

The Economic Club of New York

Winning the Battle of the Dollar

The Honorable John T. Connor
Secretary of Commerce

March 15, 1965

Waldorf-Astoria
New York City

The Honorable John T. Connor

Secretary of Commerce

I'm deeply grateful for this warm "homecoming" welcome. I was particularly interested in the unusual volume of applause from the area where the friends and associates of Jim Fisk are seated. They obviously remember my needling him last year about the perils to ordinary citizens like me of installing the all-digit dialing system – and they're looking forward eagerly to tonight's question period, when my number will be up.

It is not necessary for me to tell you how much I appreciate the invitation to be back with so many old and valued friends. I was especially glad to accept at this time because of the opportunity to discuss a matter of critical importance not only to the United States but the entire free world.

I refer, of course, to the voluntary cooperation program that we in Commerce are setting up with American industry to improve the U.S. balance of payments situation.

Its success also is vital to continued high level employment. Here I refer to the Secretary of Commerce keeping his job.

In the four weeks since its announcement by the President, the program has collected a few

brickbats as well as a number of bouquets. But we appreciate the friendly and constructive spirit in which all were thrown – and in that same spirit I may toss back a few myself tonight, in about the same proportion.

More importantly, however, I want to try to define the significance of this program and to project its meaning in the larger context of national and world affairs. For it is an outstanding example of the increasing responsibilities that business is shouldering to help attain vital national objectives. And it is related to the effort of American business to help bring the fruits of industrial society to all nations who share our desire for peace and freedom.

You are all acquainted with the problem the program seeks to correct. But I want to emphasize its seriousness. The nagging deficit in our international accounts has persisted since the mid-1950's. Despite improvement over the past four years, accompanied by increased confidence in the dollar, we still ran a \$3 billion deficit on our regular transactions in 1964. We cannot permit a deepening deficit to develop or the present gold drain to continue. Therefore our balance of payments deficit has become an urgent problem.

We in government are confident that this new balance of payments program will bring a reasonable equilibrium to our international accounts very soon. The assurances that the business and banking communities have given us indicate that the private sector also thinks it will turn the trick.

But to tell the truth, our faith is not shared in some very respectable quarters—especially ivy-covered quarters.

The distinguished Harvard economist Professor John Kenneth Galbraith told the Congressional Joint Economic Committee, “I am dubious about the voluntary aspects of the proposal.”

And he continued:

“This is the normal recommendation of those who seek to avoid arbitrary action. It is also the normal reaction of those who hope that nothing will be done...Fair and equitable rules fairly enforced, which are a very old idea, are much better. Other countries employ them to control capital outflow; we shall probably have to use them too, and better sooner than later. To place matters like this on a voluntary basis with businessmen is much the same as putting the closing of veterans’ hospitals on a voluntary basis with senators.”

Now without the slightest prejudice as to senators voluntarily closing hospitals, I disagree with Professor Galbraith’s implication that this program will not work nor produce adequate results. In fact, I prefer the prognostication of that great sage and philosopher Sidney Weinberg, who says that many people in Washington and Europe are going to be surprised at the achievements of American business in this program.

I may be short on textbook economic theory, but I am long on confidence in the patriotism and good sense of American businessmen. I just don't believe they're going to let the President of the United States down when he seeks their cooperation on a matter of such grave economic importance to this nation.

I am convinced that businessmen recognize the acute need for a solution of this problem no less than Government.

And I believe the mature American business community has the self discipline required to make this particular program work. And also the judgment of their own self-interest.

American businessmen appreciate the importance of the dollar as a medium of exchange in commerce throughout the world.

They know that trade flows on the buoyant power of confidence in the dollar. And they know that the continued growth of the domestic economy depends on the uninterrupted flow of trade in the world economy.

They know that a sound dollar enables them to make profitable investments abroad.

They know that the continued stability of the international monetary system depends on our firm pledge to maintain the dollar as good as gold, freely convertible at \$35 an ounce.

They know that for us to carry out this pledge the dollar must have the continued backing of the largest gold reserve in the world.

And they understand that all these conditions depend on their cooperative efforts to bring an end to the balance of payments deficit.

As to our reasons for making this program voluntary, the critics seem to have missed the point entirely.

We made the program voluntary not because government is timorous or irresolute in the slightest degree. In a matter of such grave importance, I think the American business community expects government to take every action necessary to correct the situation.

We put it on a voluntary basis because we believe this method will produce greater results in less time than the rigid, arbitrary controls which others have recommend.

We believe its voluntary aspects will release the creative abilities of hundreds of companies to come up with ingenious solutions tailor-made to their own operations. And we believe this is

greatly preferable to the straitjacket approach which can work real hardship on some firms. We prefer a program in which business joins with government to halt excessive capital outflows by plugging loopholes, over a rigid set of rules that would encourage and often impel companies to seek loopholes.

We believe that business appreciates, and will respond to, a program that maximizes freedom of decision and action.

And that's what this program does.

It gives the participating corporations the freedom to devise their own methods of contributing to the overall result. And the result is what we're interested in, not in the particular ingredients corporations use in their own individual mix.

Some will want to place heavy emphasis on export expansion, either through independent channels or to and through their foreign affiliates. Others will want to repatriate some of the capital sent abroad on a short-term basis. Still others will accelerate the repatriation of income earned abroad. Or they might take some combination of these and other measures.

With regard to direct investment in developed countries, some firms will want to reduce or postpone such investment in projects which do not soon result in higher exports or larger

investment incomes. Or they will want to make greater use of funds raised abroad to finance these investments.

Right here I would like to suggest that foreign affiliates may be able to contribute substantially to a solution of the deficit problem by distributing other products manufactured in the U.S. by their companies or the exports of other U.S. based companies. They have the warehouses, the organizational setup, and a knowledge of the market that enable them not only to engage in a profitable undertaking, but to help expand American exports generally. I would like to see a high priority of management responsibility given to an aggressive effort along this line.

But I do want to emphasize as strongly as I can that this balance of payments program recognizes the tremendous contributions American direct overseas investment has already made to a solution of the problem.

We've all heard a lot of loose talk lately to the effect that the deficit can be attributed mainly to excessive direct overseas investment.

This is pure bunk.

The fact is that were it not for such investment our situation would be far more critical than it is.

And our Department of Commerce happens to be the agency that has the facts. In 1963, overseas U.S. private investment, which then totaled \$66.3 billion after some years of build-up, returned \$4 billion in earnings, dividends, royalties and fees. And a new survey by our Office of Business Economics shows that at least \$5 billion of U.S. goods in 1963 were sold to or through the foreign affiliates of our industrial companies. That's nearly one-fourth of all U.S. exports that year. Translated into jobs for American workers, that \$5 billion in export sales gave employment to about 670,000 people in the United States.

And looking ahead, we can see a substantial rise in investment income. My testimony before members of the Senate Banking and Currency Committee last week showed that the income remitted to the U.S. from our direct investments alone has risen from \$1.3 billion in 1950 to \$3.6 billion in 1964, and comparable increases can be projected for the years ahead.

The beneficial effects of our investments to the economies of the countries abroad are no less great than those to our country. Our overseas manufacturing enterprises alone had total sales of over \$31 billion in 1963, adding substantially to the economic well-being of people around the globe. As the living standards of those nations have risen, their people have become better customers for quality American products of all kinds. This is reflected in the 30 percent increases in the total U.S. exports over the past few years.

But none of these figures reflects the many important intangible benefits of overseas

investments. These include the stronger competitive position of U.S. based industry which might have been shut out of some foreign markets completely. Another benefit relates to the fact that much overseas investment is in the extractive industries which supplement our own supplies of oil and ore or which supply raw material we do not possess at all.

But on this whole subject of the benefits of overseas investment, management must begin to speak out. The erroneous impression in the minds of many people that such direct investment is primarily responsible for our deficit, can be damaging to both the nation and the entire free world. All that's needed is to display the facts in the market place of opinion, and I have no doubt that the good sense of the American people will enable them to reach the right conclusion.

A most important part of the story is how such investment has strengthened the free world by aiding our friends and allies around the globe. It can be told in both economic and human terms.

A prime example I happen to be acquainted with is the General Motors automobile operation in Australia. I recently had the opportunity to review some of the benefits of the Holden enterprise, and it is a truly inspiring story.

Including dealer outlets and direct suppliers, that operation provides a livelihood for about 74,000 Australians and their families. Many of these have emigrated to Australia from other countries, bringing with them different skills in many fields, and through their diverse cultures

adding to Australia's maturity as a leading member of the community of nations.

As a principle means of passenger transportation, the Holden has helped Australians achieve a new mobility, enlarging their recreational pleasure and providing greater scope in the location of home and job.

GM-Holden's economic impact has been equally far reaching. Not only has the operation attracted new companies to Australia to provide components for the vehicle, the very fact that General Motors embarked upon extensive manufacturing there gave confidence to other overseas investors and promoted the inflow of additional capital for Australia's development.

These are but a few benefits to Australia and its people resulting from this investment of American capital. And their prosperity in turn has added to the economic muscle of the whole free world.

In addition, the United States enjoys a highly favorable balance of trade with Australia. Our exports last year totaled about \$626 million, more than double our imports from that country. It is unlikely that the Australians could have brought such large quantities of American goods without the increased living standards that American investment contributed to so handsomely.

But I hope this story and others like it are told to our people in a concerted educational campaign on the subject of overseas investment benefits.

Our corporations owe it to themselves and to the nation to get such a drive underway before the loose talk on the subject gains even wider credence.

The same point about the need for more public discussion may be made about the wage and price guidepost program. Many businessmen complain privately that the wage guidepost of an average yearly increase of 3.2 percent has really become the minimum expected by labor leaders in their negotiations. Further, they complain that the suggestions made to some business people to reduce their prices just before going to the bargaining table are quite unrealistic. They say that no sensible management official will reduce prices based on past profits, but will insist that he will want to know what his wage and other cost projections will be in the months ahead, as well as the probable market demand for his products.

As a member of the Administration I want to make it clear that I support the use of the guideposts, as well as other policy matters in the President's program. But I am sure that the President wants our business leaders, and our union officials, to make their views known about the guideposts and other important national economic programs so that any needed improvement in them may be made.

How many businessmen are going up on Capitol Hill to give their views on these subjects? I know some have done so, but not nearly enough. We in Washington need the benefit not only of

your private criticisms but of your constructive alternative proposals, voiced loud and clear in public.

If business wants to open the eyes of Americans as to its real needs and aims, it must launch a program of corporate communications far more intensive than anything yet undertaken. And I am confident that every element of our society will give its story a fair hearing.

Certainly it has a grand story to tell. Never before has business contributed so much to the welfare of so many millions, both in our country and abroad.

But there are people, some in high places and including some businessmen, who have failed to recognize the historic transition of the role of business in the past few years.

Right here, I think, we get to the underlying reason for these doubts about business helping in this balance of payments program. For many of these people still cling to the memory of business's performance in an earlier and less enlightened time. We all know that in some cases it left much to be desired.

But we live in the present, and I like to emphasize the notable era of public service that business has well underway.

The record is plain.

World leadership, which imposed such vast obligations on our nation, also multiplied the responsibilities of American business. And in its central role as the organizer of our unmatched production and distribution system, business has met those responsibilities in a way that has shaped the course of world history.

For it is the American free enterprise system, underwriting the economic and military security of the entire free world, that has confounded the Communists at every turn.

It is our system, and the standard of living it has produced, that the world seeks to emulate. It is our system, not Communism, that is the wave the future. It is our system, not socialism, that will finally lift the burdens of ignorance, poverty, and despair from the shoulders of suffering mankind.

I am confident that this voluntary balance of payments program will once again prove the superiority of our system. It will demonstrate that the individual economic decision-making by private corporations is superior to economic decree by monolithic government.

Here in our country, as the external challenges have grown, the internal barriers separating the divergent elements of our society have come tumbling down, one after another. Today we have an American “common market of purpose” that quite rapidly is being extended to every section,

every segment of the economy, and to ever race, creed and color among our people. The links in the lives of all of us are closer than ever before in our history, and they will get even closer as the days go on.

It is on these facts and on the assurances of my friends in the business world, that I base my confidence in this voluntary balance of payments program. Those who hope for a weakness in the dollar hope in vain. The United States Government and the American business community are joined in a united effort to upset those hopes. The dollar is, and will continue to be, as good as gold.

This past weekend I mailed each chief executive officer of some 600 corporations participating in the balance of payments program a formal communication requesting his best estimate of how many dollars his firm can contribute this year to the solution of our international payments deficit. I know many of you were among them, and I am confident that you will go “all out” in committing your companies to the maximum possible contribution.

In closing, I want to say that we in government are grateful for the business community’s unqualified pledges of support. I want especially to thank Al Nickerson and his associates on the Balance of Payments Advisory Committee for their guidance in getting the program underway. We shall be calling on them continually for counsel as it progresses.

So American turns today, as it has in so many critical periods of peace and war in the past, to our business leaders to shoulder a burden no one else can carry. I am confident that President Lyndon Johnson's trust in your patriotism and sound judgment will be fulfilled to the last measure.

You will meet this test in the same spirit of freedom that has produced the greatest nation in all history and that offers hope to all the world for peace and progress.

A bright new chapter is about to be written in the long tradition of service of the American business community. We are going to win the battle of the dollar.

A final thought. If this voluntary program fails, the President is sure to have me on the carpet. If I lose my job, one of you had better be prepared to take it on. That is, if one of the professors isn't already in the chair.

Thank you.