe these companies will find ample opportunity within the direct investment target to fulfill these commitments.

We expect the outflow in the second half of this year to be appreciably lower than in the first half. For 1965 as a whole, it should be well below $4 billion, though still above last year's high level.

Company projections for foreign investments next year clearly show that there will be further pressure on U.S. capital to finance overseas projects. Outlays for plant and equipment abroad by U.S. manufacturing companies are projected at $3.8 billion for the current year and at about the same level in 1966, but these projections were made some time ago. Our past experience indicates that such projections are likely to be lower than actual outlays.

These developments underscore the need for stronger effort in 1966.

The United States Government will continue its efforts to minimize the balance-of-payments impact of Government transactions abroad. The Government began to cut back on its overseas expenditures long before the voluntary program was inaugurated.

The net dollar outflow for military transactions abroad was reduced from $2.7 billion in 1960 to $1.6 billion in 1964. It has been maintained at this reduced level in the first 9 months of 1965. But for the Vietnam situation, defense spending would have been further reduced to $1.4 billion this year.

The balance-of-payments impact of U.S. spending abroad for foreign assistance has been cut from $1.1 billion in 1960 to about $700 million in 1964, and is continuing at this level in 1965. Government expenditures for civilian purposes abroad have also been reduced.

Our overseas programs are essential instruments of U.S. international policy. It is unlikely that additional cuts can be made without adverse effect on American security and leadership. Even if it were possible to achieve substantial further reductions, this alone would not solve our payments problem.

The "travel gap" is growing. More and more Americans, benefiting from the increased prosperity generated by our thriving domestic economy, are spending dollars for travel abroad. Despite our intensified "visit U.S.A." promotion in other countries, we had a deficit of $1.6 billion in our travel account last year. This year the U.S. travel deficit may go as high as $1.9 billion.

We do not contemplate measures to keep Americans from traveling abroad. Instead, we hope to encourage more travel in the United States, by both Americans and foreigners. Meanwhile, we will face a large and continuing travel deficit.

We need more export sales to offset rapidly rising import purchases. Domestic prosperity is stimulating U.S. imports of industrial supplies, capital equipment, and consumer goods. Looking ahead to future economic expansion, we must expect further increases in import spending.

American exporters are making a major contribution to U.S. earnings abroad. Continued expansion of exports in October raised the total for the first 10 months of this year to a new peak. Through October, exports were at a seasonally adjusted annual rate of $26 billion--3 1/2 percent above the rate for the same period last year.

I was glad to read in the annual report of your Chamber of Commerce that the number of Pittsburgh area firms selling their products abroad has grown from 250 in 1960 to 420 this year, and that exports from this area in 1965 are expected to increase to $240 million--up 20 percent over 1960. Your export record shows that you are competing successfully abroad.

Competitive weakness is not the cause of our payments deficit. Our basic problem is that we must keep dollars from accumulating in foreign central banks in order to prevent further inroads on the gold reserves which back up the continued operation of the international monetary system. With the co-operation of our Nation's business community, we will succeed in this effort.

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UNITED STATES DEPARTMENT OF
COMMERCE
John T. Connor, Secretary Washington, D.C.

Office of the Secretary

ADDRESS BY ALEXANDER B. TROWBRIDGE, ASSISTANT SECRETARY FOR DOMESTIC AND INTERNATIONAL BUSINESS, U.S. DEPARTMENT OF COMMERCE, PREPARED FOR DELIVERY BEFORE THE WORLD TRADE COUNCIL, CHAMBER OF COMMERCE OF GREATER PITTSBURGH, AT THE PENN-SHERATON HOTEL, PITTSBURGH, DECEMBER 16, 1965, 12:15 P.M.

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The voluntary program has put us on the road to our goal of equilibrium in our international accounts in 1966, but the deficit--at $1.3 billion--is still too large. We have a long way to go to reach equilibrium, by which we mean not exact balance but about a quarter of a billion dollars on either side of overall balance.

To help us reach this goal, we have worked in close consultation with our advisors in the financial and business community to develop an improved and strengthened program for 1966. The program, announced about two weeks ago, remains voluntary. President Johnson is convinced that the voluntary approach is the right one.

The guidelines for financial institutions participating in the part of the President's program administered by the Federal Reserve, as well as those for business corporations cooperating in the part administered by Secretary of Commerce John T. Connor have been clarified and strengthened in the light of experience this year.

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With higher ceilings, lending institutions will be able to provide more credit for financing increased U.S. exports in 1966 and loans for less developed countries. They will be able to strengthen their international departments, provide better service to their established clients, and also serve more new exporters.

If you want full information on this part of the voluntary program, I suggest that you call on your Federal Reserve Bank.

Under the business program, which has been approved by the Balance of Payments Advisory Committee, Secretary Connor is asking participating corporations to continue the basic strategy followed in 1965. He is requesting each chief executive to enlarge his contribution to improvement of the balance of payments in a variety of ways:

By repatriating income from abroad.

By repatriating short-term financial assets.

By making maximum use of funds obtained abroad to finance new or additional investments abroad.

By expanding exports.

Secretary Connor anticipates that stronger, sustained cooperative effort may raise industry's net contribution to the balance of payments in 1966 by about $3.4 billion over 1965 results. This is an ambitious target, but increased military expenditures in Vietnam will put further pressure on our payments balance. It will be necessary to compensate for the added drain by improving our payments in other ways.

Secretary Connor is calling for "special effort" to restrain the outflow of funds for direct investments abroad. He has recommended that each company set a separate target on direct investment 1965-66 based on the general formula that investment in the two years combined should be limited to 90 percent of the amount invested abroad during the three-year period 1962-64. Direct investment, for this purpose, is defined to include the net outflow of funds from the United States plus undistributed profits of subsidiaries abroad.

This target would permit industry as a whole to make direct investments abroad during the two-year period 1965-66 at an average annual rate approximately 35 percent above the 1962-64 annual average. At this rate, the direct investment outflow in 1966 should be about $2.4 billion--roughly the same as in 1964.

The impact of the formula will vary from company to company, depending on how much--or how little--a particular company has been able to cut back on its capital outflows this year. We realize that a two-year target will not be equitable for some companies, and we are therefore prepared to discuss particular situations with them.

The basic aim of the program for 1966, as for 1965, is not to keep U.S. companies from building or expanding plant facilities abroad. We recognize that direct investment abroad pays excellent dividends to the United States in the form of repatriated income. We have no wish to eliminate this source of strength from our balance-of-payments position. We do want to lessen the impact on the U.S. balance of payments by making greater use of financial resources obtained abroad.

The direct outflow of American business capital to industrialized countries is a matter of particular concern to us. The industrialized countries, especially those in continental Western Europe, are the ones that place the largest pressure on the preservation of the gold reserve backing of the U.S. dollar, which serves as the principal international reserve currency. The dollars we have paid out--and which have caused our large payments deficits since 1958--have gone into the reserves of other industrialized countries, notably in Western Europe. Some of these countries have then exchanged these dollars for our gold. Thus, as their reserves have grown, our reserves have declined.

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Partly because Canada was not included this year, some U.S. companies may have firm commitments which they will need to carry out--under the U.S.-Canadian automotive parts agreement, for example. We believe these companies will find ample opportunity within the direct investment target to fulfill these commitments.

Another change in the voluntary program involves the reporting system, which has been improved to provide more detailed information on company progress. The chief executive of each participating company will be asked to make a personal appraisal each quarter of his firm's progress in achieving targets forecast for 1966, and to supply a commentary on company experience, quarter by quarter, on transactions projected for 1966.

Some 500 corporations are cooperating in the voluntary program this year. About 400 additional companies will be asked to join the program in 1966. We are particularly interested in obtaining the cooperation of additional firms with direct investments abroad, even if their investments are not large. As a start, Secretary Connor is asking each company to report if it had direct investment abroad of $2 million or more at the end of 1964.

We are asking the business community in 1966 to build on the achievements that have been attained through voluntary cooperation in 1965. Reports tabulated through the third quarter of this year for 425 of the companies participating in the voluntary program show various accomplishments.

In the first 9 months of this year, these companies progressively reduced capital transactions with their affiliates in developed countries to just under three-fourths of the amount in 1964 as a whole. Capital transactions were reduced substantially in developed countries, which indicates that the voluntary program is being implemented in the right areas.

The companies' combined earnings on direct investment in developed countries in the first 9 months of this year amounted to 82 percent of the total for all of 1964. Repatriation of income was at a high level, though the rate declined slightly in the third quarter.

Over a dozen cooperating companies have sold more than $325 million in securities abroad to raise funds to finance direct investment projects. A number of companies have arranged long-term loans totaling close to $200 million through financial institutions abroad. Their willingness to minimize the impact of their investment activities on the balance of payments by paying the higher costs of financing abroad is an outstanding example of the business community's responsiveness to the President's request for assistance in meeting a crucial national problem.

In 1966, the cooperative effort to moderate the flow of direct investment capital is expected to result in balance-of-payments savings of more than $1 billion. We know this cannot be accomplished without some sacrifice by American businessmen, but we know they recognize that it is essential that we reduce the outflow of overseas investment in order to solve this national problem.

The outflow is substantial. U.S. direct foreign investment, which had amounted to $1.6 billion in 1961, went up sharply to $2.4 billion last year. In the first quarter of this year, before the voluntary program was under way, the total direct investment outflow was $1.2 billion, seasonally adjusted. In the second quarter it declined to $882 million. In spite of this decline, when you consider that the overall outflow for the first half of this year was over $2 billion compared with $2.4 billion in 1964 as a whole, you can see what we are up against.

We expect the outflow in the second half of this year to be appreciably lower than in the first half. For 1965 as a whole, it should be well below $4 billion, though still above last year's high level.

Company projections for foreign investments next year clearly show that there will be further pressure on U.S. capital to finance overseas projects. Outlays for plant and equipment abroad by U.S. manufacturing companies are projected at $3.8 billion for the current year and at about the same level in 1966, but these projections were made some time ago. Our past experience indicates that such projections are likely to be lower than actual outlays.

These developments underscore the need for stronger effort in 1966.

The United States Government will continue its efforts to minimize the balance-of-payments impact of Government transactions abroad. The Government began to cut back on its overseas expenditures long before the voluntary program was inaugurated.

The net dollar outflow for military transactions abroad was reduced from $2.7 billion in 1960 to $1.6 billion in 1964. It has been maintained at this reduced level in the first 9 months of 1965. But for the Vietnam situation, defense spending would have been further reduced to $1.4 billion this year.

The balance-of-payments impact of U.S. spending abroad for foreign assistance has been cut from $1.1 billion in 1960 to about $700 million in 1964, and is continuing at this level in 1965. Government expenditures for civilian purposes abroad have also been reduced.

Our overseas programs are essential instruments of U.S. international policy. It is unlikely that additional cuts can be made without adverse effect on American security and leadership. Even if it were possible to achieve substantial further reductions, this alone would not solve our payments problem.

The "travel gap" is growing. More and more Americans, benefiting from the increased prosperity generated by our thriving domestic economy, are spending dollars for travel abroad. Despite our intensified "visit U.S.A." promotion in other countries, we had a deficit of $1.6 billion in our travel account last year. This year the U.S. travel deficit may go as high as $1.9 billion.

We do not contemplate measures to keep Americans from traveling abroad. Instead, we hope to encourage more travel in the United States, by both Americans and foreigners. Meanwhile, we will face a large and continuing travel deficit.

We need more export sales to offset rapidly rising import purchases. Domestic prosperity is stimulating U.S. imports of industrial supplies, capital equipment, and consumer goods. Looking ahead to future economic expansion, we must expect further increases in import spending.

American exporters are making a major contribution to U.S. earnings abroad. Continued expansion of exports in October raised the total for the first 10 months of this year to a new peak. Through October, exports were at a seasonally adjusted annual rate of $26 billion--3 1/2 percent above the rate for the same period last year.

Imports, running at an annual rate of $20.8 billion, were about 13 1/2 percent higher in the first 10 months of 1965 than in the like period of 1964.

With imports expanding faster than exports, our export surplus this year will not come up to last year's record-breaking $6.9 billion. We expect to end 1965 with a surplus of about $5.5 billion.

The voluntary program for 1966 centers on restraint of the outflow of funds for direct investment abroad, but export expansion remains a key feature of the basic strategy. Secretary Connor is asking for stronger export effort next year.

As a group, companies in the voluntary program are doing better in export in 1965 than in 1964, but many individual companies are exporting less than they did last year. In every industry, some companies have been able to expand their export markets--even in the face of stiff competition abroad and growing demand at home--while others have lagged behind. Some companies in the program are not exporting any of their products, while others in the same industry are selling a large share of their output abroad. This suggests that many companies may be overlooking opportunities for profitable export. If they are, we hope they will now begin to make full use of those opportunities to serve their corporate interests and the interests of the United States by expanding their export earnings.

In the Commerce Department, we give top priority to programs designed to help American industry advance in export. We have revitalized and expanded our National and Regional Export Expansion Councils. Fred C. Foy, Chairman of the Koppers Company and Chairman of the National Council, has appointed three action committees to study three major problem areas where government programs and policies are of vital concern with respect to maximum export growth. These committees are looking into such matters as export financing, freight rate disparities, and tax policies affecting exports. We look forward to receiving their recommendations in the near future.

Export expansion is the most constructive solution to our present payments problem.

When countries incur payments deficits their difficulties usually involve a lack of competitive strength--resulting from low productivity and rising prices. Our problem is different. The long-sustained expansion of our productive economy--now in its 58th month--has been accompanied by remarkable wage-price stability. Inflation, which could have impaired the competitive strength of American businessmen, has so far been avoided.

American businessmen have <u>gained</u> important price advantages in foreign markets. U.S. labor costs per unit of output in manufacturing were no higher in 1964 than in 1960. Unit labor costs in other industrialized countries, meanwhile, went up sharply--10 percent in Great Britain, 13 percent in Japan, 17 percent in West Germany, and 23 percent in France, for example.

I was glad to read in the annual report of your Chamber of Commerce that the number of Pittsburgh area firms selling their products abroad has grown from 250 in 1960 to 420 this year, and that exports from this area in 1965 are expected to increase to $240 million--up 20 percent over 1960. Your export record shows that you are competing successfully abroad.

Competitive weakness is not the cause of our payments deficit. Our basic problem is that we must keep dollars from accumulating in foreign central banks in order to prevent further inroads on the gold reserves which back up the continued operation of the international monetary system. With the cooperation of our Nation's business community, we will succeed in this effort.

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