The original documents are located in Box C13, folder "Presidential Handwriting, 2/15/1975" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

FO 4-1

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

February 15, 1975

ALAN GREENSPAN, CHAIRMAN
WILLIAM J. FELLNER
GARY L. SEEVERS

MEMORANDUM FOR THE PRESIDENT

HR

Subject: U.S. Balance of Payments in 1974

On February 14, the Department of Commerce released preliminary data on the U.S. balance of international payments for 1974, showing a $5.8 billion merchandise-trade deficit. The data show also a $10.5 billion increase (to $18.1 billion) in the "deficit" measured on the so-called net liquidity basis, and a $2.6 billion increase (to $8.0 billion) in the "deficit" on the so-called official reserve transaction basis. The increase in the deficits measured by the net liquidity and the official reserve transactions balance should not be viewed as a "deterioration" of our international position, which it would have been more appropriate to do under the regime of fixed exchange rates. To the extent that both balances measure changes in our liabilities to foreigners, they reflect, under the current exchange-rate system of managed floating, investments of privately held liquid funds and of funds held by official agencies in the United States. Investment of petro-dollars was an important factor. For example, about $10.2 billion of the total $24.4 billion increase in our liabilities to foreigners in 1974 was to petroleum exporting countries. For details of these and other developments, see the attached Supplementary Analysis.

William Fellner
William J. Fellner
Member

Alan Greenspan
Chairman

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

Supplementary Analysis of the Preliminay
U.S. Balance of Payments Data for 1974

The U.S. balance of payments was significantly influenced in 1974 by the higher oil prices. The U.S. trade account swung to a deficit of $5.8 billion (from a surplus of $.5 billion in 1973) as the deficit in our oil products trade increased to $25.1 billion in 1974 from $7.5 billion in 1973. Excluding petroleum, the merchandise trade balance would have been in surplus by $19.3 billion.

For the second half of the year the trade deficit (including petroleum) was somewhat in excess of $8 billion at an annual rate, and this may well prove more typical of conditions in the near future than the figure for 1974 as a whole.

Capital transactions were also dominated by the petroleum-related flows as U.S. bank lending to foreigners rose by $12.4 billion to $18.3 billion -- largely to finance these oil-related deficits. Net U.S. reserve assets rose by $1.4 billion as foreign countries drew dollars from the IMF to finance their deficits. Also, as already noted, our liabilities to the oil exporting countries rose by $10.2 billion, influencing our overall measures. Net transactions in U.S. and foreign securities resulted in an outflow of $.9 billion, while the sum of the items for which information is as yet lacking represents an inflow of $1.9 billion.

These statistics are much more informative than the overall measures of deficits and surpluses that used to be quoted. Under the present monetary system where the acquisition of dollars by foreigners is no longer a result of their commitment to support the dollar exchange rate, the overall measures no longer reflect "deterioration" or "improvement" in our balance of payments position.

SP5/FG 35

THE PRESIDENT HAS SEEN

THE WHITE HOUSE

WASHINGTON

February 15, 1975

MR. PRESIDENT:

Attached is the Humphrey response to your energy and economic message which the Senator delivered on January 22. His comments concerning tax action within 30 days is on the first page of his speech.

At Tab B are comments on the economic proposals and at Tab C are staff comments on the energy proposals which Senator Humphrey made.

DON