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FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
1. memo	Andrew F. Brimmer to Record Section re trends in the commercial paper market	6/29/70	C
2a. memo	<u>2. memo case, Brimmer to Board of Governors, 6/30/70</u> Economic Policy Committee Recommendation on Export Credit (1 p.)	6/16/70	A

FILE LOCATION

Arthur Burns Papers
 Federal Reserve Staff Files, Box C2
 Brimmer, Andrew (3)

SRM
 3/20/85

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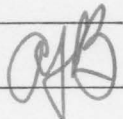
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 4, 1970.

To Chairman Burns

Subject: Meeting on Trade Message and

From Andrew F. Brimmer 

Trade Hearings, Wednesday, May 6.

An interagency meeting is being scheduled for Wednesday, May 6, at 3 p.m. to consider a trade message that the President might deliver and to review issues that Administration witnesses will be expected to discuss at hearings to be held during the next few weeks by the House Ways and Means Committee. You will probably be receiving a notice of this meeting. (The meeting will follow immediately another session called for 2 p.m. the same day, to consider the future of the Foreign Direct Investment program. The invitation list, I have been told, will be broader for the trade discussion than for the FDIP review.)

For your background information, and as a preliminary indication of the subjects to be covered at the trade meeting, I attach a memorandum on a preparatory session conducted by Hank Houthakker last Thursday and attended by Bernie Norwood of our Division of International Finance. Another staff-level meeting will be held late Tuesday, and a final paper for review by principals attending the Wednesday meeting may not be available much, if at all, in advance of that meeting.

The major issues of concern to the Board that are being considered for treatment in a Presidential trade message are proposals to expand Ex-Im's operations and to create a tax deferral device to encourage exports. The trade hearings will probably cover, of direct interest to the Board, proposals (possibly all from outside the Executive branch) to create tax incentives for exports.

Attachment

Memorandum on preparations for discussion of trade issues.

cc: R. Solomon
Holland
Cardon



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 1, 1970

To Governor Brimmer

Subject: Houthakker Meeting on the

From Bernard Norwood

President's Trade Message

~~CONFIDENTIAL (FR)~~

The following is an account of the meeting held by Mr. Hendrik Houthakker (CEA) to discuss a message on trade to be delivered by the President, as well as to consider matters to be covered in trade hearings by the Ways and Means Committee.

Summary

The meetings considered points that might be included in a Presidential trade message; did not do any drafting or review language of proposed texts; elicited agency attitudes on topics covered; and agreed to reconvene on Tuesday to prepare a report that would be considered by principals on Wednesday. (In addition to the Wednesday meeting of principals on trade matters, there will be a meeting that day of high level officials on possible OFDI revision.) The meeting also noted preparation of Administration material to be presented in the Ways and Means Committee hearings.

On the principal issues, agencies were divided on a proposal "to take Ex-Im out of the budget," were agreeable to lesser proposals to liberalize Ex-Im's operating limitations, and were for the most part awaiting a further review of the DISC proposal before developing positions.

Participants

CEA - Houthakker, Wonnacott
Budget - Mann, Green, Bray
STR - Gilbert
NSC - Johnston
Ex-Im - Kearns, Bostwick
State - Weintraub, Duncan
Treasury - Schaffner, Pelikan
Commerce - Davis, Fox
Agriculture - Bates
Federal Reserve - Norwood

Determined to be an
Administrative Marking

By TMH NARA, Date 4/18/22



To: Governor Brimmer

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Documentation

Prior to the meeting, Davis had circulated an Ex-Im Bank paper that proposed several ways of easing restraints on the Bank's operations. At the opening of the session, the Chairman circulated a CEA draft of a Presidential trade message (Attachment A); during the discussion, Treasury circulated to those representatives who had not previously received copies another draft Presidential message (Attachment B). The latter two texts were referred to, but not carefully reviewed, during the meeting.

Before the meeting opened, I gave Houthakker a copy of the memorandum in which Reed Irvine and I had given to you our views on the Ex-Im proposals and, incidentally, on the contemplated DISC.

Proposed removal of Ex-Im from the budget

Houthakker solicited general reactions on the proposal to take Ex-Im lending activities out of the Federal Budget (proposal described in an Ex-Im memorandum circulated by Ken Davis on April 27). Mann said that it had been agreed at the last NAC meeting to hold this matter off until January. Kearns replied that Ken Davis at some earlier meeting had asked Ex-Im to prepare a paper on the subject. Davis said that the Secretary of Commerce, in a meeting with the President, discussed tax incentives and export financing and that the President asked for a further study of these matters. Fox added that Wilbur Mills, Chairman of the Ways and Means Committee, had directed "us" to indicate how the President would achieve his objective for U.S. trade performance.

Houthakker said that he had not been aware of the NAC action but did recall that, when the issue was discussed last summer, there was an understanding that the budget constraint issue would not be pushed. However, he recognized that the situation had been altered by new events, namely, the Administration's decisions to place certain Government activities -- of the Environmental Finance Authority and of the Student Loan Program -- outside the Federal Budget. "Because a girl has lost her virginity does not mean she has to become a whore," Mann remarked.

Along the lines of our memorandum to you, I said we saw value in budget discipline and believed now was not the time for relaxation of budget restraints either in fact or in appearance.



To: Governor Brimmer

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Bostwick objected to an inference in the meeting that taking Ex-Im out of the Budget would remove it from all Governmental controls. He noted particularly that the five Ex-Im directors were appointed by the President and would be expected to carry out Administration policy. The Government Control Act provided the Budget Bureau with adequate restraints over the Bank, Fox declared.

There was a sharp interchange between Mann and Kearns over Mann's view that the proposal represented gimmickry and that a proposal that would, in effect, remove Ex-Im from the Federal Budget should be framed in a more clear-cut manner.

Returning ultimately to his initial request for agency attitudes, Houthakker received the following indications.

Commerce	- favored	Budget	opposed
Ex-Im	- favored	Federal Reserve	- opposed
STR	- favored	Treasury	- no position,
State	- favored		but hopeful of estab-
			lishing one during
			the day.

In response to a direct query from Davis about the basis of the Federal Reserve position, I said that the view had your concurrence and that I expected that, in the light of previous expressions of Board members on the broad issue involved, it would have the support of other members. However, reminding Davis that he had only gotten the Ex-Im paper to us the day before, the specific proposal had not been presented to the Board.

Passing reference was made to a subsidiary element of the proposal, namely, that Ex-Im be authorized to extend its discount facilities to short-term export paper. Without objecting to the proposal as a whole, I remarked that we would be concerned that a failure to incorporate some restraints could well lead to an undesirable surge in the expansion of the total volume of U.S. commercial bank loans.

Increase in Ex-Im obligational authority

There was a generally favorable attitude toward Ex-Im's request that its obligational authority be increased (point 2a in Ex-Im's paper).



To: Governor Brimmer

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However, there was much debate over whether steps toward this end should be taken now or should even be indicated publicly at this time. Bostwick declared that Ex-Im would not need additional money now but would need it in FY72 and FY73. It would need expanded obligational authority as of July 1971.

It remained unclear how the group's sentiment would be reflected in the proposed trade message.

Debt obligations beyond Ex-Im's statutory life

There was no objection to the proposal that Ex-Im be granted authority to issue debt obligations that extended beyond its statutory life.

DISC

Green reported on the interagency meeting that had taken place early in the week to formulate a position on the proposal to establish as a tax deferral device to aid exports, a category of domestic corporation to be known as a Domestic International Sales Corporation (DISC). Hopefully, he said, papers to round out the present proposal and to furnish needed analysis would be available by next Tuesday. Gilbert said that he and Deputy Assistant Secretary of the Treasury Nolan were to talk to Representative Byrnes of the Ways and Means Committee concerning the proposal. Gilbert had not yet done so. It was not known whether Nolan or others had brought the matter up with Byrnes.

Schaffner urged against possible insistence for a weighing of cost (revenue loss) against benefits (export earnings).

Agency reactions were as follows: Treasury, State, Agriculture, and Federal Reserve preferred to await a further proposal before taking positions. Commerce definitely favored the idea of the DISC. The Special Representative for Trade Negotiations was sympathetic. Budget did not yet have a firm position. However, DISC, as well as any other proposal involving a relinquishment of revenue, would have to promise benefits that offset revenue loss to warrant Administration endorsement. The NSC representative said he had started out disposed favorably toward the proposal but had become concerned about the holes in the proposal.



To: Governor Brimmer

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Houthakker thought that, pending a further review of the proposal, reference of some sort to it should be retained in the trade message.

VFCR

In answer to a question from Houthakker, I said I would not recommend including in the trade message a reference to the December 1969 modification of the VFCR guidelines.

OFDI

Some participants referred to the relationship between, on the one hand, various proposals that would come up in the Ways and Means Committee hearing and in the President's trade message and, on the other hand, the possible liberalization of the Foreign Direct Investment regulations, to be considered at a high level meeting next week. Schaffner pointed out, for example, that trade liberalization steps would to some extent determine how far Government might go in liberalizing controls on capital outflow.

There was no attempt to get into the substance of the OFDI issue at the meeting.

Other trade issues

Trade adjustment assistance. Gilbert had recommended to the President the creation of the Trade Adjustment Assistance Advisory Board that had been envisaged in the Trade Expansion Act of 1962 but that had never been established. There was brief discussion of increased appropriations contemplated for adjustment assistance because of the expansion of the facility called for by the President's trade bill.

Tariff Commission industry study. Gilbert also had recommended to the President that the latter request the Tariff Commission to do a comprehensive study of industries in the United States. Houthakker thought that this point, as well as the adjustment assistance matter, should go into a draft trade message if the President accepted the recommendations.

Border tax adjustments. The Chairman of the Ways and Means Committee might include border tax adjustments (BTA's) in the hearings. However, in order to avoid inhibiting a possible



To: Governor Brimmer

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United States negotiating position, he would probably confine discussion of the topic to executive sessions of the Committee. Believing that the subject should be treated more fully, Fox said that a decision had been taken at Cabinet level that the border tax adjustment issue was important.

Houthakker and Gilbert agreed that no reference to the subject should be made in the trade message.

Trade documentation. Gilbert expressed reservations about an allusion in Treasury's draft of a Presidential trade message to simplification of export documentation. (This was virtually the only specific reference to the Treasury draft at the meeting.)

Date of Mills hearings. Despite rumors, no firm date had been set for the Mills Committee hearings. They were expected in May. Cabinet officers and other senior officials were already on notice that they would be scheduled.

Further action

Houthakker said the present group would meet again at staff level Tuesday, May 5, at 4:30 p.m. Participants at the present meeting were asked to submit to Wonnacott their comments on the CEA draft Presidential trade message not later than noon, Monday, May 4.

On Wednesday, May 6, at 2 p.m., a meeting would be held under the Chairmanship of Paul McCracken to consider the possible relaxation of the Foreign Direct Investment program. The meeting would be confined to "principals only" (except for the inclusion of Dick Urfer).

On Wednesday, May 6, at 3 p.m., another high level meeting would be held to consider matters that would be coming up in the Mills Committee hearings and to review a draft Presidential trade message. The agency representation at this meeting would be broader than at the 2 o'clock meeting.

cc: Messrs. R. Solomon
Hersey
Irvine
Pizer
Cardon

Attachments 2.



~~CONFIDENTIAL~~

Determined to be Administrative Marking

Date 5/19/85 By AWO

Last November, I sent to the Congress a message on our foreign trade policies, and, included in that message, my proposals for a Trade Act. If our trade policy is to have the flexibility required by the changing world of the nineteen seventies, these proposals are essential, and I therefore urge their speedy enactment. While the proposals are modest in scope, they provide flexibility for U.S. trade policy in a number of significant ways.

Specifically:

- They restore the authority needed by the President to make limited tariff reductions.
- They recognize the very real plight of particular industries, companies and workers faced with import competition, and provide for readier relief in these special cases.
- They provide for the legislative completion of the Kennedy Round of trade negotiations, and remove a major obstacle impeding progress on the reduction of non-tariff barriers.
- They strengthen the hand of the President in his efforts to ensure fair treatment for U.S. exports.



--- They strengthen the General Agreement on Tariffs and Trade by regularizing the funding of United States participation.

LIMITED AUTHORITY TO REDUCE TARIFFS

The President has now been without authority to make modest reductions in U.S. tariffs ^{since 1967;} /the proposed act would provide such limited authority. As was explained in the message of last November, this authority is not intended for major tariff negotiations, but rather to make possible minor adjustments that specific circumstances might from time to time require. In the event of the use of an escape clause action, for example, it is normally necessary to provide compensatory reductions to our trading partners; otherwise they are justified in taking retaliatory measures, with the resulting danger of a drift toward restrictionism. Thus, the limited tariff reducing authority is an inseparable companion of the provision of a more liberal escape clause.

AID FOR AFFECTED INDUSTRIES

In the trade bill presented last November, I recommended significant improvements in the means by which U.S. industry, firms, and workers can receive adjustment assistance from the government to meet injury caused by



imports. I also recommended liberalization of the escape clause, providing a simple and clear test: relief should be available whenever increased imports are the primary cause of actual or potential serious injury. The increase in imports should not -- as it is now -- have to be related to a previous reduction in tariffs.

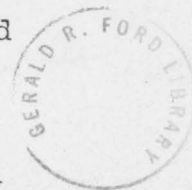
I reiterate my recommendation for these two changes, which will ease the impact of import competition on American industry and labor. I should also like to note a number of actions which have been taken in the past few months to help some industries and workers in adjusting to import competition. The Tariff Commission has now approved four applications for adjustment assistance for workers and, based on the recommendations by the Tariff Commission, I have granted moderate tariff relief to the piano industry and have made its firms and workers eligible for adjustment assistance. I have also provided adjustment assistance for the firms and workers in the sheet glass industry and have extended the escape clause rates applicable to window glass for several years, after which a phase-out of the escape clause has been scheduled. I have extended the escape clause protection to the Wilton and velvet carpet industry and have also freed certain carpets and rugs from escape clause protection. Because



of the complexity of this industry and its production and prices, I have asked the Tariff Commission for additional information as to competitive conditions in this industry.

ACTION ON THE AMERICAN SELLING PRICE

During the most recent round of trade negotiations, all major participants made concessions in the chemical sector. Many concessions were agreed on unconditionally, while certain other concessions were conditional on U.S. elimination of the American Selling Price method of evaluation for duty purposes. Specifically, as part of the ASP package, the European Community undertook to reduce its chemical tariffs by an additional amount, so as to achieve a combined Kennedy Round-ASP package reduction of 46 percent on \$460 million of chemical imports from the United States. As a result, virtually all EEC chemical tariffs would be at rates of 12-1/2% or below. The United Kingdom would also reduce most of its chemical tariffs as part of the ASP package. In addition, a number of non-chemical provisions were included in the ASP package. Belgium, France, and Italy would modify road-use taxes so as to eliminate discrimination against American types of automobiles; the United Kingdom would reduce its margin of preference on tobacco imports; and Switzerland would eliminate restrictions on certain canned fruits.

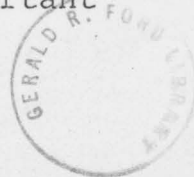


Although the ASP system applies to only a few American products -- mainly benzenoid chemicals -- it has taken on great symbolic significance in the eyes of our trading partners. Thus, it has become a major obstacle to negotiations on non-tariff barriers. If progress is to be made in the important area of non-tariff barriers, it is important that the United States undertake the elimination of the American Selling Price.

Reducing or eliminating other non-tariff barriers will require a great deal of hard bargaining. I would welcome a clear statement of Congressional intent with regard to non-tariff barriers to assist in our efforts to obtain reciprocal lowering of such barriers. It is not my intention to use such a declaration as a "blank check." Rather, I pledge to maintain close consultation with the Congress during the course of any such negotiations, and, of course, to submit to Congress any agreements which would require new legislation. The purpose of seeking a declaration of Congressional intent is to strengthen our ability to negotiate on non-tariff barriers.

FAIR TREATMENT OF U.S. EXPORTS

The reduction in trade barriers which has taken place in the past four decades has contributed to the vigor and prosperity of the United States economy. It is important



to recognize that the United States can gain from both sides of the trade equation. Imports provide a wider choice of goods to the American consuming public, and reduce inflationary pressures in the economy. At the same time, it is no less important to recognize the need for vigorous efforts to assure fair conditions for U.S. exports competing in world markets. These efforts will be strengthened if we have more effective means of response when confronted with illegal or unjust restrictions on American exports. In the trade bill submitted last fall, I recommended that authority to respond to such restrictions be expanded in two ways, namely, by extending the existing authority to cover unfair actions against all U.S. products, rather than just agricultural products, and by providing new authority to take action against subsidized competition in third country markets.

FOR THE FUTURE

The trade bill presented by the Administration represents a step towards developing the flexible trade policies needed for the world of the nineteen seventies. It is, however, important to reexamine our entire trade policy. In order to assist in this reexamination, I have recently announced the members of the Commission on World Trade. The Commission is charged with the task of



examining the entire range of trade and related policies, and of preparing recommendations as to future policies.

Certain aspects of our trading relations have been of particular concern in recent years. The decline in our trade surplus, from about \$6.8 billion in 1964 to only \$0.6 billion in 1968, has been the reflection of deep seated problems in our economy. In particular, it has been an external consequence of the inflationary forces which have dominated our economy. As I mentioned in my balance of payments message of April 1969, it is appropriate to deal with fundamental problems by the use of fundamental remedies. In this case, a fundamental remedy has been the reduction of inflationary pressures. With the steps we have taken to gain control of inflation, there has been some evidence of improvement of our trading position. As our anti-inflationary policies continue, we may hope for a further improvement in the trading position. Anti-inflationary policies alone are not enough, however; it is also important to take vigorous steps to protect the interest of our exporters.

One of the most disquieting developments in trade has been in^{the} field of agricultural trade. Although there has been a general reduction in trade barriers in recent decades,



there have been evidences of contrary trends in agricultural trade. In particular, the use of high domestic prices and high trade barriers in a number of countries have created difficulties for our agricultural exports. We have protested against these measures as each new barrier was raised and have on occasion been reluctantly forced to threaten or to actually take retaliatory measures. Examples of these are the chicken war and subsidies on exports of poultry and lard into selected markets.

During the past decade, there has been a major integration of the fragmented economy of Western Europe. We see ahead the prospect of an enlargement of this community. In my Foreign Policy Report, I welcomed this movement toward enlargement:

Intra-European institutions are in a flux. We favor a definition by Western Europe of a distinct identity, for the sake of its own continued vitality and independence of spirit. Our support for the strengthening and broadening of the European Community has not diminished. We recognize that our interests will necessarily be affected by Europe's evolution, and we may have to make sacrifices in the common interest. We consider that the possible economic price of a truly unified Europe is outweighed by the gain in the political vitality of the West as a whole.

This attitude, I believe, is the only wise and forward-looking attitude for the United States to take. Nevertheless,



I believe that we are entitled to expect that, in the process of enlargement of the EC and the contemplated expansions of its commercial spheres of influence, our friends in Europe will give due regard to the rights and interests of the United States and third countries. We wish our friends in Europe well in their efforts toward economic and political unity and will watch their steps toward this end with sympathetic interest -- remaining alert, however, to the need for respect for our commercial interests.

IMPROVED EXPORT PERFORMANCE

For a number of reasons it is possible that American industry has been less export-minded than that of other major competing industrialized countries. Attractive alternatives to export sales development -- in the very dynamic domestic market for example, and in the alternative of direct foreign investment abroad for manufacture of products in locations closer to the foreign markets being served -- have existed for American industries to a greater degree than available for foreign companies. Private foreign investment has helped the economies of our friends, and this we do not regret, but when such investment is further stimulated by unintended consequences of our own



tax laws, this requires rectification. I will be submitting a legislative proposal shortly to accomplish this purpose.

United States exports have increasingly shown a concentration in capital goods and other technologically advanced products. It is customary in domestic as well as international trade in such items for the seller to provide credit on comparable conditions with those provided by his competitors. Important steps have been taken by the Export-Import Bank in the past year to make U.S. Government export credit and guarantee programs as flexible and useful to U. S. industry as possible. However, the funds of the Bank have been limited at times to provide the needed export credit. I am recommending a simplification of the budget procedures as they relate to the Export-Import Bank, and I have directed the Treasury Department and the Eximbank to simplify the terms and conditions under which the Export-Import Bank obtains funds through private commercial banking channels. The purpose of these changes, of course, is to provide comparable export credit facilities for U.S. exporters to those enjoyed by their foreign competitors. An equally important purpose is to rely as fully as possible on private banking channels to avoid government financing where private financing is available, and to avoid an



~~CONFIDENTIAL~~

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undisciplined international credit race respecting export credit. In this last regard, I have asked the Treasury and the Eximbank to undertake consultations with the Treasury and the banking officials of other countries to reach international understandings to obviate the possibility of such an international credit race taking place.



April 20, 1970

Draft Presidential Statement
on Trade Expansion

In my balance-of-payments statement of April 4, 1969,
virtual
I called attention to the/disappearance of our once sizeable
trade surplus and the need to restore it as an essential
component of a viable U.S. balance-of-payments position.
The year that has elapsed since that statement has seen
only a very modest improvement in our trade balance.
I therefore must reemphasize the significance of achieving
our objective. The significance lies in the need for
financing major national policies involving expenditures
abroad.

We have large and enduring responsibilities for
contributing to the defense of the free world. We recog-
nize the desirability of continuing to provide development
aid to the less developed nations of the world. We respect
the continuing contribution that our business firms can make
to world economic growth through their technology, their
managerial skills, and their investment abroad. We intend
to continue a liberal commercial policy regarding merchandise
imports associated with the operation of a high employment
non-inflationary domestic economy.



All of these major national purposes involve large-scale expenditures abroad--expenditures which must be financed in viable ways if the dollar is to remain strong. Prolonged deficits in the U.S. balance of payments can jeopardize the achievement of these purposes and endanger our international financial position to a point of concern about the strength of the dollar.

During most of last year, the tightness of credit in the U.S. induced short-term capital inflows which offset the adverse effect on the dollar, and on our reserve position, of an unsatisfactory trade balance. The credit situation can no longer be expected to play this role to the same degree. We have no satisfactory alternative to the rebuilding and maintaining of a substantial surplus on our goods and services account.

But we have a persistent deficit in certain service transactions such as tourism and military expenditures. We also make a sizeable volume of government and private unilateral transfers abroad. Traditionally we have a large net outflow of medium- and long-term capital. All of these net payment categories must be substantially covered by our net investment income and our trade surplus.



Our net investment income grew a little more than \$2 billion during the last ten years, approximately doubling the 1960 level. Such growth, however, cannot compensate for a more than \$4 billion decline in our trade balance to only one seventh of the 1960 level. The necessary course of action is clear.

A lesson from the past years of sharp deterioration in our trade position is that another period of strong domestic price inflation would probably throw our trade balance into substantial deficit. We cannot afford to ignore this warning. We must do more than avoid domestic inflation, however, in order to achieve an adequate trade surplus. Both Government and business must be as actively concerned with the maintenance of a substantial trade surplus as our chief competitor countries--not from any mercantilistic motives but from our interest in making a real contribution to a safe, prosperous world in which our country can flourish, and in preserving the role of the dollar as the currency which knits the business transactions of many countries into a healthy international network.

In our efforts we must not follow the self-defeating course of promiscuously erecting barriers to imports. Such a course invites foreign retaliation, fosters inefficiency at home and retards the growth of real income. We can, however,



without these adverse effects, eliminate government or business regulations and practices

which favor imports over domestic products or exports;

which favor U.S. manufacturing investment abroad, with subsequent sale of the product either back to the U.S. or abroad in competition with our exports;

which stifle initiative in adapting to shifts in U.S. consumer tastes--shifts that will be satisfied by imported products if competitive domestic alternatives are not available.

Our major efforts to strengthen our trade balance, however, must center on export expansion. Last year we tentatively set an export goal of \$50 billion to be achieved by 1973. Our exports rose last year by about \$3 billion, excluding the rise in automotive shipments to Canada which has been more than balanced by imports from Canada under the U.S.-Canadian Automotive Agreement. An annual increase of this size would barely enable us to achieve the 1973 goal. Furthermore, the goal itself now appears inadequate in view of the prospective burden of foreign expenditures associated



with the major national purposes noted at the beginning of this message. We must exceed \$50 billion of exports by 1973 and take new, substantive steps to bring this about. These are the steps the Government proposes to take:

[Commerce Department insert]

[STR insert]

Philip P. Schaffner
U.S. Treasury Department



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DATE

5/13 [1970]

TO Chairman Burns

FROM ROBERT SOLOMON

The attached letter from Governor Brimmer provides further background on the proposal for a discount facility for export paper at the Federal Reserve.

Governor Brimmer is quite familiar with the NEEC and would be glad to brief you further if you wish.

RS

Attachment.



APR 27 1970

Mr. Bruce N. Lynn, President,
National Cotton Council of America,
Ring Building, Room 610,
1200 18th Street, N.W.,
Washington, D. C. 20036

Dear Mr. Lynn:

Thank you for sending me a copy of your letter to Chairman Burns, dated March 25, concerning the establishment of a special rediscount system for export paper. You noted that the National Export Expansion Council (NEEC) had recommended the creation of a facility to rediscount short-term and long-term export paper, and you recommended that the Board of Governors favorably consider the establishment of such a facility.

I assume that in making this recommendation, you share the view of the NEEC committee that proposed last February that such a facility be established, preferably within the Federal Reserve System, or, failing that, that it be tied into the present Export-Import Bank facility or into the operation of the contemplated Private Export Financing Corporation (PEFCO). More important elements than the question of location, the committee believed, would be size and automaticity and access by the facility to funds at lower than market rates (or the provision to the facility of an operating subsidy).

Before commenting on the merits of the proposal, it might be well for me to point out a distinction that exists between the present and proposed Federal Reserve discount facility and that appears to have been overlooked in the NEEC position. The NEEC document states that the present Federal Reserve discount "window could be opened wider to accept export paper" (page 23 of the November 1969 Report of the NEEC Action Committee on Export Financing).



Mr. Bruce N. Lynn

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But export paper is, and has long been, eligible for discounting at Federal Reserve Banks. What would change are the purpose and method of operation of the Federal Reserve discount window. Presently, it is a selective, limited mechanism to ease short-run liquidity pressures of individual banks; the proposed facility would be an automatic mechanism, accepting any volume of paper put to it, to ensure an overall growth in credit for a particular use.

With regard to the possible merits of the issue, I believe that various proposals for an export discount facility that would operate with funds acquired at less than market rates have tended to touch too lightly on, or even to ignore, the potentially adverse effects of the use of the Federal Reserve's powers over credit for purposes other than influencing over-all monetary conditions.

Such a system, today, would contribute to inflationary pressures. There are already competing demands from other sectors of the U.S. economy for similar treatment. For example, legislation has been proposed for aid of this type for middle-income housing and for rehabilitation of urban and rural poverty pockets. Increasing the supply of credit through the Federal Reserve System for export financing, housing, hospitals, schools, and other high-priority, worthy purposes would tend to weaken the market for Treasury securities, as the System made offsetting sales of these securities, and to contribute to inflation, as it became more difficult or impossible to offset the consequent expansion of credit. It would thereby frustrate the objectives of monetary policy. Therefore, the Board has opposed providing Federal Reserve credit for special purpose lending.

Where a particular sector of the economy is to be favored by low-cost credit, the method used, it seems to me, should avoid conflicting with Government anti-inflationary policy and should provide any element of subsidy through the budget, where it can be measured and furnished after a weighing of priorities for all Government expenditures.

Sincerely yours,

Andrew F. Brimmer

BN;bbs

bc: R. Solomon



BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

DATE

5/6/70

TO

Chairman Burns

FROM

Andrew F. Brimmer



The attached
memo may be of some
help re the meeting
with Paul McCracken at
3p.m. today relating to the
trade policy hearings
scheduled for week of
May 11.

AFB.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 6, 1970.

To Governor Brimmer

Subject: Trade Meeting, Wednesday,

From Bernard Norwood

May 5.

~~CONFIDENTIAL (FR)~~

Meeting at 3 p.m. A senior level meeting will be held today, May 6, at 3 p.m. probably under the chairmanship of Paul McCracken to consider issues to come up in the trade hearings to be opened next Monday by the Ways and Means Committee and to review a draft message by the President on trade policy. I participated in a second interagency meeting yesterday intended to prepare for today's meeting, and this memorandum reports on the issues which are anticipated for today's agenda.

Preparatory meeting-general. Yesterday's preparatory meeting indicated: a substantial shortfall in proposals and uncertainty, if not disagreement, on important issues.

The preparatory session, which was under the chairmanship of Houthakker and which ran from 4:30 to 7:00 p.m., identified agency or staff attitudes on key issues, and gave instructions to the CEA staff for at least one paper to be drafted for review by principals for possible Presidential signature.

In attendance were representatives of: the CEA, Bureau of the Budget, NSC, Ex-Im, Agriculture, Commerce, Labor, State, Treasury, and Federal Reserve Board, plus the Special Representative for Trade Negotiations.

Attention was given to a new CEA draft Presidential message (attached). It might be a Presidential "message" to the Congress or a Presidential letter to Chairman Wilbur Mills. Its purpose, in either case, is to reaffirm the President's request for adoption of the Administration's trade bill and to express the President's interest in increasing exports.

Ex-Im. Henry Kearns, objecting to language at the end of the draft, said, unless something were done to take Ex-Im out of the Federal Budget, it would be meaningless to ask for the minor actions of increasing its obligational authority and its authority to issue debt certificates beyond the Bank's statutory life. However, explaining the position later,

Determined to be an
Administrative Marking

By TMH NARA, Date 4/18/22



To: Governor Brimmer

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May 6, 1970.

Kearns said the big issue was not whether Ex-Im would be in, or out of, the budget; it was assuring the Bank more money.

Treasury had no firm position. Under pressure for some indications, however, Petty said his department would probably not support the main Ex-Im request. He was skeptical that Treasury would support the request to extend the Ex-Im discount facility to short-term paper. "We'll have to get off the dime by 3 o'clock tomorrow," he recognized.

Budget (Green) enumerated the benefits already given to Ex-Im in terms of authority and money, reminded Kearns that Mayo had said the Bank should come forward with additional requests if those measures were not enough. Now, Green said, Ex-Im comes forward in an interagency review with a proposal about 90-day paper.

In response to a demand from Commerce (Fox), Budget said it would try to prepare a paper on the cost involved in changing the present budget concept under which disbursements are expenditures but borrowings are not offsets. Such a paper would cover Ex-Im and other agencies.

DISC. The group debated the DISC at length. Petty described the analytical technique of measuring cost and benefits and warned that estimates among officials varied widely and that all estimates were acknowledged to be uncertain. The task, as he saw it, was to estimate the probable effect of DISC on the present foreign tax credits arrangements. Under some assumptions about current tax practices, the DISC would cause little revenue loss but, commensurately, would lead to little export incentive. Another element of uncertainty in making estimates concerned withholding tax arrangements although this aspect was not discussed.

There was a jurisdictional limit to the tax analysis that should be made of DISC--Petty noted that an agreement had been reached some time ago that there would be no interference with the Alexander task force on taxation.

The difficulty of deciding an acceptable cost-benefit ratio, measured in revenue loss and in foreign exchange gains, was very great, Green stressed. All that could be said so far was that the revenue loss might be on the order of a half billion dollars a year for the initial few years. He recalled a Commerce Department problem a few years ago in selling the Budget Bureau on a proposal involving an expenditure-export ratio of about 15 to 1.



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USDA did not get a clear answer as to the extent farm products would be covered. Banks were not intended to be covered (but might be under the descriptive language of the proposal) but PEFCO was.

No comments had been received, as requested, on a draft circulated among DISC task force.

"We may have to come up with something that cannot be justified in cold blood," Houthakker declared. Treasury noted, among points to be considered in developing an Administration position: a certain interest in the Congress that related the DISC to the border tax issue (a counterweight, presumably), the need to "steal the thunder of the protectionists," a need to defer entry into force (until about January 1, 1971) in order to minimize the loss of revenue, and a willingness to see some lag in exports this year as U.S. firms awaited acquisition of the tax deferral device.

Agency round-up:

Treasury and Commerce - For.

Ex-Im - Favorably disposed.

Labor - Unfavorably disposed (staff) - noting, to Treasury's perplexity and discomfort, that the AFL-CIO is opposed.

USDA - Staff might recommend it to the Secretary if farm products are in.

State - On both sides--in principle for, but identifying many serious qualifications. Believed message should not refer to any proposal but should say "we are studying."

Budget - On both sides--might favor, but revenue loss might be too great.

Federal Reserve - Open--want to see more specific proposal and analysis.

As to a possible reference in the message to a "proposal," some comment was made that it was bad to promise a proposal if one were not already worked out. Petty forecasted that Treasury would have a proposal--meaning a statutory draft--by the time Volcker testified (some 10 days hence).



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May 6, 1970.

Other issues. Reports were made about progress on studies to be completed as part of the Administration briefing for the hearings.

Views were expressed about the nature of the study on industries that the President, according to the draft, would make of the Tariff Commission. Apprehensions were evidenced about a return to trade agreement "peril-pointing." Gilbert said he was sick and tired of wild assertions from the public and Congress about import injury and wanted some good studies.

On adjustment assistant, Labor asked many questions and expressed skepticism that any good could come from the formulation in the draft.

Should the President mention PEFCO--favorably? I told what I knew about its status (it then being 7 p.m. and Kearns having left) and suggested checking on the completion of such things as Justice's position. (Treasury or Ex-Im will be queried.) I reported that the Fed would itself take no firm position before receiving formal applications from the participating banks concerning some institutional matters. (I did not mention, but I do wonder, whether SEC has approved the prospectus and whether the President should endorse PEFCO if SEC has not yet completed the review of the prospectus.)

Gilbert threw up his hands at a long border tax adjustments "issues" paper that Treasury passed around as the meeting was about to close. (Not attached.) The paper was to have been worked out between Treasury and STR. It might have been, Gilbert acknowledged, but he was not satisfied with its content nor the idea of putting it into the message. He would have enough during the hearings fending off barbs about border taxes without inviting further prodding.

Conclusions. Preparations will probably be inadequate for discussions today. Issues have not been tidied up. Proposals have not reached the stage of legislative drafts--and in some cases, not even good descriptive papers. Some principals will not have had adequate time to absorb, or even to receive, briefing.

But the hearings have just been announced by Mills and will open Monday, May 11. Decisions will have to be taken.



To: Governor Brimmer

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May 6, 1970.

One of the main issues is giving Ex-Im more money by one device or another. Some devices--relaxing budget restraint--would be troublesome to us, in part because Ex-Im would free itself of policy guidance.

Another important issue is the DISC. A decision will turn on "political" factors more than on cost-benefit estimates in dollar terms. The Administration is badgered about the inequity of continuing tax benefits for U.S. foreign investors and thereby moving U.S. production facilities overseas. Our position is open on this issue.

A fresh draft Presidential "message" may not appear until the meeting starts.

Attachment.

cc: R. Solomon
Hersey
Irvine
Pizer
Cardon



~~CONFIDENTIAL~~

Trade Message - Preliminary Draft II
May 5, 1970

Determined to be Administrative Marking

Date 3/20/85 By EAP

Dear Mr. Chairman:

I am extremely pleased that you are today beginning hearings on trade legislation. The Administration welcomes the chance to testify on behalf of the trade bill which I submitted last November, passage of which we believe to be necessary to provide a start in adjusting U.S. trade policy to meet the problems of the 1970's. These hearings will also be useful in giving all interested citizens a chance to explain their views on a subject which is of great economic and foreign policy significance for this country.

I urge speedy enactment of the proposals which I have sent to the Congress. The proposals are modest in scope, but they provide needed flexibility for U.S. trade policy in a number of significant ways:

- They would restore the authority needed by the President to make limited tariff reductions. This authority is not intended for major negotiations, but rather to permit minor adjustments, such as would be required to extend compensation to other countries



- hurt by U.S. escape clause actions -- thereby avoiding retaliation against U.S. exports.
- They would recognize the very real plight of particular industries, companies and workers faced with import competition, by providing for readier escape clause and adjustment assistance relief where justified.
 - They would eliminate the American Selling Price system of customs valuation, a major obstacle impeding progress toward the reduction of non-tariff barriers.
 - They would strengthen the hand of the President in his efforts to ensure fair treatment for U.S. exports.
 - They would strengthen the General Agreement on Tariffs and Trade by regularizing the funding of United States participation.

Since I submitted this legislation to the Congress in November, there have been a number of developments which add to its urgency. I cite only the important decisions taken by the European Communities on the future evolution of that great trading area, and the consideration by the Congress of new U.S. farm legislation, which would further



increase the importance of our access to foreign markets. At a time of rapid movement in international trade relations and patterns, the U.S. will find itself at a disadvantage unless we have the added flexibility which I have requested.

Progress toward freer trade should continue. We must encourage it. Without the strong support of the United States, the world's largest trader, this progress could falter. Passage of the legislation I have submitted will keep us headed in the right direction.

FOR THE FUTURE

The legislation proposed by the Administration represents an interim step toward developing the flexible trade policies needed for the world of the 1970's. For the long range, however, it is important to reexamine our entire approach. Changes in production, trade and investment patterns, and the rapid progress in communications, transportation and technology impel us toward a basic reassessment of our trade policy. I have recently announced the appointment of the chairman of my Commission on International Trade and Investment Policy, which will assist in this reexamination, and I will shortly announce its full membership. The Commission is charged with examining the entire range of our trade and related policies, and of preparing recommendations for the next decade.



In addition, a number of years have passed since the Tariff Commission has made a detailed review of the competitive relationship between imports and particular U.S. industries and workers. Consequently, I am requesting that the Tariff Commission make a broad survey of these relationships. I am asking that public hearings be held to obtain the views of all interested parties. I believe that such a broad study, which the Tariff Commission is best suited to conduct, will be of great assistance to us in our future policies and trade actions and in the work of my Trade Commission, and will help us identify trouble spots in advance.

I intend also to marshal the forces of the executive branch to expedite efficient adjustment to economic changes brought about by increased imports. Now that the Tariff Commission has begun to make findings that U.S. industry, firms, and workers have been injured by imports, or that such injury is threatened, I intend to activate the Trade Adjustment Assistance Advisory Board called for in the Trade Expansion Act of 1962 to lead a broad coordinated executive effort to make adjustment assistance even more effective in opening opportunities for workers and firms.



Certain aspects of our trading relations have been of particular concern in recent years. The decline in our trade surplus, from about \$7.1 billion in 1964 to only \$0.8 billion in 1968, and \$1.3 billion in 1969, has been the reflection of deep seated problems in our economy -- particularly inflationary forces. As I mentioned in my balance of payments message of April 1969, it is appropriate to deal with fundamental problems by the use of fundamental remedies. In this case, a fundamental remedy has been the reduction of inflationary pressures. With the steps we have taken to gain control of inflation, there has been some modest evidence of improvement of our trading position. As our anti-inflationary policies continue, we hope for a further improvement in the trading position. Anti-inflationary policies alone are not enough, however; it is also important to take vigorous steps to improve our exports.

One of the most disquieting trade developments has been in the field of agricultural trade. Although there has been a general reduction in trade barriers in recent decades, there have been contrary trends in agricultural trade. In particular, high trade barriers in a number of countries, used to protect high domestic prices, have created difficulties for our agricultural exports. We have



protested against these measures as each new barrier was raised and have on occasion been reluctantly forced to threaten or to actually take retaliatory measures, and to meet foreign competition in our export markets.

During the past decade, there has been a major integration of the economies of Western Europe. We see ahead the prospect of an enlargement of this community. We wish our friends in Europe well in their efforts toward economic and political unity and will watch their steps toward this end with sympathetic interest -- remaining alert, however, to the need for respect for our commercial interests. I believe that we are entitled to expect that, in the process of enlargement of the EC and the contemplated expansions of its commercial spheres of influence, our friends in Europe will give due regard to the rights and interests of the United States and third countries.

IMPROVED EXPORT PERFORMANCE

For a number of reasons it is possible that American industry has been less export-minded than that of other major competing industrialized countries. Attractive alternatives to export sales development -- in the very dynamic domestic market for example, and in the alternative



of direct foreign investment abroad for manufacture of products in locations closer to the foreign markets being served -- have existed for American industries to a greater degree than available for foreign companies. Private foreign investment has helped the economies of our friends, but change is necessary when such investment is further stimulated by unintended consequences of our own tax laws. I will shortly submit a legislative proposal to accomplish this purpose.

United States exports have increasingly shown a concentration in capital goods and other technologically advanced products. It is customary in domestic as well as international trade in such items for the seller to provide credit on comparable conditions with those provided by his competitors. Important steps have been taken by the Export-Import Bank in the past year to make U.S. Government export credit and guarantee programs as flexible and useful to U.S. industry as possible. For example,



However, the funds of the Bank have been limited at times. In order to avoid such a problem in the future, I will be asking for an increase in the budgetary authority of the Bank [at an appropriate time?] [in the coming months?] At that time, I will also be asking for a technical clarification to remove any question which might have been associated with the authority of the Bank to issue debt obligations with maturities beyond the statutory life of the Bank.




BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 27, 1970.

To Chairman Burns

Subject: Replenishment of the Resources
of the Inter-American Develop-
ment Bank.

From Governor Brimmer 

As Chairman of the National Advisory Council on International Monetary and Financial policies, Secretary Kennedy is today sending to the President, to the Speaker of the House and to the President of the Senate a report of the NAC on the proposed U. S. participation in a replenishment of the resources of the Inter-American Development Bank. His transmittal note will state that the report has been approved unanimously by the members of the council.

In your absence this morning, I concurred in this action. Our staff has reviewed the proposal, which was negotiated with the other members of the Bank at its recent annual meeting, and has recommended our concurrence. The proposal calls for the United States to provide \$150 million in paid-in ordinary capital (in three annual installments in the form of letters of credit which will not be encashed until disbursement requirements on the Bank's loans arise), \$673,520,000 in callable capital to serve as backing for Bank borrowings in world markets (this entails no foreseeable expenditure), and \$1 billion in subscription to the Bank's soft loan window, the Fund for Special Operations, payable in three installments (\$100 million by June 30, 1971, \$450 million one year later and \$450 million two years later). The other member countries are also increasing their contributions, bringing the total of the new resources from this replenishment to \$3.5 billion.



June 8, 1970

Governor Brimmer

Arthur F. Burns

Comments on letter from

Henry Kearns

May I have your comments on the attached?

Attachment - Letter dated May 13, 1970 from Henry Kearns



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DATE June 9, 1970

TO Chairman Burns

FROM ANDREW F. BRIMMER

I thought you might like to see the rough English translation of newspaper coverage of my visit to the West German Central Bank on June 3 and 4.



June 4, 1970 / lh

SUBJECT: Meeting of German Federal Reserve Advisory Council
in the Presence of a Guest from the United States

Under this heading, SUEDEDEUTSCHE ZEITUNG (Munich) of to-day reports as follows (unofficial translation):

Frankfurt/os (report of our own)

It would have been to the great surprise of the banks and on the stock exchange, if the German Federal Advisory Council of the Federal Reserve Bank had passed on Wednesday any resolutions in regard to credit policy. In fact, no such activity took place. The board dealt more than ordinarily with problems of international currency policy as well as with the situation on the international financial markets, with broad coverage given the release of the Canadian exchange rate and the cyclical developments in the United States. The reason for this was the attendance of the meeting by Mr. Brimmer, one of the Governors of the Federal Reserve Board. Well-informed observers are cautioning against overrating Mr. Brimmer's visit to the Federal Reserve Bank. However, it cannot be denied that most recent rumors about a possibly gradual revaluation of the German mark played a role in the discussions of Mr. Brimmer with the German Federal Reserve Agents.

In its afternoon session, the Council dealt with the German economic trend as well as with the situation on the capital market. Unless available information were misleading, substantial scruples were raised against renewing excessive demands on the bond market.



From Stuttgarter Zeitung of June 5, 1970:

"Brimmer: No hope for a quick lowering of interest rates in the USA

Andrew F. Brimmer a member of the Federal Reserve Board of the USA -- which is an equivalent of the directorium of the German Bundesbank -- dampened in an interview with the Stuttgarter Zeitung hope regarding a quick reduction in interest rates in the US. Brimmer declared that the American central bank system has had some success in reducing the excess demand. The development of prices however remained unsatisfactory. A loosening of restrictions could only be considered when economic activity had been reduced enough so that for sometime sufficiently large unused capacities would cause a reduction in the rate of increase in prices. Brimmer continued that this policy of the central bank system would now have to be supported in other spheres and pointed out that the Chairman of the Federal Reserve Board, Arthur F. Burns, recently had advocated activity by the Government in the sphere of incomes policy. By itself the American money and capital markets currently would not be able to come to a substantial reduction in interest rates in view of the pressure of demands on them. Brimmer stressed in this connection that the elections which are taking place in the US in the late fall do not constitute a date for the Federal Reserve Board by which something would necessarily have to happen in the sphere of interest rates."



From Suddeutsche Zeitung of June 5, 1970

" . . . As one hears the Bundesbank was already on Wednesday forced to take in \$120-125 million. On the one hand this has technical reasons, but on the other it also is related to the freeing of the exchange rate in Canada. The international monetary speculators thought that they saw some reasons to believe that . . . the Federal Republic might copy this step. One did not in this connection think of a revaluation in the normal sense, rather-- following the Canadian example--about a temporary freeing of the exchange rate without any simultaneous announcement that one later wanted to fix a different parity.

The quick reacting actors ⁱⁿ the foreign exchange markets became suspicious not least because of the visit of Mr. Brimmer to the Central Bank Council. Brimmer is one of the governors of the Federal Reserve Board. With some reason one asks oneself why Brimmer, who is one the way to attend the Annual Meeting of the Bank for International Settlements in Basel, happened to visit the Bundesbank just on the day of the meeting of the Central Bank Council and not a day earlier or a day later. . ."



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 15, 1970.

To Chairman Burns

Subject: GAO Audit of Some NAC

From Governor Brimmer

Activities.



The attached memorandum indicates that a GAO audit of the U. S. Government's supervision of its participation in the international banks is to be undertaken soon, with Treasury cooperation. This raises some important issues and I have asked the staff to prepare a memorandum setting forth the pros and the cons of our participation in this audit.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 12, 1970.

To Governor Brimmer

Subject: GAO Audit of Some NAC

From Yves Maroni *YN*

Activities.

NAC Use Only

At the NAC staff committee meeting of June 9, 1970, Mr. Hirschtritt (Treasury) reported that the GAO had expressed a desire to audit the U. S. Government's supervision over U.S. participation in the international banks (IBRD, IDB, ADB). He said that Treasury had decided to comply with the GAO request and the other NAC agencies could expect to be approached by the GAO as well.

He said that this was not to be an audit of all NAC activities, nor would it affect the activities relating to the IMF. Moreover, he thought that GAO would conduct a selective audit rather than reviewing all of the loans made by IBRD, IDB, or ADB.

He said that, as long argued by the NAC secretariat, the loan documents originating in the international banks have a privileged character since they contain material involving the banker-client relationship. The borrowers made information available to the banks on the understanding that it would not be published and the banks occasionally inserted in the loan documents analyses and policy advice that was not for public disclosure. If the GAO were to have free access to the loan documents and quote from them in its report (or otherwise divulge their contents), the risk existed that future loan documents would become far less informative and avoid critical analysis and policy advice, as a protection against any repetition.

But Mr. Hirschtritt recognized that GAO had to have access to some of the loan documents and he said that Treasury planned to let them see some of them. He asked that Treasury be the only agency to show loan documents to the GAO and that the other agencies refrain from doing so.

He said that the GAO would not be shown the minutes of the meetings of the boards of the IBRD, IDB or ADB. These are confidential under the by-laws of the banks. He said that we don't want to hide anything, but that we must protect our sources of information so that the flow of information will continue.

NAC Use Only



TO: Governor Brimmer

NAC Use Only

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He said that GAO would want to learn from the other agencies how they analyzed the loan documents and how they reached a decision on specific loans. GAO would want to see the files of the other agencies and find out who saw the loan documents.

Mr. Harley explained that the NAC secretariat would make the NAC minutes available, and that Treasury internal memos describing and evaluating the loan proposals and making recommendations as to how the Treasury vote should be cast on each one would also be provided.

The GAO audit will begin very soon and it is important to plan in advance what role the Federal Reserve should play in it.





BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ANDREW F. BRIMMER
MEMBER OF THE BOARD

June 26, 1970.

TO: The Honorable Henry Kissinger

FROM: Andrew F. Brimmer

SUBJECT: Proposed Exemption of Schedule A
from OFDI Regulations.

The Federal Reserve Board has learned of the proposal to liberalize the constraints on capital outflow administered by the Department of Commerce. In the Board's judgment, this is a particularly inappropriate time to announce a relaxation of any of the restrictions on capital outflows from the United States. Specifically, the Board of Governors would object most strongly to the liberalization of direct investments in Schedule A countries. Chairman Burns has explicitly expressed the view that such a relaxation would be unwise.

The attached paper sets forth some of the reasons why this proposal should not be accepted. I would like to emphasize that there is already a growing concern abroad about the stability of the dollar. Our balance of payments is in such bad shape at this stage that to initiate a relaxation of restrictions on U.S. capital outflows could only be regarded as extremely imprudent--and indeed rash and provocative -- by those foreign monetary authorities whose cooperation will be badly needed in the months ahead as their dollar holdings increase. As you may know, we will have to announce very soon that our balance of payments in the second quarter has registered a deepening deficit.

Furthermore, announcement now of a relaxation of our restrictions would very likely lessen the chances for a successful outcome to the exchange rate flexibility exercise in which the United States is engaged in the International Monetary Fund and the Group of Ten.

Consequently, the Federal Reserve Board urges that the proposed modification in the direct investment restraints be dropped.

Attachment

(Sgd.) Andrew F. Brimmer



June 25, 1970.

Exemption of Schedule A from OFDI Regulations

The exemption of investments in Schedule A (less developed) countries from the OFDI regulations at this time would create some very serious problems, while yielding very limited benefits. In fact, the disparity between costs and benefits is so large as to make the proposal untenable.

Among the costs are the following:

(1) The outright increase in the use of U.S. funds for investment in the exempted countries could (according to Mr. Katz's memo of 6/24) amount to \$400-\$500 per year to cover current requirements, even if it were possible to avoid leakages through the repayment of already-outstanding debt of \$1.6 billion.

(2) There could be a sizable indirect cost, since the affiliates that would be exempted could serve as pass-throughs to affiliates in Schedules B or C. When Canada was exempted it was possible to erect certain safeguards against such pass-throughs. Even if some form of reporting is still required for Schedule A affiliates, it would be very difficult to detect evasions.

(3) Taking the further step of consolidating Schedules B and C would cost an additional \$200-\$250 million per year. This step would not help avoid the pass-through problem just mentioned, and would primarily benefit a small number of companies operating in both B and C countries.



(4) As noted by Mr. Katz, there would be an attempt to mitigate the cost of the exemption by changes in the regulations that would tend to induce companies not to take the opportunity to repay existing offshore debt and that would alter present rules on the allocation of the use of offshore borrowing. These changes would further complicate the regulations. Taking account also of the reporting requirements necessary to guard against pass-throughs, one can hardly regard this change as a simplification.

(5) Most importantly, such an action taken at this time -- when we know we will be having great difficulties in our balance of payments in the period ahead -- will strain the credibility of the U.S. policy position not only with foreign governments but also with the U.S. business community. We already encounter mounting criticism abroad about our failure so far significantly to reduce the flow of dollars to foreign central banks. Any action on our part that deliberately worsened this situation would surely bring the strongest sort of adverse reaction, and at the worst possible time.

Nor should it be forgot that the direct investors and financial institutions we are concerned with are sophisticated observers who would perceive immediately that there was a substantial liberalization involved, and that the potential for evasion of the regulations was being widened, even though there has been no great pressure from them for this particular action. This would surely raise doubts as to whether the Administration is really seriously concerned by the balance of payments problem.



In contrast with these quite obvious costs, the benefits of exempting Schedule A are relatively trivial. There is almost no evidence that the Program has had an inhibiting effect on direct investment in the less developed countries, except perhaps in a few isolated cases. The generous historical allowables in Schedule A, with the establishment of a \$5 million minimum allowable there, and the provisions for the downstreaming of excess Schedule B and C allowables to Schedule A have together ensured that the Program's effect would be minimal in the less developed countries. In the relatively rare instance where hardship was experienced by companies investing in Schedule A, OFDI has maintained a very liberal attitude toward the granting of specific authorization relief. In fact, Schedule A investment has grown from \$1.1 billion in 1967 to \$1.4 billion in 1968 and \$1.5 billion in 1969. OFDI has estimated that such investment may amount to almost \$2.0 billion in 1970. Moreover, substantial amounts of Schedule A allowables have not even been needed by companies investing in the LDC's so that huge carryforwards of unused allowables have been generated.

It is an illusion to believe that this action would spark a larger flow of real investment to Schedule A countries -- it would merely allow the use of U.S.-source rather than foreign financing. Whatever benefit there was in terms of goodwill in less developed countries would soon be dissipated when the action turned out to have little real effect.



From the point of view of the business community, relaxation in Schedule A would be regarded as a poor substitute for relaxation elsewhere. In fact, if business felt that this relaxation would delay relaxation in Schedules B and C they would not welcome it -- except for the relatively few whose interests are centered in the Schedule A countries.



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as listed on the pink form (GSA Form 7122, Withdrawal Sheet)
at the front of the folder.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 30, 1970.

To Board of Governors

Subject: Restraints on Export Credits--

From Andrew F. Brimmer *AFB*

Further OECD Discussions.

Attached for your consideration are the documents that I mentioned at today's Board meeting concerning discussions in the OECD Economic Policy Committee and in the OECD Group on Export Credits and Credit Guarantees on limiting competition in the extension of export credits by developed countries.

Further intergovernmental talks are to take place at a meeting of the OECD Export Credits Group on July 22, and an NAC Alternates meeting is expected to be held over the next few days in preparation for those talks.

I should appreciate any comments you might care to give me on this matter.

Attachments:

1. Memorandum from Mr. Norwood, June 29.
2. Memorandum from Mr. Maroni, June 29.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 29, 1970.

To Governor Brimmer

Subject: OECD Export Credits Group--

From Bernard Norwood

Possible NAC Alternates Meeting.

~~CONFIDENTIAL (FR)~~

An accompanying memorandum, prepared by Yves Maroni on an interagency working group discussion in which he and I participated last week, describes several export credit issues that the NAC Alternates may be asked to consider very soon. There should be another interagency meeting this week (probably Wednesday, July 1) to indicate at least tentative agency positions and possibly an NAC Alternates meeting quickly thereafter. The latter meeting would be directed to formulating a U.S. Government position for a meeting of the OECD Group on Export Credits and Credit Guarantees, scheduled for July 22.

I should like here, as a supplement to Yves' careful analysis and commentary, to indicate my own attitude on the position the U.S. Government should take.

The issues to be reviewed are, in brief:

- (1) The enlargement of a contemplated exchange of information agreement among developed countries on officially supported credits of 5 years maturity or more on exports to any country, so that the agreement includes financing terms;
- (2) consideration of the feasibility and advisability of an agreement under which OECD developed countries would limit competition in the terms of officially supported export credit on transactions among themselves;
- (3) agreement by members of the Export Credits Group not to grant export credit with maturity of over 10 years without prior consultation among them all.

A procedural issue additional to these is the advisability of consulting in the immediate future with business groups, Justice, and possibly Congressional Committees on the contemplated exchange of information agreement.

Determined to be an
Administrative Marking

By Tmlf NARA, Date 7/18/22



To: Governor Brimmer

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June 29, 1970.

In general, I believe the U.S. Government should not undertake any commitments, whether on the procedures of advance exchange of information or on limiting official support to export credit, that places it at a disadvantage to other major developed countries.

With respect to the formulation of an exchange of information agreement, I believe the United States should go along with, but not press for, an agreement if the accord elicits from all participants substantially all elements of cost of credit (interest rates, together with other fees and cost requirements). If the agreement cannot effectively cover information on all financing charges, the U.S. Government should oppose the incomplete coverage of that element of credit on grounds that the information would be deceptive. It should, however, be agreeable, but should not urge, adoption of the agreement as heretofore discussed, that is, without any coverage of information of financing costs.

I would resist any agreement in which developed countries would undertake not to compete in easing export credit conditions on trade among themselves and, without prior consultation among them all, would refrain from offering maturities of over 10 years. We already are restraining U.S.-source private (and, it might be said, governmental) credit and are participating in a limited advance exchange of information (Berne Union) program. We should not be overly generous in ensuring further equality in all elements of export competition.

Concerning the procedural aspect of the first of these three issues, it would be highly desirable for someone (Treasury would suit me) to consult with, or at least inform, business groups, including the BAFT, on the exchange of information agreement. It should be essential that Justice be consulted, too. Although the agreement would be intergovernmental, and although it would be confined to officially supported credit, the transactions and credit would be largely private and the governmental information program largely an adjunct to private trade. Accordingly, it would have implications for essentially private actions that might restrain competition and would warrant Justice review.

It would be useful if Yves and I could get your reactions to these issues and attitudes before further interagency discussion preparatory to a possible NAC Alternates meeting.

cc: Mr. R. Solomon
Mr. Maroni



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 29, 1970.

To Governor Brimmer

Subject: Preparation for Next Meeting of

From Yves Maroni YD

OECD Exports Credits Group.

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The OECD Export Credits Group will meet in Paris on July 22 to consider further the pending exchange of information agreement and it is likely that an NAC Alternates meeting will be scheduled soon to formulate a U.S. position on three new suggestions related to this agreement, which were introduced at the last Export Credits Group meeting, June 15-16. In preparation for an NAC Alternates meeting, we have been asked to develop tentative agency positions in time for a Working Group meeting on July 1.

The first two suggestions are from the OECD Economic Policy Committee (see attached copy of resolution adopted June 16). The first is that the Export Credits Group consider whether to enlarge the proposed exchange of information agreement so as to include financing terms. The second is that the Group consider the possible content of an agreement on the terms on which officially supported export credit is granted on transactions between the developed member countries of OECD, as well as the advantages and disadvantages of such an agreement.

The third suggestion made to the Export Credits Group at its last meeting is an EEC proposal that members of the Group should agree that no export credit with maturity beyond 10 years should be granted without prior consultation among all the participants. A notification that such a credit was contemplated would be required, with a waiting period (either seven or fourteen days) to receive the reactions of the other participants before finalizing the credit.

A working group meeting was held at Treasury on June 25 to begin exploring the issues which these proposals raise. In the course of the discussion, there developed a view that the NAC Alternates might focus on a fourth problem as well, namely the matter of disclosing the contemplated exchange of information agreement to interested business groups and banks, and consulting with Congressional Committees and the Department of Justice.

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A. Exchange of Information on Financing Terms

As regards the first problem (inclusion of information on financing terms in the exchange of information agreement), it appeared, at the working group meeting of June 25, that an exchange of information limited to interest rates charged would give the United States comparatively little difficulty, but that the other countries might have trouble complying, at least in some cases, because of the nature of the system under which they give official support to export credits.

The working group also recognized that interest rates were not the only cost of obtaining export credits and that an information system covering the overall cost of money to the borrower (which would be far more useful) might be impossible to develop and administer. Such add-ons as commitment fees, guarantee fees, insurance premia, and bank commissions might be ascertainable, though not in all cases, but it would be difficult to take account of the effect on cost of money borrowed of such things as compensating balances, or the Exim Bank practice of allowing a commercial bank to take the early maturities (at one interest rate) while taking the later ones for itself (at a lower rate). Foreign countries supporting export transactions through a preferential rediscount rate might also be hard put to calculate the impact on the cost of money to the borrowers. All countries would find it impossible to separate from the prices quoted for exports the element that was added to compensate the supplier for having to extend credit. The complexities would be those of a truth in lending program on an international scale and without the enforcement clauses attendant to a national truth in lending program.

The working group also wondered whether an exchange of information on interest rates, with or without the additional information needed to determine the cost of money to the borrower, might not be the first step toward an agreement to fix interest rates on export credits. Mr. Rowntree (Exim Bank) and Mr. Katz (Commerce) were especially anxious to avoid taking any step that would deprive the United States of what they felt were its only advantage in international competition, namely more attractive financing terms.

Mr. Rowntree noted that it often took a considerable amount of time for the credit insuring agencies in foreign countries to respond to inquiries from Exim on the terms on which they would support given transactions. This was because they were required to



refer many transactions (in some cases all of them) to a governmental body for approval. He felt that the inclusion of financing terms in the exchange of information would further slow down the process.

Mr. Harley (Treasury) wondered whether the Economic Policy Committee had not based its suggestion on a misunderstanding of the basic purpose of the exchange of information agreement. The EPC had been dealing with statistics on export credits and might be hoping to get improved statistics from the exchange of information agreement. In fact, the agreement had quite a different purpose (to prevent escalation of competition on credit terms). The requirement to exchange information was not to apply to all transactions, and exchanges might well be sporadic and limited.

B. Harder Terms for Transactions Among Developed Countries.

As regards the second problem on which the NAC Alternates are expected to be asked to take a position (the possibility of an agreement on credit terms for transactions among the developed countries), the working group which met June 25 appeared rather strongly opposed. The idea behind the proposal seems to be that transactions among developed countries should not be as heavily subsidized (or on as easy terms) as exports to the less developed countries. But how to classify countries that are neither clearly "developed," nor clearly "underdeveloped" (e.g. Greece, Turkey, Portugal, Ireland, Iceland)? There is also an enforcement problem since it would be tempting for importers in developed countries to set up subsidiaries in a clearly "underdeveloped" country to become eligible for the easier terms, and to divert the goods to their developed country destination after they left the exporting countries.

The working group feared that, by agreeing to harder terms on exports to other developed countries, the United States would deprive itself of the principal means it has available to offset the disadvantage which results from its inability to compete in export trade on the basis of price for a rather broad range of goods. Mr. Duncan (State) thought that the proposal was aimed primarily at the United Kingdom and Japan.

A contrary argument, which neither Mr. Norwood nor I expressed at the working group meeting because it seemed to be well in the minds of those present, is that importers in developed countries in strong balance of payments positions are well able



to borrow in private markets on commercial terms and should not have access to easy credit from official institutions in another developed country which is in balance of payments difficulties. This is essentially why the Federal Reserve has opposed a number of Exim Bank loans to developed countries in recent years. Pushed to its logical conclusion, this argument might lead us to favor some sort of hardening of terms for transactions among developed countries, unless we found the arguments advanced by the majority of the members of the working group to be overriding.

C. Prior Notification and Waiting Period for Credits of More Than 10 Years.

The working group which met on June 25, gave little consideration to this problem. Mr. Harley reported that the EEC countries, which made the proposal, strongly favored it, especially France. The Scandinavians and British also appeared to favor this.

Mr. Rowntree saw this proposal as another aspect of an overall attempt to hamstring the United States in its efforts to promote exports. He felt that this country had to retain its freedom to grant easier terms to secure business for U.S. suppliers.

The other side is the general desirability to limit the competitive escalation of credit terms which benefits only the individual borrowers, and may not even benefit them if it leads them as a group to borrow more than their country can afford to service and the resulting balance of payments difficulties cause the authorities to take steps to curtail their activities.

From the point of view of alleviating the debt service burden of the developing countries, a limitation on credits of more than 10 years may be undesirable. The developing countries which have run into difficulties and which have accumulated excessive amounts of short- and medium-term debts, have been trying to lengthen the maturity of their debts. In some cases the Fund has required, as a condition for granting a stand-by agreement to such countries, that the authorities not permit any increase in external indebtedness of less than eight years. This has often severely restricted external borrowings, because of the relatively greater difficulty of borrowing at longer terms. In view of this, one may expect AID and possibly State to line up with Exim Bank in opposing the proposed limitation.



To: Governor Brimmer

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D. Disclosure and Clearance Problems.

Exim Bank and Commerce have business advisory committees which may be interested to hear about the proposed agreement before it is finally signed. Treasury is thinking about the possibility of informing the Bankers Association for Foreign Trade.

Congressional Committees might also be informed, and the problem arises whether the views of the Department of Justice should be solicited because of implications of private restraints on trade.

It would seem as though we might let the other agencies take the lead on this range of issues.

Attachment - EPC Resolution of June 16, 1970



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at the front of the folder.