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259

THE UNITED STATES BALANCE OF PAYMENTS

REPORT

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

WITH ADDITIONAL VIEWS

MARCH 19 (legislative day, MARCH 9), 1964.—Ordered to be printed.

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March 19, (legislative day March 9,) 1964.—Ordered to be printed

Mr. Douglas, from the Joint Economic Committee, submitted the following

REPORT

THE U.S. BALANCE OF PAYMENTS
REPORT OF THE JOINT ECONOMIC COMMITTEE

I. THE BACKGROUND AND PROBLEM

The United States emerged from the Second World War as the leader of the free world in international finance and commerce. The reciprocal trade agreements program, begun in 1934, was a leading factor in the mutual reduction of tariffs and the lowering of the non-tariff barriers to world trade erected during the international economic disintegration which characterized much of the interwar period. The United States provided support to this program by helping to create the General Agreement on Tariffs and Trade (GATT). Its own willingness to bargain tariffs down provided the necessary climate for the important tariff negotiations of the postwar years.

Following the end of World War II the dollar became the free world's leading currency, and the United States found itself, as never before, a world banker. The United States played a dominant role in creating the International Monetary Fund to provide a source of international liquidity and a set of rules for international financial conduct. The United States led in the establishment of the International Bank for Reconstruction and Development, believing that assistance to the world's less developed areas is necessary to the achievement of expansive, nonrestrictive financial and commercial policy objectives. And the United States has provided many nations, since the end of the war, with a total of more than $100 billion of economic assistance—much of it in the form of outright grants.

The U.S. balance of payments has been in deficit in 13 of the past 14 years. The main factors contributing to this unfavorable payments position have been substantial currency devaluations by other countries, the rebuilding, with American help, of the war-damaged economies of Europe and Japan, and heavy U.S. commitments abroad for private investment, economic and military assistance, and defense programs.[1] Despite mounting concern at home, among foreign monetary authorities and within the International Monetary Fund, and the application of a number of policy measures, including a rise in the rediscount rate and the tying of foreign aid, substantial balance-

NOTES:

1. Comment by Congressman Curtis: "I am joining in this report because I agree with its major findings and recommendations and believe that the full weight of the committee should be behind them. However, I have footnoted various portions of the report where I disagree with the majority or where I wish to express my own views in greater detail. Additional comments amplifying my views can be found in my additional views at the conclusion of the report." (See p. 20.)

2. Senator Javits joins in the report but has noted his comments and reservations in his additional views. (See p. 24.)

[1] Representatives Curtis and Kilburn and Senators Miller and Jordan: "Loose Government fiscal and monetary policies and large and chronic budget deficits have impaired confidence in the dollar and have also contributed in large measure to the balance-of-payments deficit and gold outflow."

of-payments deficits have continued. These deficits have resulted in significant gold losses and to some extent have diminished confidence in the dollar abroad. As a result, the United States has increasingly been constrained, in pursuing its domestic objectives, as set forth in the Employment Act of 1946, as well as its international goals, by the necessity of protecting its international liquidity position.[2 3] Restoration of balance has now become an urgent problem for the Nation.

II. COMMITTEE HEARINGS AND STUDIES

The Joint Economic Committee in 1963 made the balance of payments a primary focus of its attention. Its work in this area followed and extended the broad studies of the U.S. international economic position which were undertaken in 1961 and 1962 by the Subcommittee on Foreign Economic Policy under the chairmanship of Congressman Hale Boggs and the Subcommittee on International Exchange and Payments under the chairmanship of Congressman Henry S. Reuss. The committee held hearings on July 8 and 9 on current balance-of-payments problems and policies, and received testimony by Treasury Secretary Dillon and Under Secretary Roosa. On July 29 and 30 hearings were held on the outlook for the balance of payments. These hearings centered on a study entitled "The U.S. Balance of Payments in 1968," by a group of Brookings Institution authors. The study contained two 5-year projections of the balance of payments, one based upon assumptions provided by the Council of Economic Advisers and another based upon more modest growth assumptions provided by the Brookings authors. The committee heard the Brookings authors present their report, and received a critical evaluation of the study by four expert witnesses. The committee subsequently added to the public record of these hearings a compendium of 68 critical statements by economists, bankers, and others on the Brookings balance-of-payments study assessing, from various points of view, the likelihood that the projections for 1968 will actually be realized.

Further hearings on the balance of payments were held November 12–15. These hearings considered the functioning of the existing gold exchange standard, short-run measures to strengthen the dollar, the advantages and disadvantages of greater flexibility in exchange rates, and the problem of international liquidity. During the 4 days devoted to these hearings, the committee had the benefit of testimony from 10 experts, including a banker and leading authorities from universities, some of whom have served in high policymaking positions in the U.S. Government.

To supplement its hearings and focus attention on important policy issues in the balance of payments, the committee released in November a volume of staff materials entitled "The United States Balance

[2] Senator Miller (see footnote [1]): "It should be emphasized that to the extent the constraining influence has tended to impede loose Federal Government fiscal and monetary policies, the balance-of-payments deficits have served a useful purpose."

[3] Representative Widnall: "I agree with Mr. Curtis that loose fiscal and monetary policies coupled with chronic budget deficits have contributed to loss of confidence in the dollar. The argument that such should not be the case is academic. It should be kept in mind throughout this report that loss of confidence in the dollar by those abroad does not pose an economic problem alone. The position of the United States as an example to the emerging nations, and as the leader of the free world, is directly affected."

of Payments—Perspectives and Policies." The five parts of this document are:

I. Perspectives on the U.S. International Financial Position.
II. Foreign Assistance Criteria and Balance of Payments Problems.
III. Defense Programs and the Balance of Payments.
IV. Business Cycle Influences in the U.S. Balance of Payments.
V. Will Growth End the Payments Deficit: The Lessons of Past Experience.

An appendix to the document lists quantitative restrictions maintained on imports by certain foreign countries.

The committee takes this opportunity to express its gratitude and appreciation for the valuable assistance it has received from its expert witnesses, the many contributors to its publications, and its staff. In 1963 Dr. Gerald A. Pollack, the committee's international economist, was principally responsible for the staff work on problems of the balance of payments.

III. FINDINGS

A clear distinction must be maintained between the need to promote adjustment to international imbalance and the problem of international liquidity.

Adjustment is necessary whenever persistent deficits occur in the balance of payments. The function of international liquidity is to provide the means for financing balance-of-payments deficits during the period of adjustment to a new equilibrium. But liquidity is no substitute for adjustment, and no amount of liquidity would be adequate in its absence. Adjustment should occur in a manner consistent with expansive and nonrestrictive international policies in trade and finance and consistent also with domestic objectives of economic growth and maximum employment.[4] To be sure, these qualifications suggest that adjustment will be slower than might otherwise be the case and that international liquidity must therefore be larger.

The difference between "buying time" and "marking time" must be kept clearly in view. The expansion of international liquidity through larger credit facilities is desirable. In the long run, it is inevitable.[5] But increases in international credit must go hand in hand with adjustment, both on the part of surplus and deficit countries. International credit requires repayment, either actual or potential, and this, in turn, imposes an extra responsibility on deficit countries not only to eliminate their balance-of-payments deficits, but to provide ways and means for coping with their debts. This does not mean that international credit facilities should not be expanded; it means only that international credit must be used wisely—as a complement to, and not a substitute for, the necessary adjustment.

[4] Senator Miller: "Also preservation of the purchasing power of the American dollar."
[5] Senator Miller: "It may well not be inevitable, particularly if the international adjustment mechanism functions as it should."

Concerning adjustment

(1) International equilibrium is the responsibility of all nations—surplus as well as deficit countries.

All countries of the free world have a common interest in maintaining a smoothly functioning international monetary system. Moreover, with some exceptions, deficits and surpluses are not the result of the policies of any single country. Most often, they result from the interaction of the policies of many nations, those in surplus as well as those in deficit. Thus, international equilibrium is the mutual responsibility of all countries.

(2) The United States must achieve reasonable equilibrium in its international accounts within the near future.

Because mutual responsibility for international equilibrium is not adequately recognized by the surplus countries, the United States has no alternative but to demonstrate that it can unilaterally control its balance of payments. Effective action must be taken even though the results may not be to the immediate advantage of the free world.[6] Regardless of what is done to provide for the long-term growth of international liquidity, it is imperative that the United States bring its balance of payments under firm control within the near future.

(3) Price stability in the United States is a vital objective for international as well as domestic reasons.

Price stability to safeguard the purchasing power of the dollar has always been an important domestic objective. In recent years, Government officials and the public have become increasingly aware that this domestic objective is also necessary for international reasons.[7] The need to eliminate the undesirable deficit in the U.S. balance of payments, in the context of expansive, nonrestrictive commercial and financial policies, has made the expansion of exports relative to imports a matter of vital importance. This objective, in turn, is best served if domestic prices are stable, or decline slightly with increases in productivity. The United States must improve its competitive position in world markets.

Stable prices need not be inconsistent with rising wage and salary rates, and growing returns to investors.[8] The guideposts for noninflationary wage and price behavior spelled out by the Council of Economic Advisers suggest how, by keeping wage increases within productivity limits, rising income levels are compatible with price stability or even some modest price reductions.[9]

[6] Senator Miller: "By preserving the financial stability of the United States, the long-term advantage to the free world is obvious."

[7] Senator Miller: "It is regrettable that such increasing 'awareness' has not been matched by the deeds of a majority of the Members of Congress, which clearly subscribes (by its votes) to a policy of multibillion-dollar deficits accompanied by the steady deterioration in the purchasing power of the dollar."

[8] Senator Miller: "But they are inconsistent with reduced purchasing power of the dollar promoted by multibillion-dollar deficits of the Federal Government."

[9] Representatives Curtis and Kilburn and Senators Miller and Jordan: "This does not imply approval on our part of the guideposts, which are not a proper or useful substitute for sound fiscal and monetary policies to restrain inflationary forces."

(4) It would be unwise to relax efforts to promote international equilibrium because of reliance on optimistic balance-of-payments projections.

The Joint Economic Committee has carefully reviewed the 5-year balance-of-payments projections prepared at the request of the Council of Economic Advisers. It has a high regard for the analysis on which the projections are based but concludes that the underlying assumptions are so questionable and the uncertainties of forecasting international accounts so great that no substantial reliance should be placed on the quantitative results.

(5) The existence of large liquid liabilities to foreigners has been an undue, exaggerated restraint on U.S. freedom of action on domestic and world affairs.

American officials have allowed the fear that foreigners might convert their dollars into gold to become an all-pervasive stifling influence on U.S. initiative and action on a wide range of domestic and international problems.[10] [11] This fear has enabled foreigners to exercise a powerful influence on U.S. policy which, on the basis of realities, should not be theirs.

The committee recognizes that certain foreign countries, because of their large dollar holdings, have it in their power to wreck the international monetary system. Such a development would be a catastrophe for all. It would probably undo the progress of the postwar years in freeing international trade and finance, and return the world to the chaos of the 1930's.

These foreign countries, however, should remember that their stake in the stability of the international monetary system is relatively much greater than that of the United States. International transactions are a much smaller part of the U.S. economy than they are for other countries. While exports are only 5 percent of the U.S. gross national product, the corresponding percentages for selected other countries are: Netherlands, 52 percent; Belgium, 37 percent; United Kingdom, 24 percent; Germany, 23 percent; Switzerland, 22 percent; and France, 16 percent.

The United States recognizes its responsibilities to maintain and improve the functioning of the international payments system. However, certain other countries have adopted a shortsighted view of their responsibilities and their own best interests. The actions of some to increase the gold component of their reserves, at the expense of the U.S. gold stock, would almost seem in the broad view a courting of self-destruction, because it undermines the system on which they depend to a greater degree than does the United States.

[10] Representatives Curtis and Kilburn and Senators Miller and Jordan: "We do not believe that the large liquid liabilities held by foreigners have exerted an 'undue, exaggerated' restraint on our freedom of action in domestic and world affairs. The existence of mounting liabilities against a shrinking gold stock is a very real problem which has rightfully exerted an influence on U.S. policy. But this influence has been neither 'undue' or 'exaggerated' nor 'all-pervasive and stifling.' In fact, had the influence on policy of our unfavorable international position been greater, effective action to end the balance-of-payments deficit and the gold outflow would have been taken before now."

[11] Representative Widnall: "I agree with Mr. Curtis' views. The existence of large liquid liabilities to foreigners is a symptom of the more serious problem. We seem to have been more concerned with the reaction of foreigners to steps we might take at home and abroad to cure the basic problem than with the idea of a run on our gold supply".

The United States must correct its balance-of-payments deficit. But American officials should recognize how large a stake other countries have in the strength of the dollar, and they should take a more realistic view of other countries' bargaining power. The United States should be less inhibited in the pursuit of important policy objectives at home and abroad.

(6) The committee recognizes that capital movements raise especially difficult problems so long as other countries restrict outsiders' access to their capital markets.

While the United States is a natural capital exporter because of its wealth and high level of savings, demands by foreigners for U.S. capital have been distorted and swelled by restrictions on and institutional barriers to foreign borrowing in the capital markets of other countries.

Foreign restrictions include exchange regulations, rules governing the issuing of new foreign securities in domestic markets, limitations on the freedom of domestic residents to purchase new or outstanding foreign securities, requirements of official approval for certain long- or short-term capital transactions, and taxes and fees that discourage foreign borrowers. In addition, the development of broad and active capital markets abroad has been slowed by structural and institutional impediments, as well as by government policies, such as concessions and subsidies, designed to channel savings into officially favored uses. The United States has therefore absorbed that part of the total demand for funds by foreigners which would have been satisfied in foreign capital markets in the absence of controls and impediments abroad.

The United States should continue to press for the removal of these obstacles by other countries on access to their capital markets. Such action is an essential condition for the creation and operation of a world-trading community based on expansive, nonrestrictive principles of international competition. Restrictions on the free movement of capital imposed by ourselves or by others, except possibly to curb flows of speculative, "hot" money, work against the long-term interests of the United States and the rest of the free world.

So long, however, as other countries distort free market forces by restrictions on capital movements, the United States may regretfully be compelled to place some limitations on foreign access to the U.S. capital market for short-run balance-of-payments reasons. In these circumstances, the unlimited and free access of foreigners to the U.S. capital market is not required under the principles of competitive, free-market economics to which we are dedicated.

The committee recognizes that the United States cannot under present circumstances permit a continuation of the trend toward a rapid and artificially created increase in foreign long-term borrowing in the United States. However, the committee believes that measures to restrict capital flows, such as the proposed interest equalization tax, can be justified only in the short term while other countries are persuaded to dismantle their capital market controls and in other ways improve the functioning of their capital markets, while the investment

climate in the United States is further improved, and while U.S. international payments shift from deficit to balance, or surplus.[12] [13]

(7) The U.S. balance-of-payments deficit is the result, in large part, of the world commitments which the United States has undertaken.

The United States has not generated its balance-of-payments deficits in the process of "exporting inflation." Indeed, since 1958, when the U.S. deficits first became an important problem, prices have been more stable in the United States than in the leading surplus countries. Moreover, the United States has not been consuming more than its current earnings. On the contrary, the United States has exported more goods and services than it has imported in each of the postwar years. U.S. international earnings from its export surplus and other credit items have not, however, been large enough to finance U.S. international payments which have contributed to the strength of the free world—principally capital investments, defense expenditures, and economic assistance.

(8) The surplus countries must now play a larger role in meeting the responsibilities of the free world.

The United States bears too heavy a share of the free world's defense and economic assistance burdens.

The committee does not adhere to any simple mercantilist view, which would make a country's balance of payments and international reserves the yardstick for measuring the adequacy of its contributions to common international tasks. The appropriate criterion for assessing this adequacy is the real wealth of nations—their productive capacities, natural resources, and the skills of their people. It is in these terms that the committee concludes that other nations have not met their full responsibilities.

The committee notes with satisfaction that some other countries have expanded their economic assistance contributions and made progress in liberalizing loan terms.[14] The inadequacy of their effort lies primarily in the military field. U.S. defense expenditures are roughly three times the combined expenditures of all other NATO countries, and a much larger percentage of GNP than is true for the others. Only Greece and Turkey, of all our NATO partners, have periods of compulsory military service as long as that of the United States, and Canada and the United Kingdom have no compulsory service at all. The committee shares the view of Prof. Edward S. Mason of Harvard University, who stated:

> "It is difficult to resist the conclusion that certain countries are enjoying a more or less free ride and that they are well content with this position." [15]

[12] Representatives Curtis and Kilburn and Senator Jordan: "The proposed interest equalization tax is a shortsighted and damaging proposal. The reasons for our opposition to it are set forth in the minority views in the 1964 Annual Report of the Joint Economic Committee as well as in the separate views of the Republicans in the Ways and Means Committee report on the bill (H. Rept. 1046). Among the many exemptions under the bill is direct investment, which is the largest source of capital outflow and which primarily is caused by the more attractive investment climate in Europe than in the United States. The squeeze on profits as a percentage of stockholders' equity persists in the United States, despite some improvement, and until this situation changes, the incentive for capital outflows will persist."

[13] See Senator Javits' additional views.

[14] See Senator Javits' additional views.

[15] "Domestic and International Financial Policies of the United States," Proceedings of the Academy of Political Science, vol. XXVII, Number 3, May 1963. p. 70.

(9) In helping to maintain the stability of the international monetary system, the surplus countries have preferred to lend rather than adjust. The committee concludes that the surplus countries must play a larger role in the adjustment process.

International lending is inferior to adjustment as a way of coping with international payments imbalances, provided that adjustment takes place without undue inflationary or deflationary consequences. International lending results in the necessity of actual or potential repayment, and may require the deficit countries to achieve not balance, but surplus positions in their international accounts if their remaining reserves are not to be depleted.

Lending to reserve-currency countries may take the form simply of additional holdings of their currencies by the surplus countries. Loans of this type may never have to be repaid, but they constitute claims against the reserve-currency country's reserves, callable at any time at the option of the lender. Consequently such loans inhibit the reserve-currency country's freedom of action with respect to domestic policies and require it to assign a high priority to international reserve management. The surplus countries, on the other hand, may too easily believe that they have fully discharged their balance-of-payments responsibilities by lending and need make no internal adjustments.

In the last analysis, adjustment is essential, for otherwise international payments imbalances would continue indefinitely. Deficit countries have an important responsibility to work toward balance; but surplus countries share this responsibility, which cannot be fulfilled by lending alone.

The United States has borne a disproportionately heavy burden in working to eliminate the imbalance in international payments. The committee regards it as intolerable that balance-of-payments deficits of the order of magnitude of $2 to $3 billion a year should, for an extended period of time, cause a $600 billion economy to pursue policies that aggravate serious domestic problems, particularly when the surplus countries are not adequately meeting their responsibilities in the adjustment process. So minute a tail must not be permitted to wag such a large dog. Monetary policies that lead to higher interest rates to restrain domestic inflation are one thing. But is it another thing to pursue such policies for a period of substantial duration solely to protect the balance of payments when unemployment is high, prices are relatively stable, and countries in balance-of-payments surplus not only fail to adjust with appropriate vigor, but continue to rely on policies which intensify the forces of disequilibrium. The surplus countries must fully recognize their responsibilities to adjust and act accordingly.[16]

[16] Representatives Curtis and Kilburn and Senators Miller and Jordan: "In these passages, the committee appears to underestimate the importance of the balance-of-payments problem and the urgent need to solve it. The balance-of-payments deficit may be a "minute tail" compared to GNP, but the future strength and stability of the international trade and financial system—as well as of our own domestic economy—depends upon the early elimination of that deficit. The United States cannot shirk its own responsibility just because surplus countries shirk theirs."

(10) Surplus countries, like deficit countries, must pursue domestic policies with a view to the balance of payments.

The monetary and fiscal policies of the surplus countries should complement those of the deficit countries with respect to the balance of payments. The surplus countries, understandably, prefer giving to taking advice. But it is inconsistent for them to counsel the United States to seek economic growth with a restrictive monetary and expansionary fiscal policy, so that incentives for capital outflow will be reduced, while they counter inflation with tight money policies and high interest rates rather than restrictive fiscal policies.

(11) Surplus countries must abandon policies which hinder the elimination of international imbalances.

A number of surplus countries retain measures which were originally adopted to safeguard the balance of payments but which are no longer necessary for that purpose. These measures include quantitative restrictions on imports, controls on capital exports, restrictions on tourism, and, in some important cases, export subsidies. These measures are inconsistent with free market economic principles and have contributed substantially to the U.S. balance-of-payments deficits.

The committee rejects the notion that the United States must take on itself an extra burden of adjustment because of the unjustifiable policies of other countries. For its part, the United States, despite its balance-of-payments deficits, has avoided such extreme measures as devaluation, exchange controls, travel restrictions, quantitative restrictions to safeguard the balance of payments, and export subsidies for other than agricultural products. Even the proposed interest equalization tax is less severe than the capital controls existing in a number of surplus countries. The surplus countries must observe standards of conduct in international commercial and financial matters as high as those maintained by the deficit countries.

(12) The committee concludes that the international value of the dollar must not be altered; but exchange rate adjustments by non-reserve-currency countries should be used more often as a vital element in the international adjustment process.

National policies to promote economic growth and maximum employment, without price inflation in the surplus countries and falling prices in the deficit countries, have substantially impeded the process of eliminating international imbalances through the operation of market forces. Moreover, the surplus countries have been reluctant or slow to promote adjustment through the desirable means of freeing their international trade and payments from existing restrictions. The role of exchange rate adjustments in restoring international equilibrium would therefore appear to have increased, but the actual use of this method of correcting imbalances has diminished. This is partly because the currencies that have been under pressure in recent years include the two reserve currencies—the dollar and pound ster-

ling—which must not be devalued because of the disruptive effects which would follow such action. These two currencies, when held in the reserves of other countries, provide a much-needed supplement to gold as a source of international liquidity. Unless these reserve currencies can be regarded as safe stores of value, they will not continue to be held as reserves, and a severe shrinkage of international liquidity could result.[17] Another reason for reduced reliance on exchange rate adjustments is that experience has shown such adjustments, in the case of important currencies, to be associated with large-scale and difficult-to-control speculative movements of capital.

However, no listing of difficulties can be a substitute for adjustment to imbalance in international payments. The surplus countries should reduce tariffs, quotas, and other trade barriers, free their capital markets of controls and impediments, untie their aid, and eliminate restrictions on tourism. They should also do away with artificial encouragements to exports, such as subsidies. But exchange rate changes may be appropriate if these actions do not suffice, or if countries refuse to take this adjustment route, or if countries for domestic reasons take actions that prevent or unduly delay adjustment through changes in internal prices, incomes, and employment. If international imbalance consists of deficits by the reserve-currency countries and surpluses by others, so that the former must not devalue, appreciation of the surplus countries' currencies might then be in order. It takes two to make an exchange rate.

Concerning liquidity

(1) Expanding world trade and finance will require increases in international liquidity.

The purpose of international liquidity is to permit countries to finance temporary deficits in the balance of payments. There is no fixed relationship between the appropriate level of world liquidity and the volume of international transactions, but, generally speaking, international liquidity must keep pace with the expansion of such transactions. Therefore, the international monetary system must be capable of providing additional liquidity.

(2) Domestic policies of countries to shield themselves from inflationary or deflationary forces originating in the balance of payments have slowed the internal adjustments that restore international balance. The need for international liquidity has consequently increased.

The more rapidly countries eliminate balance-of-payments deficits, the smaller is their need for reserves. But rapid adjustment to deficits may be unduly costly in terms of unemployment, excess capacity, and slowed growth. International cooperation and coordination of policies have, to some extent, limited the need for greater reserves. But, on balance, the growing preoccupation of

[17] Representative Widnall: "For the dollar to be regarded as a safe store of value and a reserve currency to be relied upon, the United States must also see to it that domestic fiscal and monetary policies avoid inflation and any decline in the purchasing power of the dollar. Domestic considerations aside, it might be possible to combine large budget deficit and increased Government spending with restrictive measures regarding the payments problem similar to those in use abroad which we deplore. Whether these 'temporary measures' could then be as easily removed under these conditions is another matter."

governments with domestic objectives has tended to raise the level of international reserves appropriate for any given volume of international transactions.

(3) In its evolution and expansion, the international monetary system has come to rely too heavily on gold, the dollar, and the pound sterling, and not enough on the credit of a larger group of countries.

In the postwar period, international liquidity has grown through increased holdings of dollars and gold by the world's monetary authorities, and the creation and enlargement of IMF drawing rights. Of these, the main source of liquidity growth has been expanded holdings of dollars by other countries. Sterling balances, while an important part of international liquidity, have declined somewhat.

Gold can no longer satisfy the world's growing liquidity needs. The free world's gold production has not been able to keep pace with the growth of its trade; in the decade 1953–62, exports expanded nearly 70 percent, but the total new gold produced during the period was only 29 percent of 1953 monetary gold reserves. The imbalance between the growth of trade and gold reserves is even more acute than is suggested by this comparison, because in recent years a growing proportion of new gold production has found its way into private hoards. In contrast with the 70-percent growth in free world exports from 1953 to 1962, official gold reserves increased only 16 percent.

Moreover, the further growth of other countries' dollar holdings should not be the mainstay of the world's increasing liquidity needs. The dollars which are reserves for other countries are liquid liabilities for the United States. The reserves of the United States, while large, have had increasingly to support a growing volume of liquid liabilities. There is no particular ratio of reserves to liquid liabilities which clearly marks the beginning of a danger zone. But as liquid dollar liabilities grow substantially and continuously beyond the international assets available to redeem them, there must come a time when confidence in the dollar as a reserve asset is impaired. That time has not yet come, although concern has mounted with regard to U.S. balance-of-payments deficits.

These considerations lead to the conclusion that new and multilateral techniques must be found to provide for the needed future growth of international liquidity.

(4) The U.S. international reserve position is weakened by the required role of gold as a domestic reserve against Federal Reserve liabilities.[18] [19]

The total U.S. gold stock is not freely available to meet its international function because the Federal Reserve Act provides that every

[18] Representatives Curtis and Kilburn and Senators Miller and Jordan: "We disagree with this finding. The gold reserve requirement is an important balance-of-payments discipline whose existence—far from weakening confidence in the dollar—strengthens it. We do not favor removing the gold reserve requirement, particularly since such action could be interpreted as a sign of weakness if done in the face of large, continuing balance-of-payments deficits."

[19] Representative Widnall: I do not favor removing the gold reserve requirement at this time, primarily because the continuing balance-of-payments deficit might make it appear that the action was being taken under pressure, and such an interpretation could shake confidence in the dollar.

Federal Reserve bank must maintain reserves in gold certificates of no less than 25 percent against its deposits and its Federal Reserve notes in actual circulation. At the end of 1963, only $2.6 billion of the total U.S. gold stock of $15.6 billion was "free" gold, readily available to defend the dollar.

The "free" gold reserve has declined by an average of nearly $1.4 billion per year since 1957, partly because of the growing domestic money supply and partly because of gold losses to foreigners. It is entirely possible that the "free" gold reserve will be eliminated within 2 or 3 years, even if the United States restores equilibrium to its balance of payments. Imbalances among other countries with differing preferences for gold and dollars as international reserves could result in further foreign purchases of U.S. gold. Moreover, there is reason to believe that some countries would prefer to hold fewer dollars and more gold than they have at present, but hesitate to deplete the American gold reserve while the United States is in deficit. They might increase their purchases of gold once the U.S. deficit ended. Finally, the domestic money supply will grow further, thereby adding each year to the amount of gold required as domestic cover.

Administrative action by the Board of Governors of the Federal Reserve System can free gold from the domestic cover requirement and make it available for international use for a time, subject to some penalties. But subjecting the availability of U.S. gold to administrative discretion may raise questions in the minds of foreign authorities as to their ability to convert dollars into gold.

It would be the better part of wisdom, therefore, to remove now any uncertainties by freeing the U.S. gold stock of its domestic cover requirement. This requirement has lost its monetary significance since currency may no longer be redeemed in gold.[20] If gold reserves were larger, the question of removing the cover requirement would be entirely academic. But with free gold reserves low and shrinking rapidly, it is sound policy to take preventive measures against a possible crisis of confidence that might result if the Federal Reserve Board were forced to take emergency action.[21]

(5) In discussions concerning various plans for increasing international liquidity, some plans have been criticized on the ground that they would cause countries to lose a measure of monetary sovereignty. The Committee concludes that this danger has been exaggerated.

The possibility of conflict between domestic and international policies and objectives is present under any system. And, in any

[20] Representatives Curtis and Kilburn and Senators Miller and Jordan: See footnote 18.

[21] Senator Miller: "Why go at the symptom rather than the cause? If we practice sound fiscal and monetary policies, preserve the purchasing power of the dollar, and make the necessary adjustments to international imbalance, there will be no outflow of gold problem and therefore no need to be concerned about our gold reserve requirements.

system, international considerations must play a role in national policies. Under the present system, the United States has been severely impeded, in pursuing the objectives of the Employment Act of 1946, by the need to bring its balance of payments into equilibrium.[22] To reject consideration of certain plans because they could in some ways impose new international obligations on nations, thereby limiting their sovereignty, might rule out the possibility of large gains for the sake of costs which may have little practical significance and may be substantially outweighed by the benefits. In evaluating various plans for international monetary reform, the Committee concludes that attention must be focused on matters of substance—on practical implications for the United States and other countries under various conditions of deficit or surplus in the balance of payments—and not on generalities which, while seemingly relevant and important, may serve to confuse rather than clarify the issues.

IV. RECOMMENDATIONS

(1) Correction of the balance-of-payments deficit should receive the attention of all Government agencies.

This might appear at first to be a superfluous recommendation. Yet the committee learned, in the course of its work in 1963, that the Maritime Commission has been negligent and derelict in its duty in protecting the public interest. The committee is continuing its studies to determine the extent to which American exporters of a wide range of products are handicapped in international markets by substantial and unjustifiable differentials between inbound and outbound ocean freight rates.[23]

The committee therefore concludes that the dedication of all agencies to the task of solving the balance-of-payments problem cannot be taken for granted. It urges that the Government intensify its efforts not only with respect to the balance-of-payments effects of its own expenditures, but also with regard to its regulatory and other activities.

(2) The United States must continue vigorous efforts to impress upon the surplus countries that they, as well as the United States, are responsible for eliminating international payments imbalances.

In particular, the surplus countries should be urged to modify, eliminate, or avoid policies that impede adjustment. These policies include the highly protectionist Common Market agricultural policy which is presently taking shape, quantitative restrictions on imports, restrictions on capital outflows, limitations on foreign exchange availabilities for tourism, export subsidies, and disproportionate reliance on tight money policies for keeping price increases within bounds.

[22] Representatives Curtis, Kilburn, and Widnall and Senators Miller and Jordan: "The fact is that our unemployment is primarily structural and cannot be solved (without inflation and a worsening of the balance of payments) by reliance upon measures to pump up aggregate demand. Specific attacks on unemployment, as through retraining, are clearly called for. Such measures would not worsen the balance-of-payments problem but, in fact, they would hasten its solution."

[23] See Senator Javits' additional views.

(3) Certain international practices must be reexamined in view of the urgency of restoring balance in international payments.

The committee believes that there is a strong case for the proposition that the United States is adversely affected by the GATT rules which permit the rebate on exports of indirect taxes but not the remission in relation to exports of direct taxes where the result is a lower foreign than domestic price for the same product. The United States derives a greater proportion of its tax revenues from direct taxes than do other countries, and present rules may consequently place it at a substantial competitive disadvantage in world markets. The committee recommends that this matter be studied within the administration and in consultation with other nations, and that appropriate steps be taken to eliminate such disadvantages to the United States as may be inherent in current practices.

(4) The leading countries of the free world must expand their contributions to the economic and military defense of the free world.

The United States should not continue to give its prospering allies a "free ride." The October 1963 Big Lift exercise proved the United States capable of meeting its military commitments with substantially fewer overseas military personnel than are now deployed abroad. There may be political reasons for maintaining our overseas personnel at present strength, but where the countries in which these forces are stationed do not participate in offset agreements with the United States, and where their own military efforts toward the defense of the free world are clearly inadequate, it would appear desirable to resolve some conflicts between political considerations and balance-of-payments savings in favor of balance-of-payments savings, so long as new technology permits our military posture to remain unimpaired.

(5) In the sixth round of multilateral tariff negotiations, frequently called the "Kennedy round," which is to begin in 1964, U.S. negotiators must, as never before, bargain vigorously for the reduction of foreign barriers to U.S. exports, exacting full measure for every concession granted by the United States.[24]

An expanded trade balance is the most desirable method of adjustment available to the United States.[25] If achieved to the necessary degree, it would permit the United States to meet fully, without balance-of-payments strain, its international responsibilities for defending and providing public and private capital to the free world. It would also permit the United States to move away from temporary expedients adopted or proposed for balance-of-payments reasons, such as tying aid, military procurement in the United States in preference to cheaper procurement abroad, and taxing foreign borrowing in the United States.

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[24] See Representitive Curtis' additional views.

[25] Senator Miller: "The 'expansion' should be examined from a qualitative as well as a quantitative standpoint. The chain reaction from a United States 'giving' in exchange for a 'taking' in the form of a net dollar expansion might be far worse to the U.S. economy than the advantage from the net quantitative expansion."

For the surplus countries, tariff reductions offer a means of restraining inflationary pressures while promoting international payments adjustment.

In the important early postwar tariff negotiations, at Geneva, Annecy, and Torquay, the United States made substantial tariff reductions, receiving in return concessions which were largely or completely nullified by exchange controls and quantitative restrictions imposed by other countries to safeguard their balances of payments. American concessions were thus largely unilateral until improvements in their payments balances permitted other countries to dismantle their restrictive machinery. The United States realized that international adjustment in the years of reconstruction would be promoted if other countries were permitted to expand their exports.

In today's changed circumstances, the time has come for surplus countries to recognize and live up to their responsibilities. They must enter into vigorous negotiations, determined to work toward the reduction of barriers against goods from the United States and the less developed countries.

The committee views with concern the growing evidence of protectionism in certain leading countries.[26] This must not be allowed to block progress among countries determined to lower trade barriers. It is not clear, under these changed circumstances, whether continued adherence to its traditional policy of nondiscrimination, or most-favored-nation treatment, is the optimum course for the United States.[27] Under present practice, countries receive the benefit of lower tariffs negotiated among other countries without the necessity of granting tariff reductions in return. This diminishes the incentives for countries to engage in meaningful tariff negotiations. A careful review should be initiated to determine whether U.S. policy could be adjusted, within the scope of existing commitments, so as to encourage more rapid and substantial progress toward the reduction of trade barriers.

(6) U.S. balance-of-payments policies must not lose sight of the liberal purposes of the international monetary system.

National economies, like private individuals, are subject to external constraints on their freedom of action. Economic growth and maximum employment are important domestic objectives; expanding the volume of trade and capital flows across national boundaries, maintaining a strong military posture, and assisting the growth of less developed countries are important international objectives. Because of its balance-of-payments deficits, the United States has had to compromise, and has fallen short with respect to the achievement of both sets of objectives.[28]

A number of balance-of-payments policies, such as tying aid, raising interest rates at a time of substantial unemployment, military procurement in the United States even if foreign costs are less, and the proposed interest equalization tax, are unacceptable as long-term

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[26] Representatives Curtis and Kilburn and Senator Jordan: "The United States is not without blame in this regard. The administration has contributed to the international atmosphere of protectionism through support of such arrangements as the international coffee and textile agreements. While supporters of such arrangements will claim benefits arising from them, it is highly doubtful that such restrictive practices will serve the best interests of the United States and the free world in the long run."

[27] See Senator Javits' additional views.

[28] Representatives Curtis and Kilburn and Senators Miller and Jordan: See footnote 10.

policies for the United States. They are tolerable only as short-run expedients while the U.S. deficits are being eliminated.

Therefore, the committee attaches great importance to the success of the Administration's program for expanding exports as the principal key to the solution of the U.S. balance-of-payments problem. The committee views with grave concern the evidence of increased protectionism in the Common Market and elsewhere. It is sometimes argued that other countries cannot be expected to allow the United States to expand its already considerable export surplus of commodities. The committee flatly rejects this argument; the mutual responsibility of deficit and surplus countries for the restoration of equilibrium cannot be denied.[29] The surplus countries must permit adjustment to take place. The full resources of the United States must be applied to maintaining and expanding market opportunities for commercial U.S. exports abroad.

(7) The U.S. gold stock should be freed immediately of its domestic reserve function and made fully available for international monetary purposes.[30] [31]

For many years, U.S. residents have not been permitted to redeem their dollars in gold. The only remaining domestic function of gold is to place limits on the expansion of the domestic money supply. But this expansion can be limited equally well without requiring a gold reserve against Federal Reserve liabilities.

The committee has concluded that confidence in the determination of the United States to maintain the international value of the dollar would be increased if the total gold stock of the United States were unequivocally freed of all restrictions on its international role. The 25-percent reserve requirement should be repealed at once.

(8) The United States, in consultation with other countries, should give consideration to broadening the limits of permissible exchange rate variation.

The present limits, in the case of spot rates, are defined in the articles of agreement of the International Monetary Fund as 1 percent on either side of parity. In practice, exchange rate variations are limited to plus or minus three-fourths of 1 percent of parity.

The committee concludes that a broadening of these limits would have several advantages.

(*a*) It would permit the monetary authorities greater freedom to pursue independent monetary policies without providing incentives for short-term capital movements; the authorities would have greater scope for short-term intervention in the forward exchange market to offset interest-rate differentials.

(*b*) It would permit exchange rate variations to play a somewhat larger role in the adjustment process than is now possible.

(*c*) It would discourage speculation by increasing the risk of losses in relation to the possibilities for profit.

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[29] Senator Pell: "I favor maximum expansion of U.S. exports but believe that emphasis should be placed on those products that do not receive Government subsidies."

[30] Representatives Curtis and Kilburn and Senators Miller and Jordan: See footnote 18.

[31] Representative Widnall: See footnote 19.

(9) The free world must proceed now to devise ways and means for improving its international financial organization and expanding international liquidity.[32]

The committee is gratified that the administration and other nations have begun long overdue multilateral considerations of this problem. The committee urges the IMF and the Group of Ten to proceed expeditiously with their studies, and hopes that specific recommendations, sufficiently far reaching to meet the needs of the problem, will be made at an early date.

The committee, and its Subcommittee on International Exchange and Payments, have in earlier reports spelled out certain requirements for an improved international monetary system. These are (1) new arrangements should be multilateral rather than bilateral; (2) credit facilities should be adequate in amount and available as needed; (3) the size of credits in relation to deficits should, by agreement, be governed by the nature of the deficit; and (4) the expansion of international reserves should, in the future, rely less on gold, the dollar, and the pound sterling, and more on the credit of a larger group of countries. The committee recommends that these general criteria form the basis of the U.S. position at the IMF and Group of Ten deliberations on problems of world liquidity. American representatives should vigorously advocate such a position and work for agreement on a draft plan for an improved international monetary system in time for presentation at the 1964 annual meetings of the Board of Governors of the IMF. The committee further recommends that the groups now considering the problem devote attention also to the functioning of the adjustment process, and in particular, to the responsibilities of both surplus and deficit countries and the role of exchange rate adjustments.

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[32] Representative Curtis and Senator Miller: "We are particularly gratified that the committee supports multilateral efforts to strengthen the international financial system. In resolutions which we and Senator Javits introduced last July, we called for an international conference to undertake precisely this task. The Group of Ten as well as the International Monetary Fund is now engaged in these studies. We do not necessarily object to the 'general criteria' which the committee says should be the basis of the U.S. position in the negotiations, but we believe it would be preferable not to restrict or limit the studies to these criteria."

ADDITIONAL VIEWS OF REPRESENTATIVE THOMAS B. CURTIS

As one of the congressional trade negotiators for the forthcoming round of GATT negotiations in Geneva, there are a number of observations that I wish to make with respect to the Trade Expansion Act of 1962 and U.S. foreign economic policy in general.

The Trade Expansion Act has been called bold and imaginative primarily because it grants to the President additional authority to further reduce U.S. tariffs and to eliminate many altogether. In my estimation, however, the most important provision of the act was the creation of the position of chief trade negotiator, requiring Presidential appointment and Senate confirmation and carrying with it the rank of Ambassador Plenipotentiary and the chairmanship of the newly designated Interagency Trade Organization. This provision has raised the stature of trade negotiation throughout the world as well as within the United States itself.

The establishment of the Interagency Trade Organization is itself a major innovation of the act. It gives American business and labor the opportunity to present allegations of unfair trade practices which are in violation of international commercial agreements. The Organization thus serves as a forum where interested persons can establish the truth of alleged unfair foreign trade restrictions in violation of trade agreements. If the Executive carries out the intent of the Congress, when a violation of a trade agreement is established, he may withdraw concessions. This can become an important part of our foreign trade policies and practices. It should be pointed out that the Interagency Trade Organization is not set up to hear only the complaints of our domestic industry and labor. It will be available as well for our importers to register complaints of alleged unfair practices by our domestic industry against foreign imports. The importance of this device should not be played down. It can be an effective force in the effort to establish the type of equitable trading practices in international commerce which are essential to the stimulation of increased foreign trade.

On the other hand, the additional grant of authority to reduce or eliminate certain tariffs is simply another in the series of such steps taken under the provisions of the Smoot-Hawley Tariff Act of 1930, as amended. Too many people have forgotten that the reciprocal trade acts were merely amendments to this basic act which remains on the books today. By starting from a level of high tariff rates, we were able to negotiate downward as Congress intermittently gave the President power to do so. Incidentally, the original Reciprocal Trade Act and most of those that followed permitted the President to increase tariffs, and so does the present law.

What our trade policy will be, once we have used this last bit of tariff trading authority the President now has, is one of the questions not yet resolved.

In this connection, it is important to understand that today tariffs are among the least of the trade barriers that hamper free trade. Quotas, licenses, embargoes, internal excises, multiple exchange rates, governmental subsidies of an infinite variety, state trading, Government sponsored or unrestrained cartels, health and other regulatory laws perverted to embargoes are the major barriers in international trade. The United States is an offender in these areas, along with the other major trading nations, yet nothing meaningful is said in the Trade Expansion Act about these trade barriers. The GATT, which seeks to eliminate all trade barriers, remains unmentioned in the Trade Expansion Act, either by name or by reference to its principles.

I am convinced that most of our people who think they want protection against imports really want fairness in trading—not protection, not an advantage, and definitely not a handout. I have listened for years to the testimony of businessmen, labor, and farm groups who have appeared before the Ways and Means Committee in opposing the Reciprocal Trade Act extensions. Most of their troubles arise from lack of fairness or reciprocity in trade matters on the part of their foreign competitors, from a State subsidy to their competitor, or an embargo, or a quota system, or an unhealthy wage scale—unhealthy to the overall economy of the country which permitted it.

I recall a statement from one of our exporters to Venezuela. He said his company was unable to compete with the West German companies in that market because the German companies could offer more liberal credit terms financed by the German Government. I posed this case to Secretary of Commerce Hodges during the public hearings on the Trade Expansion Act. The Secretary's response worried me. He said, "Well, we will look into that and perhaps we (meaning some governmental agency) can enable the U.S. companies to match this liberal credit extension." My expressed thought was, if we really are talking about freeing up trade, why not negotiate with the German Government to quit subsidizing their businesses? Let's not compound the error by subsidizing our own.

As a matter of fact, the most liberal of all trade barriers is the much abused tariff. A tariff at least is a law for all to read, determine, and apply, and courts have been set up to resolve differences of interpretations in accordance with established laws and procedures. The other types of trade barriers almost without exception require administrative determination without established laws, procedures, or courts. Who gets a quota, and how much, and into what ports in what quantities is the subject of administrative decision. This is government by men, not government by law. West European countries, and most other countries of the world except the United States, have long used the more restrictive and bureaucratic devices for regulating international trade. A trade policy based upon tariffs, if regulation is to be presumed, on the other hand, is more progressive and liberal in that it retains a basic portion of the decisionmaking function in the marketplace.

I want to express one other specific point of concern I have about our foreign trade policy. Section 203 of the Agriculture Act, which authorizes the President to enter into international cartel agreements in respect to agricultural products and products manufactured therefrom with other nations, was not only not repealed by the Congress,

but at the request of the administration, its authority was broadened to provide that these agreements would be made applicable to nations not party to the international agreement. It was this authority, incidentally, that lay at the base of the international textile agreement entered into in Geneva in January of 1962.

I asked Secretary of Commerce Hodges how it was determined how much textiles, of what varieties, from what companies, from what countries were to come into what U.S. ports. He replied straight-facedly that they were going to use the 1960 census figures. In other words, we are going to freeze the trade pattern as of that date. How expansive and progressive can we get? I know of nothing that more dramatically drives home the point I seek to make of the regressiveness, the stifling aspects of the license-quota-type trade barrier. Is this what we are coming to once we have run out of the tariff-rate trading material set up in the Smoot-Hawley Tariff Act? This is not an isolated example of our use of quotas and licenses or international-type cartel agreements. The Sugar Act is another example. Many of our agricultural products are state traded, under Public Law 480. Indeed, very few agricultural products move without knocking against this kind of trade barrier and Government subsidy. Recently we have been utilizing the quota system instead of tariffs for oil imports.

The recently concluded international coffee agreement is another example in a series of actions which lead me to believe that we are not freeing up international trade but rather moving toward more restrictions. It is true that coffee, like sugar and other raw commodities, has been the subject of Government-sponsored cartels instead of the more liberal trade regulator, the tariff, for some time. However, there are no indications of a disposition on the part of the Administration to break loose from this most regressive of all techniques to regulate trade to move toward a freer marketplace. Where there were tariffs and no cartels, we now find cartels. Where there were cartels, we find more regressive cartels negotiated. Where there were no regulators, we find the administration advocating tariffs as in the proposal to impose an excise tax on American investments in foreign securities.

In the long run we do a disservice to the coffee-producing countries by these shortsighted cartel setups. This tends to keep them tied to a one-product economy instead of to encourage them in the development of a diversified economy from which comes sustainable economic strength and increased standards of living.

The Revenue Act of 1962 was another important act relating to our foreign economic policy, in particular that part which altered the tax treatment of American enterprise abroad. It has been my observation that trade cannot be separated from foreign investment and that anything that deters foreign investment will deter trade. I think this is particularly true in face of the development of the European Common Market. Much has been made of the efficiencies the EEC countries will derive from manufacturing for a mass market. However, mass manufacturing is based upon mass distribution and mass servicing, a point that seems to escape many economic planners. The United States is just about the only society that has developed the techniques of mass distribution and mass servicing. For this reason I have suggested that the greatest opportunities open to U.S.

enterprise in the European Common Market lie in the field of distribution and servicing.

If we are going to avail ourselves of the opportunities offered in the European Common Market in the service and distributive fields, we must encourage, not discourage, our capital to move there. All the talk about our manufacturing processes moving to Europe is largely unanalytical. What movement there has been is largely to gain the efficiencies derived from having a crucial part of the manufacturing process nearer to the market for distributive and servicing efficiencies. Actually this process creates more jobs in the United States than it displaces, not less. However, it is true the jobs will be shifted out of manufacturing into distribution and servicing, but they will become better paying and requiring less brawn but a little more brains.

It certainly is a shortsighted policy which seeks to solve a balance-of-payments problem through discouraging healthy and remunerative private investment going abroad, as the proposed interest equalization tax also does. This is sacrificing gain over the long haul for a very temporary short-term benefit. One of the strongest items in our balance of payments is the income we derive from our foreign investment. And yet Government policy seeks to weaken it.

I do not introduce the subject to argue its merits or demerits. I bring it up primarily to emphasize its inseparable relation to our trade policy. In trade we talk of going one way, toward expansion, to help our balance of payments, and in investment we talk and promote contraction, allegedly for the same purpose. This is a grave inconsistency.

While the administration talks freer trade, every policy it has followed to date indicates it is pursuing a course of more restricted trade—all in the name of balance of payments.

I happen to believe that increased trade depends upon free trade and free trade depends upon equitable trade. The points at issue revolve around the definition of equitable trade. I find, on analysis, that what is called protection is usually a differential reflecting some subsidy or impact of a trade barrier set up on the other side by the competitor. The policy I would have us pursue is to remove the subsidy or the barrier which is the justification for the differential. However, if a differential is to be used, I would recommend that the most liberal differential possible be used; this happens to be also the most flexible—it is the tariff. I would adopt only as a last recourse the other differentials—those regressive devices of licenses, quotas, and subsidies. I would eschew without equivocation health and other regulatory laws used as subterfuges for economic differentials.

I would oppose any differential that created a preference, that is, any differential which went beyond the economic difference sought to be measured for adjustment.

I think our foreign economic policy should be trade wherever possible, not aid; when trade is not possible, then loans rather than grants; where loans are not possible, then know-how rather than money; and when know-how is not possible, then outright gifts, rather than money with a string tied to it. When we get to money with strings tied to it, we move out of economics into diplomacy, which is the realm of the State Department.

THOMAS B. CURTIS.

ADDITIONAL VIEWS OF SENATOR JACOB K. JAVITS

I have joined in this report because I concur with it in the main particularly as to the need for reform of the international monetary system and greater cooperation by other countries in sharing in international responsibilities for defense, the United Nations, and assistance to newly developing countries. I wish to comment or express reservations regarding the following points made in the report.

1. I do not believe that the interest equalization tax is advisable at all, but prefer a voluntary capital issues committee, acting on guidelines established by appropriate governmental agencies; indeed, this report itself calls into doubt the validity of the whole concept as a long-term proposition. The proposed measure would undermine the admittedly desirable free world leadership of the United States in the field of international finance.

2. I am not at all satisfied with the participation by our Western allies in the effort to extend economic assistance to the developing nations of the free world. Greater contributions from the public and private sector can be made by Canada, West European countries, and Japan—which have had an extraordinary recovery. It is urgently necessary that they do so.

3. In the committee's continuing studies of ocean freight rates, care must be taken to respect the quasi-judicial and administrative proceedings of agencies of the Federal Government on findings of fact as well as law.

4. Our present unconditional most-favored-nation policy needs to be studied thoroughly in view of the movement in various parts of the world toward regional common markets or free trade areas, a movement we consider desirable. It may be found that the generalization of U.S. tariff concessions to all countries should not be automatic, particularly in such situations as that existing between the European Common Market and the associated African countries, or in other relationships of this kind, as they affect producers of similar commodities such as those in Latin America.

JACOB. K. JAVITS.

TABLE 1.—*Tourist allocations for residents of the more industrialized countries, as of Dec. 1, 1963*

Country	Automatic foreign exchange allocation [1]	Additional allocation per journey in domestic banknotes (unless otherwise specified this allocation may be exchanged and spent abroad)
Austria	$577 per journey	$500.
Australia	$4,400 per traveler per year. Additional amounts are granted subject to the verification of the bona fides of the case.	Individual application evaluated for determination.
Belgium	Unlimited	Unlimited.
Canada	do	Do.
Denmark	do	Do.
Finland	$252 per person per trip	Nil.
France	Unlimited. The equivalent of $1,200 per journey is granted automatically; additional amounts are granted on request subject to verification of the bona fides of the case. There is no restriction for French residents whose foreign tourist expenses are paid on their behalf by travel agencies licensed by the Ministry of Public Works, Transport, and Tourism. Residents may also export the equivalent of $150 in foreign banknotes left over from previous journeys abroad.	$150.
Germany	Unlimited	Unlimited.
Greece	$200 per journey (2 journeys per year)	$33.
Ireland	Unlimited. The equivalent of $706 per journey is granted automatically; additional amounts are granted on request subject to verification of the bona fides of the case.	$140, which may not be exchanged abroad.
Italy	Unlimited. Additional amounts are granted automatically by local banks for legitimate tourism.	$80.
Japan	Subject to license	Nil.
Luxembourg	Unlimited	Unlimited.
Netherlands	Unlimited. The equivalent of $1,194 per journey is granted automatically in foreign and/or national currency. An additional allocation equal to $40 is also granted automatically for each additional day after 14 days of travel, up to a total amount equal to $3,781. Further unlimited amounts are granted on application.	(See preceding column.)
New Zealand	$1,665 per year. For children under 12 the allocation is reduced to $1,154	Individual application evaluated for determination.
Norway	$500 per year. For children under 16 the allocation is reduced to $250	$25, which may not be exchanged abroad.
Portugal	Unlimited	Unlimited.
Spain	$500 per year. Additional amounts are granted to Spanish residents whose tourist expenses abroad are paid on their behalf by approved travel agencies. Additional amounts are granted on demand subject to verification of the bona fides of the case.	$50.
Republic of South Africa	$2,800 per year. For children under 12 the allocation is reduced to $1,120 per year.	Unlimited for bona fide tourist use.
Sweden	$1,160 per journey in foreign and/or in national currency	(See preceding column.)
Switzerland	Unlimited	Unlimited.
United Kingdom	Unlimited. The equivalent of $840 per journey is granted automatically; additional amounts are granted on request, subject to verification of the bona fides of the case.	$140, which may not be exchanged abroad.

[1] Where the amount is limited, the cost of a return or round-trip ticket can usually be paid in national currency to a foreign or domestic air or surface carrier without deduction from the allocation.

Source: Department of State.

TABLE 2.—*Duty-free exemptions allowed by selected countries to their returning tourists*

Country	Exemption
United States	$100 at wholesale prices every 31 days after a minimum absence from the United States of 48 hours, except that (1) no minimum absence from the United States is required in the case of purchases in Mexico or the Virgin Islands; and (2) in the case of tourists stopping at the Virgin Islands, $200 is permitted every 31 days, not more than $100 of which may be purchased outside the Virgin Islands.
Canada	$25 every 4 months.
Europe:	
Austria	$11.40.
Belgium	$3 ($6 for tourists returning from Luxembourg or Netherlands).
Denmark	$50.
France	$10 (and souvenirs without real value).
Germany	$12.50.
Greece	$100.
Ireland	$14 ($56 from non-European countries).
Italy	$500.
Norway	$50.
Netherlands	$12.43.
Portugal	Reasonable amount.
Spain	None.
Sweden	$50.
Switzerland	$45.74.
United Kingdom	None, except personal effects owned and used for a considerable period.
Latin America:	
Argentina	$20.
Bolivia	$50.
Colombia	Personal effects.
Ecuador	$125.
Haiti	$200.
Honduras	$100.
Mexico	$80.
Panama	$500.
Peru	Personal effects commensurate with status in life.
Uruguay	Reasonable amount of personal effects.
Venezuela	Do.
Africa:	
Malagasy Republic	None.
Ethiopia	Reasonable amount.
Nigeria	Do.
Rhodesia and Nyasaland	$2.80.
Union of South Africa	$140.
Near East:	
Israel	$35.
Greece	$50.
Pakistan	$50.
Iran	($20 duty credit; if traveler owes $100 duty, he pays $80).
Turkey	$110.
Saudi Arabia	None.
Far East:	
Australia	$70.
Thailand	Reasonable amount.
Japan	Do.
Philippines	$125.
Hong Kong	No restrictions except on tobacco.

Source: Treasury Department.

TABLE 3.—*Bilateral economic aid commitments of Development Assistance Committee countries in 1962*

Development Assistance Committee (DAC)	Bilateral economic aid commitments		Per capita GNP (U.S. dollars) [1]
	Total (millions of dollars)	Percent of GNP	
Total DAC	7,101	0.74	1,766
United States	4,656	.84	2,974
Other DAC	2,445	.60	1,135
Belgium	[2] 70	.55	1,381
Canada	58	.16	2,009
Denmark	[3] 1	[3] .01	1,559
France [4]	[2] 901	[2] 1.26	1,524
Germany	428	.50	1,558
Italy	60	.15	788
Japan	265	.51	547
Netherlands	42	.32	1,105
Norway	4	.08	1,423
Portugal	60	2.21	294
United Kingdom	556	.70	1,482

[1] Converted into U.S. dollars at official exchange rates. Because official exchange rates are not an accurate measure of relative purchasing power, the disparities between the United States and other countries' per capita incomes are less, in real terms, than is suggested by the data.
[2] Bilateral gross expenditures.
[3] Data for 1961.
[4] Includes $772,000,000 of grants reported on an expenditure rather than commitment basis.

Source: Report of the Council of Economic Advisers, 1964, from data of the Agency for International Development and Organization for Economic Cooperation and Development.

TABLE 4.—*Terms of official bilateral economic aid commitments of Development Assistance Committee countries in 1962*

Development Assistance Committee (DAC)	Total aid (millions of dollars)	Grants		Credits [1]		
		Amount (millions of dollars)	Percent of total aid	Amount (millions of dollars)	Average maturity (years) [2]	Average interest rate (percent) [2]
Total DAC	7,101	4,361	61	2,740	25.8	3.6
United States	4,656	[3] 3,025	65	[4] 1,631	29.9	2.6
Other DAC	2,445	1,336	55	1,109	19.8	5.1
Belgium [5]	70	66	94	4	7.5	5.5
Canada	58	44	76	14	14.0	6.0
Denmark	1	1	100			
France [6]	901	772	86	129	23.3	4.4
Germany	428	154	36	274	17.0	4.2
Italy	60	19	32	41	9.8	4.9
Japan	265	104	39	161	8.1	6.1
Netherlands	42	11	26	31	20.0	5.0
Norway	4	4	100			
Portugal	60	3	5	57	22.4	4.6
United Kingdom	556	158	28	398	26.3	5.6

[1] Credits of 5 years' or more duration.
[2] Average maturities and interest rates should be regarded as rough orders of magnitude.
[3] Includes country-use portion of sales under Public Law 480, title I, and commodity grants under Public Law 480, titles II and III.
[4] Includes commodity loans under Foreign Assistance Act, Export-Import Bank, and title IV of Public Law 480.
[5] Data show expenditures rather than commitments.
[6] Grants are reported on an expenditure rather than commitment basis.

Source: Report of the Council of Economic Advisers, 1964, from data of the Agency for International Development and Organization for Economic Cooperation and Development.

TABLE 5.—*Comparative defense efforts, NATO nations*

Country	Calendar year 1962 GNP (factor cost, billions of U.S. dollars) [1]	Calendar year 1962 defense expenditures (millions of U.S. dollars)	Percent of GNP (factor cost) for defense, 1962	Men under arms, 1962	
				Percent of population	Total number (thousands)
European: [2]					
Belgium	12.2	416	3.4	1.2	107
Denmark	6.3	223	3.5	1.0	47
France	56.7	4,206	7.4	2.0	921
Germany	72.1	4,094	5.7	.7	399
Greece	3.3	168	5.1	1.9	163
Italy	33.4	1,351	4.0	.7	367
Luxembourg	.46	7	1.6	1.2	2
Netherlands	11.9	596	5.0	1.2	142
Norway	4.6	191	4.2	.8	30
Portugal	2.4	211	8.8	1.4	128
Turkey	5.4	330	6.1	1.6	466
United Kingdom	69.0	5,001	7.2	.8	425
Non-European:					
Canada	31.0	1,646	5.3	.7	131
United States	506.7	54,452	10.7	1.5	2,704

[1] GNP shown in this table is based on factor cost. This method of computation is used in NATO and gives figures significantly different from those arrived at through the method of computation normally used by U.S. economists. GNP at factor cost does not include indirect taxes but does include business subsidies. It gives a more favorable impression for European countries in that GNP shows as a smaller figure and defense expenditures as a greater percentage of GNP.

[2] Iceland is not included because it does not maintain a defense force and does not contribute funds to European infrastructure.

Source: Department of Defense.

TABLE 6.—*U.S. Balance of payments, 1958–63*

[Millions of dollars]

	1958	1959	1960	1961	1962	1963 [1]
"REGULAR" TRANSACTIONS						
U.S. payments, total:						
Merchandise imports	12,952	15,310	14,723	14.497	16,145	16,962
Services, nonmilitary	4,474	4,925	5.434	5,436	5,791	6,276
Military expenditures	3.435	3,107	3,048	2,934	3,028	2,880
U.S. private capital:						
Long-term	2,625	2,298	2,544	2,609	2,766	?,440
Short-term	311	77	1,348	1,541	507	642
U.S. Government grants and credits (gross) [2]	3,131	3,040	3,405	4,056	4,281	4,532
Less associated nonliquid liabilities	--------	--------	−42	−80	−147	−94
Pensions and remittances	722	791	672	705	736	812
U.S. receipts, total:						
Merchandise exports [2]	16,264	16.282	19.459	19,913	20,479	21,902
Investment income	2,845	3,043	3,222	3,844	4,322	4,565
Other services, nonmilitary [2]	3,658	3,849	3,958	4,152	4,329	4,504
Military sales	300	302	335	402	660	632
Foreign private investment in United States, nonliquid	22	863	340	643	155	392
Debt repayments to U.S. Government, scheduled	544	619	588	606	617	649
Unrecorded transactions	488	412	−683	−906	−1,025	−495
Balance, "Regular" transactions [3]	−3,529	−4,178	−3,913	−3,043	−3,573	−3,301
SPECIAL U.S. GOVERNMENT TRANSACTIONS [4]						
Debt prepayments to U.S. Government	--------	435	48	668	666	325
Advance military payments	--------	--------	−16	5	470	359
Sales of nonmarketable, nonconvertible, medium-term securities	--------	--------	--------	--------	251	−43
Total	--------	435	32	673	1,387	641
Overall balance [3,4]	−3,529	−3,743	−3,881	−2,370	−2,186	−2,660
FINANCING						
Decrease in U.S. reserve assets (increase (−)):						
Gold holdings	2,275	1,075	1,702	857	890	461
Convertible currency holdings	--------	--------	--------	−116	17	−113
Net position in IMF	17	−40	441	−135	626	30
Increase in liquid liabilities to (decrease (−)):						
Governments and central banks:						
Nonmarketable, convertible medium-term securities	--------	--------	--------	--------	--------	702
Other	735	1,248	1,449	681	453	977
Other (non-IMF) holders	502	1,460	289	1,083	200	603
MEMORANDUM ITEMS						
Balance: [3]						
Merchandise, nonmilitary	3,312	972	4,736	5,416	4,334	4,940
Merchandise, nonmilitary, excluding exports financed by U.S. Government	1,412	−728	2,817	3,179	1,989	2,207
Goods, services, and remittances—"commercial" basis [5]	(6)	(6)	3,603	4,604	3,575	3.585
U.S. Government grants and credits, dollar outflow only	(6)	(6)	−1,107	−1,116	−1,070	−882

[1] Preliminary.
[2] Excludes military grants on the payments side, and goods and services transferred under military grants on the side of receipts.
[3] Balances may not exactly equal differences between sums of detail because of rounding.
[4] Excludes sales of nonmarketable, convertible, medium-term Government securities, which are classified as financing transactions.
[5] Excludes military sales and expenditures and U.S. Government financed exports of goods and services.
[6] Not available.

Source: U.S. Department of Commerce, Survey of Current Business, and Balance of Payments Division, Office of Business Economics.

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