

UNITED STATES DEPARTMENT OF
COMMERCE

John T. Connor, Secretary

Washington, D.C.

Office of the Secretary

FOR RELEASE SUNDAY, JANUARY 2, 1966

(CAUTION—HOLD FOR RELEASE)

1966 OUTLOOK

and

1965 YEAR-END ECONOMIC REVIEW

by

John T. Connor
Secretary of Commerce

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The Nation has just completed a year of outstanding economic expansion. Virtually all measures of economic activity increased substantially over 1964.

The year 1966 should show further vigorous growth, with output and employment gains matching or even exceeding the sizeable advances made in 1965. However, even though prospects look bright for still another rise in our standard of living at home, we must always be mindful of the fact that a growing proportion of our resources and manpower is being devoted to fulfill our commitments in Vietnam.

We are entering a year that follows one of remarkably strong and balanced expansion in the economy. All major demand sources increased during the past year, and as a result, consumer incomes, wages and salaries, and business profits reached record highs.

Most gratifying was the substantial gain in employment. We also saw a steady reduction in the rate of unemployment, and the interim goal of a 4 percent rate appears within easy reach.

Real consumer income after taxes in per capita terms--a measure usually employed to gauge the increase in the standard of living of our people--increased in 1965 by about 4 percent over 1964 and by 15 percent over 1961.

While, in general, 1965 was a year of considerable achievement, not everything has been rosy. Residential construction has continued the downward tendency which started early in 1964. The unemployment rate for some groups, particularly for Negroes, has remained high. Prices have increased somewhat more than in 1964 and the immediate prior years.

To fulfill our obligations in Vietnam, our Government has found it necessary to step up its defense programs. As the year drew to a close, these enlarged demands were being superimposed on large increases in private spending.

With record high corporate profits in 1965 and with the prospects of rising orders and sales, businessmen have programed another substantial increase in their 1966 outlays for plant and equipment--an increase that may match or even exceed the 15-percent expansion recorded in 1965.

Consumer buying in 1966 is expected to parallel the rising trend of income, as was the case in 1965. Automobile demand, which was at a record rate in 1965, will again be a buoyant factor in 1966, as is indicated by the favorable response so far to the 1966 models.

U.S. industry in general will operate at record or near-record levels in 1966, according to the forthcoming annual U.S. Industrial Outlook to be published by the Department's Business and Defense Services Administration. Reports on 77 industries, including 62 major manufacturing groups responsible for about 60 percent of manufacturing output, show that 16 expect more than 10 percent growth; 36 expect growth of from 5 to 10 percent, and 24 expect growth of up to 5 percent.

Contributing to the achievement of a balanced economy in 1965 has been the cautious inventory policy that businessmen have been pursuing for some time. Except for the buildup of steel stocks in the early part of 1965, inventory investment has generally moved about in line with sales. The liquidation of steel inventories after the settlement of the steel contract has been orderly and, therefore, has not been a disrupting influence. Recent surveys point to a continuation of prudent inventory buying in 1966, and this will contribute to the stability of the economy.

I am hopeful that the success of the 1965 voluntary balance of payments program, along with the strengthened direct investment target, will be further extended in 1966. The prospects of increasing the surplus of exports over imports seem promising in the year ahead. But to improve our export markets, price stability at home is a basic requirement.

Wage earners enjoyed one of their best years in 1965, as more persons became employed and rates of pay were increased. However, the increase in wage rates was about in line with the productivity gain, and as a result, factory unit labor costs have continued relatively stable. I am confident that unit labor costs will continue in a relatively stable course in 1966; such stability is essential in avoiding price pressures. Both labor and management must act with restraint in wage demands and in pricing policy in this critical period.

We have a prosperous and exciting year ahead of us. But it is not going to be an easy road to travel. Many firms are having difficulty in obtaining the workers needed for their expanding operations. More overtime work can help in this situation. Training new workers for the jobs on hand is also part of the solution. In some cases, the additional capacity will not be ready in time to fill the new orders received. Thus, price pressures are certain to crop up here and there. Over the past year, prices have

already risen more than in any of the past six year. Government and business must be ever alert to avoid an inflationary spiral. If we do not succeed in this, it may well upset our splendid 5-year record of sustained and stable economic growth.

I am confident that our economy will make large gains in 1966--in employment, in consumer purchasing power, in profits, and in our ability to produce more goods and services. As of now, no important imbalances have developed in our economy. The year 1966 could continue to be a year of balanced and vigorous growth and a year of further reduction in our rate of unemployment. However, we must recognize that our achievement of these goals depends very much on the extent to which our resources are needed in conducting our operations in Vietnam.

It also depends on how fully labor and management carry out their responsibility to make wage-price decisions consistent with the over-all stability of the economy. Moreover, the government itself will ensure that the mix of monetary and fiscal policy will be appropriate to encourage price stability.

FOLLOWING IS A YEAR-END ECONOMIC REVIEW BY THE DEPARTMENT'S
OFFICE OF BUSINESS ECONOMICS.

Economic Expansion in 1965

The fifth straight year of expansion in the U.S. economy brought new records in production and sales, in payrolls and profits, in production capacity, and in living standards. Although prices rose slightly more than in other years of the current advance, the increase for the year as a whole could still be described as moderate. More people were employed than ever before, and unemployment fell to its lowest point since 1957. The Nation's balance of payments deficit was reduced.

Gross national product for the full year totaled well over \$670 billion, and most of the increase represented a gain in the real volume of production. In both current and constant dollars, consumers, business, government, and foreigners all increased their expenditures over 1964. Increases in expenditures for durable goods were especially large.

Within the year, total production and sales showed large gains, quarter by quarter, but the advances were most pronounced around the beginning and toward the end of the year. The unusually large increase in the first quarter was due mainly to the recovery of automobile production and sales from the depressing effects of the strikes in the previous fall. The acceleration late in the year reflected in particular the step-up in military expenditures, a more rapid pace in business outlays for new plant and equipment, and the stimulus to consumption from the increase in Social Security benefits in the early fall.

With still another year of rising activity, the present upturn is now the longest peacetime expansion in the Nation's history. Since the first quarter of 1961, GNP has increased by about three-eighths. Over the same period payrolls have advanced by more than 35 percent and profits after taxes by well over 80 percent. Employment has increased by 6 million, and unemployment has fallen by 1.6 million.

These impressive achievements have brought new problems to the fore. Late in 1965, for the first time since the expansion started, the focus of economic policy began to undergo a shift. The basic question was not the adequacy of aggregate demand but rather the ability of the economy to accommodate further increases in demand with comparative price stability. Broadly speaking, price increases have been modest up to now, because the Nation's capacity to produce has exceeded demand. Cost pressures have been minimized because wage rate increases have been offset by increased productivity. With the gap between actual and potential output narrower than at any time since the upturn started and with further large increases in demand in prospect, the maintenance of price stability took on new importance.

Personal Income and Spending

Last year, personal income rose approximately \$35 billion to reach a record total of \$530 billion. The rise reflected advances in all major types of income: wages and salaries, proprietors' income, property income and transfer payments.

As a result of increases in employment, hours of work, and rates of pay, wages and salaries rose approximately \$25 billion in 1965. All major industries showed increases over the year. Farm proprietors' income, which had fallen the year before, was up sharply in 1965, mainly because of higher prices for farm products; incomes of nonfarm proprietors also advanced. Property income--dividends, personal interest, and rental income of persons--continued its long-term rise. With profits after taxes showing a record increase, dividends were up by more than \$1 billion. Transfer payments rose \$2-1/2 billion over 1964. This increase was concentrated in the latter part of the year and reflected the lump-sum retroactive increase in Social Security payments in September to approximately 20 million beneficiaries, and a 7-percent increase in benefits that started in October.

Disposable personal income--personal income after payment of income taxes--rose about \$30 billion and, together with a large rise in consumer credit use, provided the underpinning for another large increase--more than 7 percent--in personal consumption expenditures. All major types of expenditures rose during the year. Consumers continued to increase their outlays on new automobiles. For the full year, sales of new domestically produced cars totaled 8.8 million units, a 16 percent increase over the previous record in 1964, while sales of imported cars rose from 450,000 to 550,000 units. Expenditures on nondurable goods and services also showed substantial gains over 1964.

Business Investment

With sales and profits rising steadily throughout the year, businessmen greatly increased their expenditures for new capacity and plant modernization. For the second year in a row, outlays for new plant and equipment for the year as a whole were up 15 percent. The largest increases were in manufacturing and transportation, where outlays increased by approximately one-fifth over 1964. Within manufacturing, gains over 1964 were noteworthy in nonferrous metals, machinery, motor vehicles, textiles, and chemicals.

In general, industries supplying capital goods were still able to accommodate the increases in investment demand without serious strain; prices of capital goods continued to show only moderate rises over the year. The expansion in capacity brought about by the investment rise was substantial and was a major factor contributing to the advance in total output. In manufacturing, overall capacity utilization was still a little lower than rates businessmen considered most desirable, but not by much, and was somewhat higher than the average for 1964.

Outlays for residential construction were about 3 percent higher in 1965 than in 1964 but the rise reflected increased construction costs. Private nonfarm housing starts for the year totaled a little less than 1-1/2 million units, a reduction of about 5 percent from the year before. Most of the decrease was in multifamily units, where larger-than-normal vacancy rates in several parts of the country continued to hold back new starts.

Last year business added more to its inventories than in any other year of the current expansion. Even so, business inventories did not appear high in relation to sales or output and business inventory policy could

still be described as conservative. Inventory accumulation was very high in the first quarter of the year because of the recovery from the automobile strikes of late 1964 and the stockpiling of steel in anticipation of a strike. The rate of accumulation moved irregularly lower after the first quarter, partly because automobile production leveled off and because, after midsummer, steel consumers began to liquidate their excessive inventories.

Government Expenditures

Because of the war in Vietnam, Federal purchases of goods and services for national defense reversed a decline of about 2 years and increased throughout 1965. The rise for the year as a whole was small, but toward the end of the year expenditures were moving sharply higher. Federal outlays for non-defense purposes increased more than \$1 billion, and State and local government purchases continued their long-term advance with a rise roughly in line with increases in the 2 previous years.

The Balance of Payments

The deficit in the U.S. balance of payments was greatly reduced in 1965. In the first 9 months of the year, the change in monetary reserves and all liquid liabilities was adverse by \$1.3 billion at a seasonally adjusted annual rate, as compared with the \$2.8 billion deficit for all of 1964. An alternative measure -- omitting the reported change in liquid liabilities to nonofficial foreign accounts and to accounts of international organizations other than the International Monetary Fund -- showed an adverse balance in the first three quarters of 1965 of \$0.2 billion (annual rate), as compared with \$1.2 billion in 1964.

Improvements in 1965 were associated largely with the measures taken by the Government to reduce private capital outflows. These outflows had amounted to \$6.5 billion in 1964, but were reduced to an annual rate of \$3.6 billion in the first 9 months of 1965. On a net basis, bank loans and acquisitions of short-term assets were sharply reduced, from \$2.5 billion in 1964 to only \$.1 billion (seasonally adjusted) in the 9 months through September. This cutback more than met the guideline for bank lending under the balance of payments program, which allowed for an outflow of about \$0.5 billion. Direct investment outflows, which were extraordinarily high early in 1965, were much reduced by the third quarter, as the measures taken by firms to meet their commitments under the voluntary program of the Department of Commerce began to be effective. Even so, direct investment outflows will probably exceed the 1964 total of \$2.4 billion by a considerable margin.

The surplus on trade and service accounts was reduced from \$8.5 billion in 1964 to a \$7.2 billion annual rate in the first 9 months of 1965. Merchandise trade with foreign countries had registered a record \$6.7 billion surplus in 1964 (including exports financed by U.S. Government grants and capital). However, the surplus was reduced to an annual rate of about \$4.7 billion for the first three quarters of 1965, as imports rose much faster than exports. The merchandise balance for the full year will probably be somewhat higher. Net receipts from other accounts, especially investment income, continued their rising trend.

Employment and Unemployment

Mainly as a result of the strong increase in aggregate demand last year total employment showed its largest advance in the current expansion and unemployment was lower than in any year since 1957. Total employment (including farm) rose 1.8 million over 1964 to reach a record 72 million. The rise in employment exceeded the growth in the labor force, and unemployment fell by 400,000 to 3-1/2 million. The unemployment rate averaged 4.6 percent, down from 5.2 percent in 1964 and 5.7 percent in 1963. The improvement in labor market conditions was steady throughout the year, and by November the unemployment rate declined to 4.2 percent.

Reductions in unemployment were widespread in 1965. The rate for married men averaged 2.4 percent, as compared with 2.8 percent the year before. Teenage unemployment rates showed a small improvement but continued high, at 14 percent. However, the fact that it improved at all was noteworthy because during the year the labor market received a heavy influx of teenagers, most of whom were able to find jobs. While the buoyant demand for labor was the dominant factor in the teenager performance, the recently developed programs for youth employment also helped to provide jobs for the new entrants.

Prices

Prices rose somewhat more in 1965 than in the other years of the current expansion. The difference was most evident in wholesale prices, which had changed very little since 1958 but which rose 2 percent last year. Prices in consumer markets advanced about 1-1/2 percent, slightly more than the average annual increase in the preceding few years.

In wholesale markets, prices of farm products and processed foods each rose 4 percent over the previous year. Higher quotations on livestock and meat products were important factors in the rise. Prices of industrial products, which were no higher in 1964 than in 1959-60, rose 1.3 percent. Increases from 1964 were larger than average in the case of nonferrous metals, fuels, hides and skins, and nonelectrical machinery.

In consumer markets, food prices rose about 2-1/2 percent, most of the rise taking place in late spring and early summer. Prices of commodities other than food rose less than 1/2 of 1 percent; the reduction in excise taxes in the spring was a factor limiting the price increase during the year. Prices of services rose about 2-1/4 percent, continuing their long-term advance.

Financial Markets

Corporate profits showed a sharp increase from 1964 to 1965. Much of the increase occurred by the first quarter; thereafter, the rise was much less pronounced.

Including the adjustment for inventory valuation, corporate profits (before taxes) rose more than \$8 billion above the record 1964 total. All major industry groups shared in the rise. The relative increase in after-tax profits was even greater, because of the cut in corporate tax rates at the beginning of the year. Dividends rose about \$1-1/4 billion and retained earnings showed an unusually large gain. Corporate cash flow was further increased by a rise in capital consumption allowances.

Although business internal funds rose considerably in 1965, the rise in uses of funds was still sharper, and business made more extensive use of

external financing than in 1964. Consumer credit also showed a large rise in 1965 but the volume of credit outstanding did not appear to be unduly large in relation to income. The rise in consumer mortgage debt was about the same as the year before.

Bank credit showed a record advance in 1965. Credit expansion was very high in the first quarter of the year, but showed a marked slowing down thereafter, as Federal Reserve authorities exerted moderate pressure on bank reserves. In December, the Federal Reserve raised the rediscount rate from 4 to 4-1/2 percent and permitted member banks to pay up to 5-1/2 percent interest on deposits maturing in 30 days or more.

Short-term interest rates, which were fairly stable during most of 1965 at a level well above 1964, rose sharply following the rise in the rediscount rate. Long-term rates, which began to edge up after midyear, rose further in early December. Prices of common stocks rose to new peaks in 1965, with the volume of trading at very high levels.

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Office of the Secretary

A handwritten signature in black ink, appearing to be "J. T. Connor", is written over the "Office of the Secretary" text.

FOR RELEASE AT 2:45 P.M. WEDNESDAY, JANUARY 12, 1966

REMARKS BY SECRETARY OF COMMERCE JOHN T. CONNOR
PREPARED FOR DELIVERY BEFORE THE NATIONAL ADVISORY
COMMISSION ON FOOD AND FIBER, LAFAYETTE BUILDING,
WASHINGTON, D. C., 2:45 P.M., WEDNESDAY, JANUARY 12, 1966.

First, let me commend the members of the Commission for accepting this important assignment. Sound national policies governing the basic resources of food and fiber are essential to economic progress for the entire nation. And we are confident your studies and deliberations will result in recommendations for major improvements in those policies.

Always in the background of your considerations, of course, will be the current state and future prospects of the economy as a whole, because of its effect on the level of consumer demand. And since one of our responsibilities in the Commerce Department is to keep a finger on the nation's economic pulse, I thought it might be useful for me to review the situation briefly at this start of the new year. Afterward, I will try to bring you up to date on your Government's activities in the textile field, which is another responsibility of the Commerce Department and which bears directly on the market for cotton and wool.

As you are all aware, the national economic heartbeat has never been stronger. 1965 was one of the best years in history. It brought increased economic opportunity and higher living standards to more Americans than ever before. We reached record highs in consumer incomes, wages and salaries and business profits. There were substantial gains in employment, matched by a steady decline in the unemployment rate. As you noted in the press over the weekend, the unemployment rate has now dropped to within one-tenth of one percent of the interim goal of 4 percent which was set when the current expansion began almost five years ago.

Gross National Product rose last year to a little more than \$675 billion, an increase of about 7-1/2 percent over 1964. Much of the advance was sparked by greatly increased outlays by businessmen for new capacity and plant modernization. For the second year in a row, expenditures for new plant and equipment were up 15 percent.

Under President Johnson's voluntary balance of payments program, substantial progress was made in bringing our international accounts into equilibrium. And I am confident that the success of the program will be extended this year, as business increases its already positive contribution by focusing on the outflows for direct foreign investments.

1965 was not, however, without its problems. The unemployment rate for some groups, particularly for Negroes, remained high. Not every section of the country shared fully in the high level of prosperity. And prices rose somewhat more than in the other years of the current expansion, although these increases could still be described as moderate.

These problems are still with us in greater or lesser degrees as we turn the corner into 1966. But the overall problem of slack in the economy, which the nation has been working to solve these past five years, has suddenly been replaced by the problem of additional demand on an economy already operating close to full potential.

We can, and must, hold in check the inflationary pressures generated by this increased demand, and which always exists when the economy runs at such a high level. But the same close cooperation among government, business and labor which has brought us our present unprecedented prosperity, will be required. If we are to maintain the balance which permits orderly planning and is the source of confidence in the future, labor and management must carry out their responsibility to make wage-price decisions consistent with the over-all stability of the economy. And Government itself has the duty to encourage price and wage

stability through appropriate fiscal and monetary policies. Continued substantial gains in economic progress for 1966 are virtually assured, but we must be on guard every day for signs of the inflationary spiral that could interrupt our balanced growth.

Of more specific interest to your Commission is the situation in the textile field, which will have a direct bearing on your findings and recommendations for policy on fibers. For the domestic textile industry is the biggest customer of our cotton producers and the only customer of our raw wool producers. Its healthy state, therefore, must be a primary objective of the interrelated policies governing textile manufacture and the basic raw materials cotton and wool.

The rehabilitation of the domestic textile industry has had a top priority from the very beginning of the Kennedy-Johnson Administration. It was recognized from the outset that a major cooperative effort by government and industry was required to halt the precipitous decline in the industry, and start it once again on the high road to increased employment and profits.

Following extensive hearings by an Inter Agency governmental Committee, President Kennedy announced such a program on May 2, 1961.

It included:

- assistance by the Federal Government in the form of research.
- improved depreciation allowances.
- correction of the two-price cotton system.
- and arrangements in international trade in textiles to prevent disruption of the domestic market.

By every test the results of this program have been impressive.

A research and development program to supplement industry's efforts is being directed by the Department of Commerce under a budget of \$1.6 million.

The liberalized depreciation guidelines and investment tax credit have helped the textile industry become one of the most active of all industries in modernizing plant and equipment. In fact, since 1960, including the plans for 1965, plant and equipment expenditures in the textile field show an increase of 90.6 percent as compared with a 42.7 percent for all industries.

In 1964 Congress enacted the necessary legislation setting up a one-price cotton market in the U. S. under which our textile mills can obtain domestic cotton at the same price paid by foreign nations for our cotton. That two-year legislation has now been extended another four years, through 1969, by the Food and Agriculture Act of 1965. This measure has eliminated the competitive advantages to foreign textile producers and the discriminatory burden borne by our industry, imposed by the former pricing system for raw cotton. We believe the resulting lower net costs of cotton to our mills has been a major factor in the increased cotton consumption in the U. S. Last season it totaled 9.2 million bales, compared with 8.6 million in the previous season, and was at the highest level since 1955-56.

The disrupting effects of massive cotton textile imports on our domestic market which prevailed during the 1950s have been greatly alleviated through international arrangements. In July 1961 the Administration negotiated within the GATT framework a one-year arrangement, beginning October 1961, on trade in cotton textiles with major cotton textile importing and exporting countries. The following February the U. S. negotiated the Long-Term Arrangement to cover a period of five years beginning October 1962. Under the

Long-Term Arrangement, we have entered into bilateral agreements with 18 countries to regularize their exports to the U. S. Efforts are now underway to extend the Long-Term Arrangement, which is due to expire next year. Its continuation is vital, of course, to progress for the cotton textile industry.

As a result of the elimination of two-price cotton and the negotiation of international arrangements, the domestic cotton textile market has stabilized, the threat of disruption has been reduced, and confidence in the future is being restored to the U. S. cotton textile industry. The large capital outlays for new textile plants and equipment are a measure of that new confidence. Employment has increased and the profit picture is vastly improved.

Similar efforts are underway to improve the outlook for the wool textile industry. President Johnson has stated that "wool product imports must be kept at reasonable levels," for it is essential, he added, that the wool textile industry be "restored to good health."

There is no question that wool imports present a difficult problem. In recent periods they have reached over 20 percent of domestic consumption. To date, our efforts to achieve an international understanding on orderly trade in wool textiles have

not been successful, despite the fact that we have sent several missions abroad for this purpose during the past four years.

Last August the President's Cabinet Textile Advisory Committee met for a broad-scale review of the situation and to consider various courses of action open to the U. S. for handling the problem. This meeting was followed by another between the members of the Cabinet Committee and a group of industry leaders to consider the issues.

The Government feels that before making any further international approaches for a conference on wool textile trade it is important to prepare a document carefully setting forth the facts about the industry in the U. S., particularly in relation to imports. This is now being done by Government and industry people, and we are hopeful that a report can be made to the Cabinet Committee in the near future.

I am confident that when all the facts are assembled, and strong representations made to our friends abroad, agreement can ultimately be reached that will provide relief for wool textiles similar to that provided for cotton textiles.

In the coming weeks and months, as your Commission probes into the many economic factors affecting food and fiber, let me assure you that the Commerce Department stands ready to assist in every way possible. My representative to the Commission will be Mr. Stanley Nehmer, one of the Government's top experts in textile economics, and I know he will be glad to provide both data and counsel on any matters within this field.

We are counting on you to let us know where we can be of help.

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Office of the Secretary

FOR IMMEDIATE RELEASE MONDAY, JANUARY 17, 1966

STATEMENT BY SECRETARY OF COMMERCE JOHN T. CONNOR
ON BALANCE OF PAYMENTS
MONDAY, JANUARY 17, 1966

It is gratifying to report that the President's voluntary program to reduce the balance-of-payments deficit is working--and working well. We expect to reach the targets for 1965 established at the outset of the program nearly a year ago.

While final figures for 1965 will not be in for another month, we are now close enough to have a clear view of the improvement achieved through the voluntary efforts of the Nation's businessmen and bankers.

The results generally are up to our expectations. They indicate that a renewed voluntary effort will produce significant contributions in 1966 to overcoming the persistent deficit in our international accounts.

As the President said in his State of the Union Message, "preliminary estimates indicate that our balance-of-payments deficit has been reduced from \$2.8 billion in 1964 to \$1.3 billion or less in 1965. This achievement has been made possible by the patriotic voluntary cooperation of businessmen and bankers working with the government. We must now work together with increased urgency to wipe out this balance-of-payments deficit in the next year."

The achievement of the President's objective during the current year will depend heavily upon the success of the cooperative effort by leaders of the industrial and commercial community.

The evidence now in hand clearly suggests we will substantially achieve the improvement of \$1.3 billion for the year 1965 on selected foreign transactions projected by the cooperating companies at the outset of the voluntary program.

As we embark on the 1966 program, it is appropriate to review the highlights of the progress achieved during the past year. It will be recalled that the cooperative program with the industrial and commercial community did not get effectively under way until the first quarter was nearly over. The program was launched against a background of adverse developments:

- The costly dock strike in January and February had a serious impact on our exports.
- The dollar outflow for direct investment was soaring to a record peak during the first quarter, partly because of apprehensions about the nature of the balance-of-payments program under discussion.

When the President called for voluntary restraints in February, the leaders of American industry unhesitatingly pledged full cooperation. The results of their endeavors became increasingly evident as the year progressed.

- The initial results came quickly in the repatriation of short-term financial assets held by non-banking concerns. These had risen by \$588 million during 1964 as a whole and by \$113 million in the 4th quarter; during the one and a half months of 1965, the trend accelerated. However, once the voluntary program was announced, companies began promptly to call home such funds, and by the end of the first quarter, there was a net inflow of \$254 million. The repatriation amounted to \$485 million during the first half of 1965, and there was a further inflow of \$41 million during the third quarter. This step was taken at the cost of lower yields and the extra expense of doing business.
- The repatriation of income from direct investment was accelerated. Repatriation averaged \$935 million per quarter in 1964. During each quarter of 1965, income from direct investment exceeded \$1 billion; the total may amount to as much as \$4.3 billion for the year as a whole, compared with \$3.7 billion in 1964.
- During the second quarter, exports rose substantially as shipments delayed by the dock strike were finally able to move. However, some of the postponed exports were irrevocably lost. Only a slight expansion occurred during the third quarter. But during

the closing months of the year, the advance in exports was particularly strong. For the year as a whole, exports are estimated at \$26.3 billion. Total exports rose by about 4 percent over 1964, and shipments of manufactured goods by 5.5 percent. But total imports rose steadily during 1965--reaching a level approximately 14.5 percent above that for the previous year. Thus, the trade surplus may have declined to just over \$5 billion in 1965, compared with \$6.7 billion registered in 1964.

- At mid-year, the first public offering of securities was made abroad by a U.S. company specifically in response to the voluntary program. By year-end, almost a score of such issues had been sold, resulting in proceeds of over \$350 million. Almost twice that amount was in the pipeline for sale during 1966. All of these securities were issued at higher costs than if the financing had been done in the United States.
- The outflow for direct investment began to moderate during the second quarter. There was a decline from \$1.2 billion in the January-March period to \$891 million in the April-June months. But it was in the third quarter that the companies' efforts to ease

the outflow for direct investment showed the greatest response, when direct investment declined by over 40 percent to \$515 million. The sharpest reduction was in developed areas, especially Western Europe, the primary focus of the voluntary program. Figures are not available for the fourth quarter, but the outflow may be roughly of the same magnitude recorded during the third quarter.

In summary, as 1965 drew to a close, it was clear that the efforts of American business under the voluntary program were making a difference. The program was firmly on course, and the improvement goal was well in sight.

In looking back on 1965, it might also be helpful to recall the nature of our general expectations at the time the voluntary program was launched.

- We expected some expansion in exports, but we expected imports to rise somewhat faster. As it developed, the gain of some 14.5 percent in imports exceeded the magnitude that had been forecast.
- The record outflow for direct investment during the first quarter was fully documented only at mid-year. The evidence on projected expenditures for plant and equipment by U.S. companies abroad became available in June, and this also forecast a steeply rising

curve for direct investment. When the second quarter direct investment figures became available in the late summer, they indicated that, while the rate of outflow was easing, it remained exceptionally high.

Against this background, it clearly became necessary to strengthen the voluntary program during 1966. This task was made more urgent by the impact of the Viet Nam conflict on the over-all balance of payments. It was also clear that we had to strengthen our sources of information on direct investment and on the balance of payments.

In revising the program for 1966, we were convinced that it should remain voluntary. The President endorsed this recommendation.

Thus, the 1966 program is fundamentally a continuation of the course we travelled during 1965. The modifications made were designed to provide the necessary continued improvement within a voluntary framework. The program has been broadened in terms of geographic coverage, the range of selected transactions, and in the number of companies reporting to us. We have suggested that the industrial and commercial community may be able to improve its contribution to the balance of payments by perhaps \$3.4 billion. Of this amount, roughly \$1.0 billion is expected to accrue through the moderation of direct investment. Other sources of improvement include export

expansion, repatriation of income, repatriation of short-term financial assets and the proceeds of borrowing abroad. However, a further rise in imports will offset part of the gain through export expansion. Again we have not called for import restriction under the program.

Before we can calculate a firm over-all target for industry as a whole, we must await the projections by individual companies of the improvement expected during 1966. We expect to receive these projections by mid-February.

The revised program for 1966 is a prime example of cooperation, both within the Government and in the business community. In drawing up our recommendations, we benefited immensely from the advice and counsel of the Commerce Department's Balance of Payments Advisory Committee. Within the Government, the Cabinet Committee on the Balance of Payments received excellent support at the staff level. I want to note especially the contribution of the Technical Group drawn from the Executive Committee of the Cabinet Committee which worked closely with Assistant Secretary Andrew F. Brimmer in outlining that part of the program administered by this Department.

I have written the chief executives of 400 companies not previously reporting under the voluntary program. I have asked them to join with their colleagues in 500 companies which made a special effort in 1965 to expand their contribution to the balance of payments. Revised worksheets for the 1966 program have also been mailed to all 900 companies.

In conclusion, I am confident that the chief executives of the participating companies will cooperate in our national effort to achieve balance of payments equilibrium during 1966.



THE SECRETARY OF COMMERCE
WASHINGTON 25, D. C.

January 14, 1966

TEXT OF SECRETARY CONNOR'S LETTER TO 400 CHIEF EXECUTIVES
OF COMPANIES NOT PREVIOUSLY REPORTING UNDER THE VOLUNTARY
PROGRAM TO IMPROVE THE U. S. BALANCE OF PAYMENTS

The President has called for a continuation during 1966 of the program of voluntary cooperation with American industry to help reduce further the deficit in our balance of payments. At his direction, I am writing personally to you and some 400 other corporate executives to ask that you join with more than 500 leaders of the business community who participated in the program and reported quarterly on their foreign activities in 1965.

The voluntary program made a significant contribution to the improvement in our balance of payments during 1965. During the current year, we must hold those gains, and we must make every effort to achieve the target of equilibrium set by the President.

To do this, we must ask the entire business community to participate in the endeavor and to take an active role in seeking ways to increase further its contributions to the balance of payments. While you and other corporate executives doubtlessly contributed positively to our foreign earnings in 1965 and in previous years, we feel that it is advisable to have all firms with significant foreign transactions report regularly on progress in expanding their contributions. Accordingly, you will receive within the next few days worksheets which will assist you in charting the steps you may be able to take and in estimating the magnitude of the contribution which you believe your firm can make.

Briefly, I am requesting you and other business executives:

- To maximize your company's over-all contribution to the balance of payments in 1966 through a variety of means.
- To moderate the outflow of funds from the United States for direct investment in the developed countries.
- To provide us with statistics for recent years, and projections for 1966, relating to selected foreign transactions.
- To give, with each quarterly report filed subsequently during the year, a personal appraisal as to how your company is progressing toward its over-all target for 1966.
- To name an alternate, familiar with company policy, who would be available for periodic consultation with Department of Commerce officials.

The basic strategy of the program calls for each chief executive to maximize his company's contribution to the balance of payments through measures such as export expansion, repatriation of income from abroad, repatriation of short-term foreign financial assets, and the maximum use of funds obtained abroad for investment purposes. The results of these efforts should be a considerable over-all improvement by American industry as a whole compared with 1965.

In addition, we must ask each company to make a special effort to temper the outflow of funds from the United States for direct investment abroad. To help achieve this objective, we are recommending a separate target for direct investment for business corporations as a group. The basic aim is not to restrain expenditures by American companies on plant facilities abroad. Rather it is to minimize the impact of the outflow of funds on the United States balance of payments.

We are also suggesting to individual companies a separate formula for direct investment which will enable them to fix their own direct investment targets in a meaningful way and yet permit companies to continue their business abroad in an orderly fashion.

In concert with our national policies promoting economic growth in the less developed countries, the voluntary program seeks to avoid adverse effects on these areas. We wish to encourage American private enterprise to assist in the introduction of modern techniques and to help raise standards of living in these countries.

The program is designed to moderate the outflow of funds primarily to Western Europe and other developed countries. In view of the large prospective increase in direct investment in Canada by American firms, we think it is desirable to ask for moderation on the outflow of direct investment funds to that country also. Other countries included in the list of developed countries have large financial resources or possess large reserves of internationally traded natural resources in which U.S. direct investment is substantial. We think it is reasonable and equitable to include the sizeable flows of investment funds to these countries in the base and target for balance of payments improvements during 1966.

It is estimated that in 1966 the business community may improve its net contribution to the balance of payments by \$3.4 billion -- compared with the gains registered during 1965 -- if special measures are forcefully applied to moderate direct investment, maximize export shipments, and repatriate income and foreign financial assets. I am asking you and other corporate executives to review the situation of your company and determine your own best estimate of the over-all improvement which you think is possible during 1966 compared with 1965.

I am recommending the following target to American industry in planning its direct investment for 1966: Direct investment during the two-year period 1965-66 combined

should be limited to 90 per cent of the amount during the three-year period 1962-64. For this purpose, direct investment is defined to include the net outflow of funds from the United States plus the undistributed profits of affiliates abroad. For industry as a whole, this target would permit an annual average rate of direct investment during the two years 1965 and 1966 combined approximately 35 per cent above the annual average during the 1962-64 base period. This rate of increase should result in a level of direct investment outflow of about \$2.4 billion in 1966 -- roughly the same as in 1964, following an expected substantial rise in 1965 compared with the previous year. The expected result can also be expressed as a projected increase of more than \$1.3 billion in the surplus of total direct investment income over direct investment outflow in 1966 compared with the level anticipated in 1965.

I am also recommending that each company head use the above formula in estimating his own target for direct investment during 1966. In calculating the target, companies should use the same base period of 1962-64. In defining direct investment, they should add together the net outflow from the United States and the undistributed profits of their affiliates. They should make the same calculations for 1965-66. For the latter two years combined, direct investment as defined should not exceed 90 per cent of such outflow during the three-year base period. In suggesting this formula, I realize fully that it will catch individual companies in different circumstances. For some it would undoubtedly place a severe strain on their ability to carry out projects abroad already in the advanced stages of planning or actual construction. For others, it may result in a target considerably in excess of what the companies would actually need to fulfill their plans, and we hope they would use only the minimum amount necessary. But in all of these cases, we are fully prepared -- and would want -- to discuss particular situations with individual companies.

The over-all industry improvement target of \$3.4 billion in 1966 would include the balance of payments savings expected through the restraint on direct investment. For the individual company, the estimated improvement for the next year should also include the savings on direct investment outflow which corporate executives think they can make during 1966.

The target as formulated for direct investment has several advantages. In the first place, the three-year base period allows companies to account for direct investment activities in a way which reduces the influence of numerous aberrations which might occur in a single year, and it puts individual companies on a more equal footing. Secondly, by combining direct investment flows for 1965 and 1966, there is greater flexibility allowed companies who limited direct investment outflows during 1965. Those companies which repatriated a substantial share of their earnings and minimized capital outflow in 1965 will have additional headroom in 1966. The target essentially permits companies on the average to invest in two years up to 90 per cent of the amount they invested during the previous three years. Thus, it allows an average annual rate of investment during the two years 1965-66 about 35 per cent higher than the average for the three years 1962-64.

We also request restraint on the amount of short-term financial assets held abroad by the parent company and by its foreign affiliates. I have recommended that parent companies reduce their direct holdings of such assets at least to the level outstanding at the end of 1963. Many companies have already cut their holdings even below the 1963 level. We are hopeful that other companies will make the reduction as soon as possible, and that others will not rebuild previously reduced holdings. I also would hope that your company can economize on holdings of short-term assets by your foreign affiliates.

During the year ahead, we will want to work closely with individual companies in the management of the voluntary program. I will want to communicate periodically on an informal basis with the chief executives of the cooperating companies. However, I believe that proper management of the program requires an additional level of communication. Consequently, I am asking you and other principal officers of each company to name an alternate who is familiar with company policy and yet who may be somewhat more available for periodic discussions of the company's progress. Commerce Department officials who are assisting me in the management of the program would maintain liaison with your designee in those matters not requiring your personal attention.

I am requesting that the chief executive of each company review the worksheets reported each quarter to the Department of Commerce. It would be helpful if you could give me each quarter your personal appraisal of the extent to which your company is making progress toward achieving its over-all target forecast for 1966. I am also requesting company officials to enclose with their quarterly statistical report a commentary on their company's experience during the quarter from the point of view of the main items reported in the worksheet.

In developing the voluntary program for 1966, I have worked closely with the leaders of American business -- particularly with the Balance of Payments Advisory Committee of the Department of Commerce. In administering the program in 1966 -- as in 1965 -- I will continue to benefit from the advice and counsel of this distinguished group of American businessmen. This Committee is chaired by Mr. Albert L. Nickerson, Chairman of the Board, Socony Mobil Oil Company. The other members are: Carter L. Burgess, Chairman of the Board, American Machine and Foundry Company; George S. Moore, President, First National City Bank; Elisha Gray II, Chairman, Whirlpool Corporation; Sidney J. Weinberg, General Partner, Goldman, Sachs and Company; Carl J. Gilbert, Chairman, The Gillette Company;

Stuart T. Saunders, Chairman, Pennsylvania Railroad Company; J. Ward Keener, President, B. F. Goodrich Company; and Fred J. Borch, President, General Electric Company.

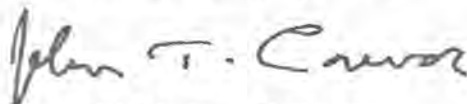
These members of our Advisory Committee have approved the voluntary program for 1966. They join me in asking for support of the business community in our efforts to improve the balance of payments.

I have also benefited from the advice and counsel of many other leaders of American industry; I am certain they will continue to volunteer such guidance in the year ahead and it will be welcomed.

Finally, I am personally confident that the leaders of American business fully understand the seriousness of the foreign situation which we face. The increased military effort in View Nam will put further pressure on our balance of payments, and, to help compensate for the added drain, we have found it necessary to strengthen the voluntary program for 1966.

But I am confident that the business community appreciates the urgency of the task to reduce further the deficit in our balance of payments. I also have no doubt whatsoever that they will cooperate on a voluntary basis in our extraordinary effort to achieve this vital national goal.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "John T. Connor". The signature is fluid and cursive, with the first name "John" being more prominent and the last name "Connor" written in a slightly more compact, cursive style.

John T. Connor



THE ASSISTANT SECRETARY OF COMMERCE
WASHINGTON, D.C. 20230

January 15, 1966

MEMORANDUM FOR: Chief Executives Participating in the
Voluntary Program to Improve the U.S.
Balance of Payments

FROM: Andrew F. Brimmer *Andrew F. Brimmer*
Assistant Secretary for Economic Affairs

SUBJECT: Worksheets for the 1966 Program

In writing to the principal officer of each company participating in the voluntary program to improve the U.S. balance of payments, Secretary Connor indicated that worksheets on which to report the progress of their activities during 1966 would be forwarded at a later date. At the Secretary's instruction, I have enclosed copies of the revised worksheets and the accompanying technical instructions to complete them.

In addition, I would like to comment on the main objectives of the reporting system and to indicate the rationale behind the treatment of some of the principal foreign transactions.

The Reporting System

The reporting system is designed to give a picture of foreign transactions for each company participating in the voluntary program that corresponds closely to the national balance of payments accounts prepared for many years by the Office of Business Economics in the U.S. Department of Commerce. As such, it measures the direct contribution of each company to the U.S. balance of payments. At the same time, the reporting system provides a convenient record whereby each chief executive officer can appraise the

progress of his own company within essentially the same framework used by other cooperating firms. From the point of view of the Department of Commerce, the periodic reports will enable us to chart the over-all progress of the voluntary program against the background of the national balance of payments statistics available to the public at large.

Statistical Reports

We have provided three worksheets in connection with the voluntary program for 1966:

1. Worksheet No. I - designed primarily for reporting projections of selected transactions for 1966 as a whole.
2. Worksheet No. II - provided to assist the companies in the calculation of the direct investment target for 1965-1966.
3. A quarterly worksheet -- on which the companies can record historical information each quarter as the year progresses.

The technical instructions accompanying each worksheet provide the detailed guidance for their completion. Here a few highlights can be mentioned:

Worksheets I and II are one-time reports. In Worksheet I, the projections for 1966 should reflect the company's best judgment at this time about the expected level of the transactions indicated during the course of 1966 as a whole. We realize that companies may not be able to project some of the transactions with the degree of accuracy which they would like. We would like to stress that these projections will not be taken as commitments by the company; rather, we have requested them only as a rough indication of the magnitude the companies have in mind. In his letter to each company, the Secretary of Commerce has asked the chief executive to

review these projections as the year progresses and to indicate whatever changes he thinks are necessary. It is also requested that comparable historical data for 1964 and 1965 be reported in Worksheet I. These data will be helpful to each of the chief executives and to us in the analysis of the outlook for 1966.

Worksheet II sets forth the instructions for the estimation of the direct investment target for 1965-66. As indicated in the Secretary's letter and in the instructions to the worksheet, for purposes of the target direct investment is defined as the net outflow from the United States for direct investment plus undistributed profits of affiliates in developed countries. The target requests that direct investment during the two years 1965-66 not exceed 90 per cent of the amount during the base period 1962-1964. Several additional comments on Worksheet No. II are made below.

As indicated above, the quarterly worksheet is provided to enable the companies to record on a historical basis their actual transactions. To a considerable extent, the quarterly worksheet for 1966 is an extension of the worksheet used in the voluntary program for 1965. Most of the transactions indicated were reported in summary fashion last year. For the current year, we have asked the companies to identify separately several of these items. We have requested that they report on a few additional types of transactions which have particular relevance to the 1966 program.

Treatment of Key Items in the Worksheet

It may be helpful to describe somewhat more fully the way in which the key items in the worksheet are treated:

Geographical Coverage - The voluntary program aims at over-all balance of payments improvement, but it is focused particularly on developed countries. (As indicated in the letter from the Secretary of Commerce, developed countries are those to which the Interest Equalization Tax applies.) The basic intention of the area groupings is to distinguish between transactions with developed and less developed countries.

However, the objective is to allocate capital, income, and other transactions with the companies' foreign affiliates to the areas where the principal assets and operations of the affiliates are located, rather than on the basis of the countries in which the affiliates might be incorporated. Thus, any financing provided from affiliates in less developed countries to those in developed countries, in excess of normal requirements of current business transactions, should be recorded in the worksheets as the equivalent of financing by the parent company to developed countries. As indicated in the Secretary's letter, companies are not asked to moderate direct investment in less developed countries.

Exports - Export expansion is one of the most promising avenues for improvement in the U.S. balance of payments. The Secretary of Commerce has asked companies to make an extra effort to expand exports to the world as a whole. In recognition of the significant role of exports to affiliated companies abroad, we have provided an opportunity for the company to report the share of total exports that moved directly to foreign affiliates. We also recognize that a parent company is often the originator and the party responsible for export shipments that are normally credited to another firm as the exporter of record. We understand that many items purchased in the United States by foreign affiliates and contractors of U.S. companies operating abroad are made at the suggestion of the American firm. In such cases, the value of the exports arranged by the reporting company may be recorded in a special addendum item if such information is available and the firm wishes to do so. The combination of both direct and indirect types of exports shown in the worksheet provides a good indication of the export effort of the individual company. However, in order to avoid duplication, the exports arranged by the reporting company but not shipped directly by it cannot be included in the summary statistics describing the export performance of the companies in the voluntary program as a group.

Imports - Total imports are included to permit a more authentic balance of payments statement for each reporting company. But, as the Secretary of Commerce has indicated, there is no advocacy of import restriction under the voluntary

program. For many firms, import data may be difficult to assemble and in such cases a limited coverage or partial estimates may be reported. However, the company should indicate this fact and the data should be reported on a consistent basis from period to period.

Earnings from Direct Investment - Earnings generated from foreign investment are a strong, positive element in the nation's balance of payments situation. Remitted and reinvested earnings should be reported separately. Under the direct investment target, the earnings reinvested in foreign operations are included in the target figure.

Other Earnings - In addition to earnings from direct investment, many companies have income from abroad in the form of royalties, licensing fees, and sales of services. These, too, are positive contributions to the balance of payments. In one sense, they are roughly equivalent to exports of merchandise, but they take the form of services rather than goods.

Direct Investment Capital Transactions - Under the balance of payments definitions, direct investment includes changes in inter-company accounts between the U.S. company and its foreign affiliate during the reporting period. The detailed definitions of direct investment are given in the technical instructions. From the standpoint of the balance of payments accounting, it should be observed that earnings of affiliates retained abroad have the same effect as the outflow of funds from the United States. For this reason, the two types of transactions are grouped together and treated as equivalents in calculating the direct investment target.

Long-Term Capital Transactions with Non-Affiliated Firms - Transactions under this heading are limited to those in equity securities and debt obligations with a maturity in excess of one year. This is a conventional definition used in balance of payments accounting. However, it has several advantages from our point of view. Short-term transactions may distort accounts dealing with a fixed time period, and their longer-run balance of payments contribution is difficult to assess and measure. The important long-term transactions are

borrowing and lending operations. Foreign debt financing undertaken specifically in support of the voluntary program was a prominent feature in 1965. Companies are urged again in 1966 to rely as much as possible on funds raised abroad in carrying out their foreign investment activities. The worksheet provides an opportunity for companies to record as a credit item the proceeds of such borrowing. U.S. incorporated subsidiaries which obtain more than 80 per cent of their income abroad can issue debentures which are subject to the Interest Equalization Tax when purchased by U.S. citizens. These firms issue bonds for sale to foreigners and subsequently lend or invest the proceeds in foreign affiliated companies. Since these subsidiaries are U.S. companies, the borrowing through bond sales to foreigners is counted as a capital inflow. The subsequent use of the funds abroad is recorded as a capital outflow. In the worksheets for the voluntary program the borrowing inflow is offset against the capital outflow. On the other hand, some companies have organized financing subsidiaries abroad that sell securities with or without guarantees of the U.S. parent company. Still other U.S. firms have relied upon foreign subsidiaries not specifically organized in this manner to raise funds for local needs.

The borrowing abroad by foreign incorporated companies reduces the need to employ U.S. funds for the execution of foreign investment plans, and the reported capital outflow will be smaller. Unlike the case of companies that have borrowed through U.S. incorporated subsidiaries, the borrowing by foreign affiliates does not result in an initial inflow and a consequent outflow. The worksheets are designed to treat the two situations in the same way from the point of view of the U.S. balance of payments. The above transactions involve borrowing through the public sale of securities. Some companies may choose to obtain long-term loans from banks or other financial institutions. The proceeds from such loans are treated in the worksheets in a way comparable to that described with respect to security sales. The foreign affiliates of U.S. companies may choose to raise funds for their own investment purposes by selling their equity securities to foreigners. The Secretary of Commerce has suggested to companies that, where it is appropriate to the company and the country, this step could yield a positive

contribution to the U.S. balance of payments. The worksheet provides an opportunity for the companies to record the proceeds from the sales of such equities.

Borrowing from U.S. Sources - Many foreign affiliates borrow directly from sources in the United States other than the parent. The worksheet provides an opportunity for the companies to record such transactions. These may include long-term bank loans, bonds, notes, and commercial credits. The worksheet asks that changes in the amounts outstanding be reported. These entries would provide a more comprehensive picture of the capital flows between the foreign affiliate and sources of funds in the United States.

Short-term Financial Assets Held Abroad - In May 1965 the Secretary of Commerce asked companies participating in the voluntary program to reduce the amount of short-term financial assets held abroad to the levels outstanding at the end of 1963. Again for the 1966 program, companies have been urged to meet that target if they have not already done so and in cases where they have met or exceeded that target to avoid rebuilding these holdings. The worksheet asks companies to report on the amount of such holdings outstanding at the end of each quarter as well as on changes during the quarter.

Striking an Over-all Balance

The worksheets are designed to permit the calculation of a net balance of the principal foreign transactions by the companies participating in the program. However, this net balance can be drawn only for total transactions and not for the separate geographic areas shown.

In his letter to the companies, the Secretary of Commerce asked them to exercise moderation in direct investment in developed areas. He stressed that one of the objectives of national policy is the encouragement of U.S. private investment in developing countries.

Since the voluntary program does not advocate restrictions on imports, the worksheet provides for the calculation of a

net balance excluding imports. In appraising the progress of the program, the balance excluding imports will be the focus of the analysis. Likewise, to avoid the duplication which would result from counting exports to affiliates or contractors arranged by the parent company but not shipped directly by it, such efforts will not be included in the tabulations when the transactions of individual companies are summarized to provide a picture of the over-all performance of the companies considered as a group.

Schedule of Reporting

Worksheets I and II are the basic reports providing information for the guidance of the program during 1966. It is requested that these be completed and returned to the Secretary of Commerce as soon as possible but not later than 30 days after their receipt. As the Secretary indicated in his recent letter, the data for 1965 should be recast on a quarterly basis to conform to the categories in the 1966 worksheet. For these 1965 data, companies should use the revised quarterly worksheet. Some companies may not find it possible to complete the revision of the data for 1965 by the time they submit Worksheets I and II requested in connection with the 1966 program. However, it is hoped that the revision of the 1965 statistics will not delay the submission of Worksheets I and II -- which we would like to receive by February 15th or shortly thereafter.

We would like to be able to make a final assessment of the voluntary program as defined in 1965. Therefore, the 500 companies that have been reporting under the 1965 program are requested to submit data on the earlier basis for the fourth quarter of 1965 and for the year as a whole on the worksheet which was in use during 1965. This should also be done for any other quarter of 1965 which has not been reported.

Enclosures

U. S. DEPARTMENT OF COMMERCE

January 14, 1966

List of Developed Countries

<u>Western Europe</u>	<u>Other Developed Countries</u>	<u>Canada</u>
Austria	Abu-Dhabi	
Belgium	Australia	
Denmark	Bahamas	
France	Bahrain	
Germany (Federal Republic)	Bermuda	
Ireland	Hong Kong	
Italy	Indonesia	
Liechtenstein	Iran	
Luxembourg	Iraq	
Monaco	Japan	
Netherlands	Kuwait	
Norway	Kuwait - Saudi Arabia Neutral Zone	
Portugal	Libya	
San Marino	New Zealand	
Spain	Qatar	
Sweden	Republic of South Africa	
Switzerland	Saudi Arabia	
United Kingdom		

Countries within the Sino-Soviet bloc:

Albania, Bulgaria, any part of China which is dominated or controlled by International Communism, Cuba, Czechoslovakia, Estonia, Hungary, any part of Korea which is dominated or controlled by International Communism, Latvia, Lithuania, Outer Mongolia, Poland (including any area under its provisional administration), Rumania, Soviet Zone of Germany and the Soviet Sector of Berlin, Tibet, Union of Soviet Socialist Republics and the Kurile Islands, Southern Sakhalin, and areas in East Prussia which are under the provisional administration of the Union of Soviet Socialist Republics, and any part of Viet-Nam which is dominated or controlled by International Communism.

UNITED STATES DEPARTMENT OF
COMMERCE

John T. Connor, Secretary

Washington, D.C.

Office of the Secretary

FOR RELEASE AT NOON, JANUARY 24, 1966

REMARKS BY SECRETARY OF COMMERCE JOHN T. CONNOR
PREPARED FOR DELIVERY AT THE ECONOMIC CLUB OF
DETROIT, DETROIT, MICHIGAN, JANUARY 24, 1966

The United States has many capitals. Washington is our political capital; New York City our financial capital; and Detroit is the capital of the automobile industry--an industry that epitomizes the bountiful efficiency and continuing progress of our free enterprise economy.

Right at the outset I want to say that Washingtonians are the first to admit that better automobiles can be made in Detroit than in Washington. So today in Detroit I plan to talk mostly about the automobile industry, and the far-reaching ramifications it has for all of us, whatever our pursuits.

The motor vehicle has done more than lift the ceiling on our economic statistics. It has revolutionized the style and quality of American life.

The very success of the industry has given rise to challenges which would not exist if Americans had not taken the automobile to heart so naturally and so completely. Its success, however, has also given you the strength and resources to meet these challenges. I would like to look at both sides of the coin with you.

US Comm--DC--33464

against the backdrop of a broader, national challenge which faces all of American business today.

In the first year of automobile production in this country, 65 years ago, the industry turned out a little more than 4,000 units, valued at about \$5 million. Last year more than 11 million units were produced, with a value of \$21 billion -- an all time record. Those two sentences tell the greatest industrial success story of the century.

The auto industry has had an important and far-reaching effect on the pattern of employment throughout the entire nation. More than three-quarters of a million businesses are based on the automobile. One out of every 7 wage earners is dependent upon the industry in one way or another.

Of tremendous significance to all of us is the fact that the automobile industry is the largest single employer in the U. S. -- with around 700,000 persons. Only government and wholesale and retail trade employ more people. Autos use up half of our petroleum output, three-fifths of the rubber, more than half the lead, more than one-fifth of the steel, one-third of the zinc, and about 15 percent of the aluminum, copper and nickel.

But these facts and figures suggest only one aspect of the industry's contribution to our economic life.

The principles of factory efficiency developed in the auto industry have been widely copied in other areas. The assembly line was first placed in effective operation in the auto industry. The industry pioneered in developing inter-company technical standards, as well as cost control and management techniques. Decentralized operations and responsibilities -- with coordinated control, now an accepted concept in business management, were pioneered within the motor car industry.

Detroit has played an important role in upgrading the skills of our labor force. Today, the industry is making a contribution toward the solution of one of our major problems -- the wider employment of Negroes at all levels -- blue collar and white collar, as well as management.

The auto industry's place in our economy is dramatically illustrated by a major analytical tool recently put into use by the Commerce Department. This is input-output analysis, which enables us to measure the effects of a given level of output in one industry on all related industries.

The production of \$1 billion worth of automobiles, for example, requires nearly \$203 million from the iron and steel industry, \$51 million from nonferrous metals, \$48 million from the rubber industry, \$16-1/2 million from the glass and glass

products industry, and more than \$20 million from finance and insurance. And there are many other industries which similarly benefit from auto sales.

In the immediate future -- 1968 or 1969 -- America will be traveling one trillion vehicle miles a year, and we will be producing 12 million trucks and cars. The prospects are that this enormous output of motor vehicles will require 22 million tons of steel, 1,200,000 pounds of aluminum, one million bales of cotton, 1,600,000 tons of rubber. And we will be consuming more than 80 billion gallons of gasoline.

Motor transportation has a massive stimulating effect on all segments of economic activity. Our economy literally moves on wheels, the wheels of Detroit.

And this economic activity involves thousands of small entrepreneurs who supply parts, products and services to the manufacturers and the motoring public. Included within the automobile-based segment of the economy are more than 2,000 manufacturers of vehicles or equipment who employ less than 250 workers. There are almost 50,000 individual repair shops with less than 8 employees, more than 100,000 service stations with less than 4 workers. So the economic benefits of motor transportation are widely dispersed throughout the country.

But what does the far future hold for the auto industry? The number of licensed drivers is expected to double by the year 2000. Automobile production will almost have to double

between now and then even if we only maintain the present ratio of automobiles to licensed drivers. But we will probably better this record. Increases in per capita income and in population, brighten the future of the industry. We estimate that annual production will have to reach 20 million passenger cars to meet the demands of the year 2000.

The motor vehicle industry also has a great potential for growth in the developing countries. Transportation facilities are a necessary prerequisite for the achievement of even the first steps of economic development. Without transportation, little can be done to bring land into production, build industries, provide necessary channels between factory, farm, and markets, and translate the wealth of forests and mines from potential into reality.

We estimate that in Latin America per capita GNP will more than double by the year 2000. Population there is expected nearly to triple. These gains may mean registrations of about 26 million cars by the end of this century, compared with the current level of 3 million cars.

The prominent international position of the auto industry gives it a key role in President Johnson's voluntary program to improve the balance of payments. The postwar years have witnessed an extraordinary expansion in the foreign operations of your industry. The basic pattern has been the creation of

major manufacturing facilities abroad rather than any substantial expansion of exports from the U. S. Taking the American transportation equipment industry as a whole, the book value of foreign affiliates increased from about half a billion dollars in 1950 to almost 3-1/2 billion dollars in 1964. There were correspondingly large increases in the earnings of these affiliates and in their remitted profits.

I am very pleased to be able to report that the auto manufacturers rank with the top performers among participants in the 1965 balance of payments program. From recently submitted estimates, it appears that the auto firms registered an improvement in 1965 of more than 20 percent over their 1964 contributions to the U. S. balance of payments. This is more than twice the percentage improvement expected for all of the participating companies collectively.

In fact, preliminary data indicate that the auto companies contributed about one-fourth of the total improvement of \$1.3 billion expected under the 1965 Voluntary Program. This was a response to our country's need of which the automobile industry can be deservedly proud. The overall increase in contributions by the motor vehicle companies was

accomplished mainly through increased exports and through reductions in capital outflows. The major firms made sizeable increases in their foreign borrowings so as to carry out foreign investment schedules while restricting the outflow of U. S. funds.

Our efforts to improve the balance of payments naturally led us to examine closely our export position and to strive for ways in which exports can be expanded. The motor vehicle industry has managed to expand exports in the face of more than a normal amount of difficulties. Its products must contend not only with all of the common hinderances to foreign trade and operations but they must cope, in addition, with others specifically aimed at that industry. Sales of American automobiles abroad have long been inhibited by internal taxes of various forms that effectively discriminate against the U. S. -built car. Customs duties many times larger than the U. S. duty are a major deterrent to our exports. The Common Market countries and the United Kingdom have a duty rate of 22 percent compared to the U. S. import duty of only 6-1/2 percent.

These factors create a sharp difference between the retail price of a U. S. car in this country and the price tag it carries in foreign markets. For example, one particular car with standard equipment has a suggested retail price in the U. S. of just under \$3,000. This same car has a list price of over \$7,000 in France, over \$6,000 in Austria, over \$5,000 in Belgium, over \$6,000 in Italy. Obviously, the inflation of medium-priced American cars to such high values in other countries is a severe deterrent to exports of these cars.

Despite these difficulties, however, exports by the industry increased \$300 million between 1957 and 1964. However, the inhibiting effect of the barriers, and the incentives these barriers provide for production overseas, can be seen by the remarkable performance of sales from foreign production facilities. During the same period sales from foreign plants increased more than ten times as much as exports.

We in Government are constantly pressing for removal of unjustified import restrictions and for equitable tax treatment where discrimination against U.S. products is involved. In the Kennedy Round negotiations, we are seeking tariff concessions on automobiles. We are also seeking more equitable tax treatment in the application of road taxes of certain European countries.

We are pressing the Japanese to modify the commodity tax on automobiles, which amounts to 40 percent of most U.S. vehicles and either 20 or 30 percent on most other nation's vehicles.

A major recent accomplishment in the ground rules governing international trade was the recently enacted Canadian-American agreement which provides for free trade in original motor vehicle equipment between the two countries. This Agreement promises to benefit both countries significantly and is a milestone on the road toward freer trade between Canada and the United States.

What we see then, as we survey the automobile industry in modern America, is a dynamic center of strength in our economy, based on a technological invention that has had widespread social, cultural, educational, political, and many other consequences in the lives of every citizen. America literally drove into a position of world leadership during the twentieth century on the wheels of the motor vehicle.

America has become a motorized nation. We have taken automobile products into every corner of the country, into every facet of our lives. We have become dependent upon automobiles for the essentials of life, as well as for the pleasures and diversions of life. Our economic growth is inextricably linked with the healthy growth of the automobile industry. The integration of cars into our daily lives, however, because it has been so widespread, has been accompanied by some problems and challenges which are now attracting national attention.

Highway safety, the beauty of our countryside, a clean environment, the role of private cars in urban transportation, these subjects are on the current agenda of social observers, economists, government and professional leaders, and a host of other groups who are concerned about the nature and direction of national life. All too often, the automobile is seen as the one and only cause of many of our problems. This is a gross oversimplification.

But the automobile does play a part in these problems, and the automobile industry has a responsibility to help meet the challenges posed by these problems. Fortunately, the intellectual and material resources which have brought the industry to a position of great prominence in national life will serve it well as it prepares to meet these challenges.

We have come a long way, in highway safety, from the situation that existed decades ago. Mile for mile, the fatality rate for highway travel in this country is half the rate of Western Europe and one-fourth the rate of Japan. We take no comfort from these statistics, however, and we are determined to do better in the future.

There are a number of actions at the Federal level of Government which reflect mounting national concern with the problem of highway safety. Beginning in 1968, for example, each state will be required to have a highway safety program which meets uniform Federal standards.

Two years ago, President Johnson spurred a special effort to eliminate danger traps along older Federal-aid highways. The State of Virginia, to cite just one example, reduced accidents 66 percent under this spot improvement program. So we know that many lives and much loss can be saved by engineering.

The Interstate Highway System itself represents a significant advance in the area of highway safety. The fatality rate on the Interstate System is 2.8 per 100 million vehicle miles, compared with a rate of 9.7 on other roads, truly a remarkable example of what can be achieved.

As you know, there has been a great stir of interest and action on highway safety by both houses of Congress in the past year and this activity will no doubt accelerate during the coming session, highlighted by President Johnson's proposed Highway Safety Act of 1966.

One of the most encouraging developments, in my view, is the recent announcement by the University of Michigan that a highway safety research institute will be established, supported by the automobile industry. The significance of this announcement arises, not so much from the substantial amount of funds involved, nor from the research program which will be carried out, but rather as one more dramatic example of a responsible industry helping to meet the challenge of highway safety. And the special public information program initiated recently on all phases of automobile driving safety by a leading automobile manufacturer certainly deserves a special word of commendation.

In the field of landscape beauty, Government has responded with the Highway Beautification Act, controlling billboards and junkyards along highways that benefit from Federal aid. I note, with satisfaction, that one of the leaders in the automobile industry has decided to buy the equivalent of a quarter of a million junked cars each year, in the form of fragmented steel. Here is a combination of public service and technological ingenuity at its very best.

Maintaining a clean environment is becoming an increasingly difficult problem in our urban and highly industrialized society. There are many causes of air pollution. There are many essential

requirements in modern life, however, where we have had to balance a certain level of pollution against other social objectives and needs.

It has been gratifying to me to note that industry's voluntary efforts to solve the air pollution problem, with respect to motor vehicles, have pre-dated the issuance of Federal regulations in this area.

Finally, the role of the individual automobile in our total transportation picture has come under close and sometimes critical scrutiny in recent months. The automobile is attacked, defended, and interpreted in terms of land use, economics, city planning, cost-benefits, mass transit, and even Freudian psychology.

I don't pretend to be an expert in any of those areas, but one thing is clear--transportation in this country will increasingly be approached from a total systems point of view. This trend is clearly reflected in President Johnson's announced intention to create a Cabinet level Department of Transportation. Thus, more than ever, the automobile industry has a responsibility to help define the role of private motor vehicles in the national transportation picture.

All of the challenges I have mentioned call for resolute programs of action by our most important industry. But there is an additional element which must not be ignored. To the extent that the automobile industry exercises responsible leadership in matters of public concern, there will be correspondingly less pressure for Governmental action. The judgment, in matters such as these, is ultimately based on public confidence -- confidence among the general public that the industry is acting in a responsible manner.

So I would encourage those of you interested in this industry, as you shoulder your public service responsibilities, to make your story known. In this less-than-perfect world, it is not enough merely to do the right thing. People must know that you are doing the right thing. A solid bond of confidence between the public and the automobile industry would help provide the foundation to solve every problem I have mentioned today.

It is important to recognize that in our complex, inter-dependent society, business shares mutual interests not only with the public, but also with Government. Every Government activity, every Government program depends for its support on the strength and vitality of the economy. This situation requires a spirit of close cooperation between the two parties.

Recognizing this fact, business and Government in recent years have demonstrated genuine effort and good faith in making this partnership work. And the record of the past five years proves beyond doubt that the partnership has worked for the benefit of everyone: business, labor, Government, and the general public.

Five years ago the nation was in the depths of a recession. Gross national product was about \$500 billion. Corporate profits were \$45 billion. Personal income was about \$400 billion. Five and one-half million Americans were out of work.

Today, we are in the fifty-ninth month of uninterrupted economic growth. Gross national product last year was more than \$675 billion. Corporate profits were more than \$73 billion. Personal income was over \$530 billion. Unemployment was down to less than 2.9 million. Eight million new jobs have been added to the economy in the five year period. And 1966 looks just as good.

I might point out that during this same period, the auto industry put together four consecutive good years, a feat never before accomplished.

What happened to cause this dramatic upturn in the economic life of the nation? There is no single simple explanation. An

increasingly skilled labor force was a factor. So were the vitality and initiative of business management. Government did its part, through sound fiscal and monetary policies. Put these things all together and they spell cooperation. In fact the cooperation has worked so well that our problem today is not how to get the economy out of a recession, but how to handle unparalleled growth and record prosperity with wisdom and finesse.

The natural pressures generated in any expanding economy have been complicated, in our case, by the greatly increased military requirements arising from the situation in Vietnam. The gap between our potential output and our actual output has been narrowing in recent months. As the gap narrows, the challenge facing us is: Can we maintain a balanced prosperity? There is no question about our ability to produce all the goods and services the nation requires. The problem is to do this without disruptions caused by labor and material shortages, and to do the job without inflationary pressures on wages and prices.

In my view, we can meet these challenges. We can, that is, if business, labor, and Government continue to work together. The competing and sometimes conflicting demands of all groups in our society, at a time such as this, ultimately come into focus at

1600 Pennsylvania Avenue in Washington, D. C. What does the situation look like from the White House? Put yourselves, for a moment, in the place of the man who occupies that seat, President Lyndon B. Johnson.

What are the alternative courses of action he sees when prices and wages threaten to escalate to inflationary levels?

Should we fall back on laissez-faire economic theory? Should we let an expanding economy and growing military requirements simply collide? Should we accept the inevitable inflation which would follow? This course is out of the question, for it would wipe out many of the social and economic gains of the past five years and impose intolerable burdens on our older citizens and others of fixed income who can least afford the consequences of inflation.

Or should we consider some form of legislative controls over wages and prices? Controls which would be centrally administered, by people far removed from the complicated workings of supply and demand in the marketplace? The President doesn't want this. The public doesn't want this. Labor doesn't want this. And business doesn't want this.

Finally, should we seek some middle course, a course based not on legislation and compulsion, but on good faith and cooperation? Given the alternatives, I see this as the only

reasonable course of action. If we want to preserve the economic gains of the past five years, if we want to maintain our free world leadership, if we want to make good on our social and humanitarian obligations, then what we need is not less cooperation, but more cooperation and understanding between business and Government.

We need a course of action in which there is give and take on both sides, a course of action which recognizes that there are bound to be differences, but which also recognizes that good sense must, in the end, prevail.

On any mature basis of appraisal the forces that bind business and Government in common purpose are far stronger than the strains that tend to divide us.

We need statesmen in business no less than we need statesmen in Government. We need to recognize that these are exceptional times, and exceptional times call for exceptional acts of sacrifice and understanding, based on confidence and good will and concern for the public interest.

The continued maintenance of wage-price stability is a challenging task. But as the business and banking communities demonstrated by their magnificent response to the balance of payments problem, a challenge of this type can be successfully met if there is understanding and cooperation on all sides.

In saying this, I recognize that countering inflationary pressures is, in some ways, more difficult than most other tasks. In the balance of payments situation, for example, nearly all the variables are subject to management actions by corporation executives. Cost-price levels, on the other hand, frequently involve factors which are beyond the direct control of the average businessman.

We hope, and we expect, that in 1966 the American economy will rise to record heights of achievement. We also hope, and we expect, that in 1966 American business will rise to new heights of public service, to new levels of cooperation with government in the public interest, so that we may meet all of our goals and commitments, both at home and abroad.

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UNITED STATES DEPARTMENT OF
COMMERCE

John T. Connor, Secretary

Washington, D.C.

Office of the Secretary



REMARKS BY SECRETARY OF COMMERCE JOHN T. CONNOR
PREPARED FOR DELIVERY AT THE EXHIBIT OPENING THE
"AMERICA WEEK" PROGRAM, U. S. DEPARTMENT OF
COMMERCE LOBBY, WASHINGTON, D. C., 3:00 P.M., TUESDAY
JANUARY 25, 1966

Good afternoon, everyone -- and thank you for joining
us today.

The America Week program, formally beginning today,
is the newest of our international trade promotion programs,
taking its place alongside established activities such as our Trade
Centers, Trade Fairs, Trade Missions, and Mobile Trade Fairs.
It is the first Department of Commerce program to concern
itself exclusively with the sale of consumer goods.

An appropriation made available last year by Congress
will enable the Department to furnish meaningful incentives for
sales in "America Week" promotions held abroad. These are
special retailing promotions that feature U. S. consumer
merchandise.

The policies that will govern the program are very simple. We will provide the retailer who proposes to operate an America Week event with the kind of promotional assistance that is not readily available to him through normal commercial channels. This assistance will usually consist of an exhibition or demonstration, such as the one you see here today. We do not propose to operate any of these promotions ourselves--nor do we propose to try to tell the retailers of the world how they should be run.

As soon as this exhibition in Washington closes, the display you see here today is going to be shipped to one of the great department stores of the world: the Galeries Lafayette, in Paris. It will be placed on exhibition there during an America Week Promotion beginning March 15.

There need not be any special relationship between the type of attraction we provide and the type of merchandise being offered for sale. We know that Galeries Lafayette is not just trying to sell items from the American West, but will present a wide variety of U. S. merchandise. Our objective is to attract people to the store during the promotion so they may see and buy this merchandise. We think this exhibition will accomplish that objective in Paris.

Our Western heritage is a familiar story throughout the world. Movies--both in the theaters and on television--have brought the story of the American West to virtually every family in Europe. We now want to give some of these people an opportunity to visit Galeries Lafayette during its America Week promotion and see some of these "Treasures of the West" for themselves. Following the exhibition in Paris, we expect to place the exhibit on display in other countries, with other prominent retailers.

In this way we hope to continue to strengthen the bonds of friendship and commerce that unite us with the people of Europe.