

December 20, 1961.

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Young

REC'D IN RECORDS SECTION
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At the Working Party 3 meeting of the OECD in Paris last week, the U. S. balance of payments situation again came under review. The discussion focussed almost wholly on ways and means by which the U. S. payments deficit might be reduced or eliminated by some foreseeable target date, say the middle of 1963.

The presentation made by the U. S. delegation specified a nine-point program by which progress in reducing the payments deficit would be made. Some of the points are in the nature of transitional expedients and, of course, will need to be superseded by other measures or corrections. The program embraced the following:

- (1) Balance for the Federal budget to assure that the full savings and bank credit supply will be available for the financing of the private investment needed to maintain and accelerate U. S. productivity gains and to keep U. S. industry competitive internationally.
- (2) Tax revisions designed to give additional incentives to domestic business investment and to moderate incentives to direct investment by American industry abroad.

-2-

- (3) Governmental persuasion efforts to hold wage increases to no more than productivity increases.
- (4) A foreign economic policy thrust to obtain further reductions in European tariffs on U. S. exports and a lifting of remaining quantitative restrictions on our trade.
- (5) A new effort to get Continental countries to open wider the doors of their credit and capital markets to foreign borrowers and to increase their grants and aid loans to less developed economies.
- (6) A broad-scale domestic export promotion campaign, with the Secretary of Commerce acting in the role of export expediter. As one phase of this undertaking, our foreign commercial representation is being strengthened. Also included are new facilities for export credits and credit risk insurance.
- (7) Intensified endeavors to cut back the military load on our European payments by obtaining compensating inflows of European procurement payments. The aim here is to cut our net military payments load abroad from \$3 billion to \$2 billion in 1962 and perhaps further.
- (8) Untied U. S. aid still amounts to about \$1.1 billion and in 1962 the intention is to cut this untied amount by about one-half.
- (9) Encouragement to countries indebted on long-term account to the U. S. Government to accelerate their debt repayments.

On the whole, the U. S. presentation made a favorable impression upon our European colleagues, but there was some critical reaction to it.

-3-

This criticism related mainly to the omission of an active monetary policy to raise U. S. interest rates in relation to those prevailing in European markets. In these critical comments the Europeans were inclined to urge that higher interest rates should have a higher priority as a short-run goal than a balanced Federal budget.

After two days of discussion, the European members of the Working Party felt that the group should formally register its concern about the U. S. balance of payments deficit and its general concurrence in the U. S. corrective program through the medium of a letter addressed to the chairman of our delegation, Under Secretary Roosa of the Treasury. This letter was duly composed and despatched. Its language was substantially drafted in group sessions, and so represented many compromises. Being on the receiving end of the letter, we could hardly assume more than an advisory role in the drafting. You may be interested in the final summation of the group's wisdom on U. S. monetary policy. With the consent of the delegation chairman, the relevant paragraph is quoted below:

"Rises in short-term interest rates accompanying vigorous expansion of economic activity should not necessarily be prevented; higher short-term rates can help to correct the deficit on external account by making the United States a less attractive place in which to borrow and a more attractive place in which to hold money. It should be possible to maintain monetary conditions which are appropriate to the external situation without serious detriment to the sound growth of domestic demand. A monetary policy that looks to both the external and internal developments will also be helpful in maintaining confidence.

-4-

The Working Party noted with approval that the United States authorities would not be deterred from using higher short-term interest rates to defend the external position by the fact that higher short-term rates might put upward pressure on long-term rates."

A handwritten signature in cursive script, appearing to read "Ray", is written over a solid horizontal line. The signature is centered on the page.