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FEB. 2, 1968

HOUSE OF REPRESENTATIVES, U.S.

OFFICE OF THE MINORITY LEADER

PUBLIC DOCUMENT

OFFICIAL BUSINESS

Gerald R. Ford

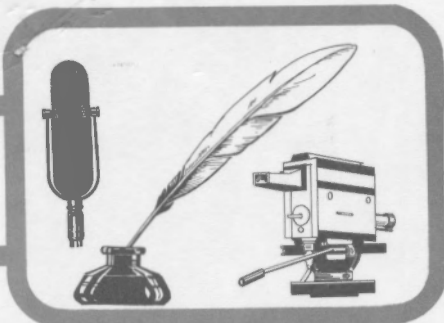
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ADDRESS AT DUKE UNIV.



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CONGRESSMAN
GERALD R. FORD
HOUSE REPUBLICAN LEADER

**NEWS
RELEASE**

--FOR RELEASE IN FRIDAY PM's--
February 2, 1968

An Address by Rep. Gerald R. Ford, R-Mich., Friday, Feb. 2, 1968 at Duke Univ.

The blank pages of the future have always held tremendous fascination for the human race.

Many people look to the future with keen anticipation; some with dread. Each year, as the 12-month period just ending limps out and the new 12-month segment creeps in, human beings engage in rituals that range from a pursuit of intoxication to sober reflection, predictions and avowals of reform. Pundits peer into their crystal balls, and newspaper readers avidly devour their forecasts.

Alexander Pope summed up this fascination with the future and dreams of a better world in perhaps his most famous rhyming couplet:

"Hope springs eternal in the human breast:

Man never is, but always to be, blest."

I am no exception, of course, And so it was with great interest that I recently scanned a book entitled, "The Year 2000: A Framework For Speculation On the Next Thirty-Three Years," by Herman Kahn and Anthony J. Wiener.

This book hardly feeds the hope that springs eternal. Rather than promising utopia, the two authors explore a number of dire possibilities including nuclear war, the triumph of Communism, the reappearance of Fascism and an international depression.

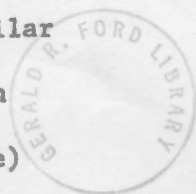
I am not going to discuss all four of these projected developments this afternoon but I would like to focus on two of them--an international depression and the theoretical triumph of Communism.

Both of these threatened calamities are linked to a problem with which the United States now is grappling in a spirit of desperation. This problem is variously described as the balance of payments deficit or the gold drain. It has been with us for 10 years. It has grown to crisis proportions.

Mention the balance of payments to most Americans and you draw a blank. It is a terribly complex subject. But it can be expressed in relatively simple terms in the current context of the gold drain.

Somewhat oversimplified, the situation is this: The United States dollar has become an international currency. For 10 years, more dollars have been

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leaving the country than have been coming in. Foreigners use these dollars in a variety of ways. This includes holding them for possible investment or buying gold from the United States. At present foreigners hold \$31.2 billion worth of claims against the United States. Meantime our gold supply has shrunk from \$23 billion to \$12 billion in the last 10 years. Currently less than \$2 billion of the \$12 billion we hold in gold stock is available for payment to foreign holders of dollars upon demand. This is because present law requires that all Federal Reserve notes outstanding be backed by an equivalency of 25 per cent in gold. This now ties up more than \$10 billion of our gold stock.

Under pressure of the current crisis, Congress may well be forced to remove the requirement that a 25 per cent gold reserve be held as backing for our Federal Reserve Notes. To maintain confidence in the dollar abroad, we must be in a position to redeem dollars with gold upon demand by foreign creditors.

But removing the Federal Reserve Note gold cover will not solve our balance of payments problem. It will simply buy time. It is symptomatic of the deep financial troubles besetting us internationally--and domestically as well.

It is vital to America and to the Free World that the United States restore its international financial equilibrium--that we quickly regain our balance and ultimately achieve a surplus in dollars through international exchange. We must earn more dollars abroad than we send and spend abroad.

This is of utmost importance not only to the banker and the industrialist but also to the consumer, the worker, and the farmer.

The dollar is the major vehicle for transactions in international trade and for flows of capital between Free World nations. This is so because the dollar has been strong.

Just as a strong dollar is the bulwark of the International Monetary System, so a strong and stable International Monetary System is the foundation for healthy world trade. It provides a means for conversion of one nation's currency into another, so that trade between nations can proceed smoothly.

The dollar is the foundation of the entire Free World economy because it is the foundation of the international monetary system. If we continue to suffer large and chronic balance of payments deficits, the dollar will go soft and confidence in it will be destroyed.

If confidence in the dollar collapses, so too will world trade. The inevitable result would be a Free World depression.

Thus we return to the consumer, the worker and the farmer, and the importance

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to every American that the balance of payments problem be met.

The longer the United States has very large dollar liabilities abroad, the greater will be the difficulty of maintaining confidence in the dollar and in the International Monetary System itself.

To those who recognize no such entity as "world communism" the words I now am about to speak will seem meaningless. The same will be true of those who believe the threat of Communist domination of the world is vastly exaggerated.

I personally believe that the Communist powers of the world implacably seek the downfall of the Free World nations--chiefly, the United States.

There are two means open to them to achieve this objective. One is military; the other, economic.

The United States at least for the present enjoys nuclear supremacy over the Soviet Union and Red China, and certainly neither of these Communist nations has the power to bring about an economic collapse of the Free World.

But the Free World could bring about its own defeat through an international depression caused by loss of confidence in the dollar and a resulting collapse of Free World trade.

I am not predicting the demise of the dollar and collapse of Free World economies. But the seriousness of the U.S. balance of payments situation and the threat to the International Monetary System cannot be overstated.

This takes us back to New Year's Day 1968 when the Administration announced a series of drastic measures aimed at plugging the deficit in our balance of payments.

An atmosphere of fiscal crisis suddenly enveloped the Free World. It pressed in most heavily and most closely upon the United States and upon England, which has its own severe balance of payments problem and had devalued the pound sterling in a step to solve it.

This country's balance of payments problem has long been with us. It did not develop overnight. But it assumed the magnitude of a crisis after Britain devalued the pound sterling and our own balance of payments deficit situation badly worsened in December of 1967.

Ours is a nation in crisis. We are being called upon to defend the dollar and in doing so we sorely need the help of Free World nations which have been running a surplus in their balance of payments. In a broad sense at least, It is time for Western Europe to repay the United States for the generous Marshall Plan aid which put the world economy back on its feet after World War II.

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The Administration on New Year's Day announced emergency measures aimed at a total recoupment of \$3 billion in dollar outflow in 1968 after the balance of payments deficit for 1967 reached \$3.5 to \$4 billion.

The new program would restrict investments abroad by American corporations, reduce lending abroad by American banks and other financial institutions, restrain travel by Americans outside the Western Hemisphere and reduce the amounts they spend outside the hemisphere, save on military expenditures abroad, negotiate a better deal for American products in Western Europe against barriers other than tariffs, increase longterm sales of American goods abroad, and stimulate more foreign investment and tourism in the United States.

I am not endorsing all or any part of the Administration's proposals at this point in time. But we must have an emergency program to get us through the current crisis.

I heartily dislike parts of the Administration program--those elements which interfere with freedom of investment and freedom of travel on a mandatory basis. These are measures which are alien to a free society and destructive of free intercourse in goods and persons between nations. As such, they are damaging to goals America has pursued over the last several decades.

From a practical standpoint, the controls on investment abroad will be self-defeating if continued for long. The reason is that such a limitation will reduce the inflow of dollars over the long run. The inflow from overseas investments now is about \$4 billion as compared with an outflow of \$2.5 billion to \$3 billion.

The proposal to restrict travel may run into trouble in Congress but it is too early to tell. The Administration is simply exploring possible approaches with the House Ways and Means Committee. It's a touchy matter and they're afraid of it politically.

The Vietnam War accounts for about \$1 billion of our balance of payments gap. There is not much we can do about that except to try to end the war as quickly as possible on terms not detrimental to our national interest.

The basic approach to a permanent solution of our balance of payments problem should be three-pronged--persuading certain of our Free World friends to assume part of our present burden of world development and peace-keeping, improving our position in world trade, and restoring price stability and labor-management peace at home.

We should long ago have shifted far more of the world development burden

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to those Free World nations which are enjoying a balance of payments surplus. We must do this by expanding programs of multi-lateral aid to underdeveloped nations and simultaneously reducing our unilateral foreign aid program to the barest minimum.

In this connection, it is interesting to note that the President less than three months ago denounced Congress for reducing his 1968 foreign aid request. And Vice-President Humphrey, while visiting Africa, said our foreign aid program should be doubled or even tripled. This seems somewhat inconsistent in view of the balance of payments deficit and the stated concern of the Administration.

In addition to moving much farther into multi-lateral aid and away from unilateral assistance, we must also get our Free World military allies to pay more of the costs of maintaining U.S. forces on their soil. NATO, in effect, should be made into an economic unit as well as a military alliance.

But the best hope of solving our balance of payments problem and bolstering confidence in the dollar is to greatly improve our trade position.

We still enjoy a balance of trade surplus but it has declined sharply. From 1960 to 1965 our trade surplus--excess of exports over imports--averaged \$5.2 billion. It climbed to a record high of \$6.7 billion in 1964. But it began dropping in 1965 and slipped to \$3.7 billion in 1966. Last year there was a slight improvement to \$4 billion.

Our trade position has worsened since mid-1965 primarily because of a rise in prices of U.S. products due to an upsurge of demand at home and a general overheating of the American economy. Our overall balance of payments position also deteriorated further as a result of the foreign exchange costs of the Vietnam War.

We should not overlook the fact that our trading partners have subjected our exporters to indirect taxes which have placed the United States at a distinct disadvantage in selling to those countries. This is a problem our government has ignored far too long. It must be resolved.

As for the Vietnam War, the ending of it will not solve our balance of payments problem although it will help.

A recent U.S. Treasury Department report states: "We had a balance of payments problem before Vietnam, and the cessation of the fighting will not in and of itself effect a cure."

One fact is fundamental to a solution of the dollar crisis, the balance of payments crisis. The basic remedy lies in a restoration of stable prices on

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U.S. products and consequent expansion of American exports. This can only be achieved through a return to prudent monetary and fiscal policies in this country--and to restraint on the part of management, labor, industry and government. That restraint must begin at the top. It won't work for the government to overstimulate the economy by spending far in excess of its income and then to say to all Americans--do as I say, not as I do.

The President has proposed a 10 per cent income tax surtax as a means of restoring price stability. This might be salutary except that the kind of inflation we now are experiencing is primarily due to increases in production costs pushing up prices on the finished product.

The respected retailer's newspaper, "Women's Wear Daily," bluntly says in its Jan. 30 issue:

"Business generally will pass along tax increases--and the public will have to pay higher prices, with less money with which to pay them."

It goes without saying that a tax increase also will add to the production costs of U.S. products we are trying to sell overseas.

It is difficult to see how an income tax increase is going to increase the ability of American business to compete in foreign markets.

Yet the Treasury Department report states: "In the long run, the best way to restore our balance of payments is to increase our trade surplus by increasing the rate of our export growth."

Sharply rising prices could threaten to price more U.S. goods out of world markets--and tax increases will add to costs that are rising too fast.

I find it impossible to accept the President's New Year's Day statement to the effect that the dollar "can be sound at home--as it surely is--yet can be in trouble abroad."

One reason the dollar is in trouble abroad is that it is in trouble at home. And that is where the basic solution to the trouble must begin--at home.

All is not darkness in the current situation. The United States may, in effect, muddle through the present crisis. This is true despite the sick joke that's going around Washington--"Come back next New Year's for the devaluation announcement."

The saving element--but one which cannot be counted on indefinitely--is that the fate of other Free World economies is tied closely to ours. This means that foreign governments probably will refrain from touching off a run on the dangerously small U.S. gold stock for fear of the consequences to themselves. They

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also should find it in their own best interests to help the United States achieve and maintain balance of payments equilibrium.

Much of our financial future, which we see only darkly, rests on our advantageously positioned trading partners. Now we need help.

But we must never forget that our best hope for help lies within ourselves. It is wisely written: "God loves to help him who strives to help himself." Only by following that precept can we cast off our present weakness and "go from strength to strength."

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Speech of the Week

PUBLIC RELATIONS OFFICE
REPUBLICAN CONGRESSIONAL COMMITTEE
312 CONGRESSIONAL HOTEL • WASHINGTON, D. C.

SUBJECT: 'An Atmosphere of Fiscal Crisis Envelops the Free World'

Remarks of
House Republican Leader Gerald R. Ford
Duke University, Feb. 2, 1968

THE BLANK PAGES of the future have always held tremendous fascination for the human race.

Many people look to the future with keen anticipation; some with dread. Each year, as the 12-month period just ending limps out and the new 12-month segment creeps in, human beings engage in rituals that range from a pursuit of intoxication to sober reflection, predictions and avowals of reform. Pundits peer into their crystal balls, and newspaper readers avidly devour their forecasts.

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WE SHOULD LONG AGO have shifted far more of the world development burden to those Free World nations which are enjoying a balance of payments surplus. We must do this by expanding programs of multi-lateral aid to underdeveloped nations and simultaneously reducing our unilateral foreign aid program to the barest minimum.

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I am not predicting the demise of the dollar and collapse of Free World economies. But the seriousness of the U.S. balance of payments situation and the threat to the International Monetary System cannot be overstated. This takes us back to New Year's Day 1968 when the Administration announced a series of drastic measures aimed at plugging the deficit in our balance of payments.

AN ATMOSPHERE OF fiscal crisis suddenly enveloped the Free World. It pressed in most heavily and most closely upon the United States and upon England, which has its own severe balance of payments problem and had devalued the pound sterling in a step to solve it.

This country's balance of payments problem has long been with us. It did not develop overnight. But it assumed the magnitude of a crisis after Britain devalued the pound sterling and our own balance of payments deficit situation badly worsened in December of 1967.

Ours is a nation in crisis. We are being called upon to defend the dollar and in doing so we sorely need the help of Free World nations which have been running a surplus in their balance of payments. In a broad sense at least, it is time for Western Europe to repay the United States for the generous Marshall Plan aid which put the world economy back on its feet after World War II.

The Administration on New Year's Day announced emergency measures aimed at a total recoupment of \$3 billion in dollar outflow in 1968 after the balance of payments deficit for 1967 reached \$3.5 to \$4 billion.

The new program would restrict investments abroad by American corporations, reduce lending abroad by American banks and other financial institutions, restrain travel by Americans outside the Western Hemisphere and reduce the amounts they spend outside the hemisphere, save on military expenditures abroad, negotiate a better deal for American products in Western Europe against barriers other than tariffs, increase longterm sales of American goods abroad, and stimulate more foreign investment and tourism in the United States.

I AM NOT ENDORSING all or any part of the Administration's proposals at this point in time. But we must have an emergency program to get us through the current crisis. I heartily dislike parts of investment and freedom of travel on a mandatory basis. These are measures which are alien to a free society and destructive of free intercourse in goods and persons between nations. As such, they are damaging to goals America has pursued over the last several decades.

From a practical standpoint, the controls on investment abroad will be self-defeating if continued for long. The reason is that such a limitation will reduce the inflow of dollars over the long run. The inflow from overseas investments now is about \$4 billion as compared with an outflow of \$2.5 billion to \$3 billion.

The proposal to restrict travel may run into trouble in Congress but it is too early to tell. The Administration is simply exploring possible approaches with the House Ways and Means Committee. It's a touchy matter and they're afraid of it politically.

The Vietnam war accounts for about \$1 billion of our balance of payments gap. There is not much we can do about that except to try to end the war as quickly as possible on terms not detrimental to our national interest.

The basic approach to a permanent solution of our balance of payments problem should be three-pronged--persuading certain of our Free World friends to assume part of our present burden of world development and peace-keeping, improving our position in world trade, and restoring price stability and labor-management peace at home.

WE SHOULD LONG AGO have shifted far more of the world development burden to those Free World nations which are enjoying a balance of payments surplus. We must do this by expanding programs of multi-lateral aid to underdeveloped nations and simultaneously reducing our unilateral foreign aid program to the barest minimum.

In this connection, it is interesting to note that the President less than three months ago denounced Congress for reducing his 1968 foreign aid request. And Vice President Humphrey, while visiting Africa, said our foreign aid program should be doubled or even tripled. This seems somewhat inconsistent in view of the balance of payments deficit and the stated concern of the Administration.

In addition to moving much farther into multi-lateral aid and away from unilateral assistance, we must also get our Free World military allies to pay more of the costs of maintaining U.S. forces on their soil. NATO, in effect, should be made into an economic unit as well as a military alliance.

But the best hope of solving our balance of payments problem and bolstering confidence in the dollar is to greatly improve our trade position. We still enjoy a balance of trade surplus but it has declined sharply. From 1960 to 1965 our trade surplus--excess of exports over imports--averaged \$5.2 billion. It climbed to a record high of \$6.7 billion in 1964. But it began dropping in 1965 and slipped to \$3.7 billion in 1966. Last year there was a slight improvement to \$4 billion.

Our trade position has worsened since mid-1965 primarily because of a rise in prices of U.S. products due to an upsurge of demand at home and a general overheating of the American economy. Our overall balance of payments position also deteriorated further as a result of the foreign exchange costs of the Vietnam war.

WE SHOULD NOT OVERLOOK the fact that our trading partners have subjected our exporters to indirect taxes which have placed the United States at a distinct disadvantage in selling to those countries. This is a problem our government has ignored far too long. It must be resolved.

As for the Vietnam war, the ending of it will not solve our balance of payments problem although it will help. A recent U.S. Treasury Department report states: "We had a balance of payments problem before Vietnam, and the cessation of the fighting will not in and of itself affect a cure."

One fact is fundamental to a solution of the dollar crisis, the balance of payments crisis. The basic remedy lies in a restoration of stable prices on U.S. products and consequent expansion of American exports. This can only be achieved through a return to prudent monetary and fiscal policies in this country--and to restraint on the part of management, labor, industry and government. That restraint must begin at the top. It won't work for the government to overstimulate the economy by spending far in excess of its income and then to say to all Americans--do as I say, not as I do.

The President has proposed a 10 per cent income tax surtax as a means of restoring price stability. This might be salutary except that the kind of inflation we now are experiencing is primarily due to increases in production costs pushing up prices on the finished product.

The respected retailer's newspaper, "Women's Wear Daily," bluntly says in its Jan. 30 issue:

"**BUSINESS GENERALLY** will pass along tax increases--and the public will have to pay higher prices, with less money with which to pay them."

It does without saying that a tax increase also will add to the production costs of U.S. products we are trying to sell overseas. It is difficult to see how an income tax increase is going to increase the ability of American business to compete in foreign markets. Yet the Treasury Department report states: "In the long run, the best way to restore our balance of payments is to increase our trade surplus by increasing the rate of our export growth."

Sharply rising prices could threaten to price more U.S. goods out of world markets--and tax increases will add to costs that are rising too fast. I find it impossible to accept the President's New Year's Day statement to the effect that the dollar "can be sound at home--as it surely is--yet can be in trouble abroad."

One reason the dollar is in trouble abroad is that it is in trouble at home. And that is where the basic solution to the trouble must begin--at home. All is not darkness in the current situation. The United States may, in effect, muddle through the present crisis. This is true despite the sick joke that's going around Washington--"Come back next New Year's for the devaluation announcement."

The saving element--but one which cannot be counted on indefinitely--is that the fate of other Free World economies is tied closely to ours. This means that foreign governments probably will refrain from touching off a run on the dangerously small U.S. gold stock for fear of the consequences to themselves. They also should find it in their own best interests to help the United States achieve and maintain balance of payments equilibrium.

Much of our financial future, which we see only darkly, rests on our advantageously positioned trading partners. Now we need help. But we must never forget that our best hope for help lies within ourselves. It is wisely written: "God loves to help him who strives to help himself." Only by following that precept can we cast off our present weakness and "go from strength to strength."
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ADDRESS AT DUKE UNIVERSITY. FRIDAY. FEB. 2. 1968.

THE BLANK PAGES OF THE FUTURE HAVE ALWAYS HELD TREMENDOUS FASCINATION FOR THE HUMAN RACE.

MANY PEOPLE LOOK TO THE FUTURE WITH KEEN ANTICIPATION; SOME WITH DREAD. EACH YEAR, AS THE 12-MONTH PERIOD JUST ENDING LIMPS OUT AND THE NEW 12-MONTH SEGMENT CREEPS IN, HUMAN BEINGS ENGAGE IN RITUALS THAT RANGE FROM A PURSUIT OF INTOXICATION TO SOBER REFLECTION, PREDICTIONS AND AVOWALS OF REFORM. PUNDITS PEER INTO THEIR CRYSTAL BALLS, AND NEWSPAPER READERS AVIDLY DEVOUR THEIR FORECASTS.

ALEXANDER POPE SUMMED UP THIS FASCINATION WITH THE FUTURE AND DREAMS OF A BETTER WORLD IN PERHAPS HIS MOST FAMOUS RHYMING COUPLET:

"HOPE SPRINGS ETERNAL IN THE HUMAN BREAST:
MAN NEVER IS, BUT ALWAYS TO BE, BLEST."

I AM NO EXCEPTION, OF COURSE. AND SO IT WAS WITH GREAT INTEREST THAT I RECENTLY SCANNED A BOOK ENTITLED, "THE YEAR 2000: A FRAMEWORK FOR SPECULATION ON THE NEXT THIRTY-THREE YEARS," BY HERMAN KAHN AND ANTHONY J. WIENER.

THIS BOOK HARDLY FEEDS THE HOPE THAT SPRINGS ETERNAL. RATHER THAN PROMISING UTOPIA, THE TWO AUTHORS EXPLORE A NUMBER OF DIRE POSSIBILITIES INCLUDING NUCLEAR WAR, THE TRIUMPH OF COMMUNISM, THE REAPPEARANCE OF FASCISM AND AN INTERNATIONAL DEPRESSION.

I AM NOT GOING TO DISCUSS ALL FOUR OF THESE PROJECTED DEVELOPMENTS THIS AFTERNOON BUT I WOULD LIKE TO FOCUS ON TWO OF THEM--AN INTERNATIONAL DEPRESSION AND THE THEORETICAL TRIUMPH OF COMMUNISM.

BOTH OF THESE THREATENED CALAMITIES ARE LINKED TO A PROBLEM WITH WHICH THE UNITED STATES NOW IS GRAPPLING IN A

SPIRIT OF DESPERATION. THIS PROBLEM IS VARIOUSLY DESCRIBED AS THE BALANCE OF PAYMENTS DEFICIT OR THE GOLD DRAIN. IT HAS BEEN WITH US FOR 10 YEARS. IT HAS GROWN TO CRISIS PROPORTIONS.

MENTION THE BALANCE OF PAYMENTS TO MOST AMERICANS AND YOU DRAW A BLANK. IT IS A TERRIBLY COMPLEX SUBJECT. BUT IT CAN BE EXPRESSED IN RELATIVELY SIMPLE TERMS IN THE CURRENT CONTEXT OF THE GOLD DRAIN.

SOMEWHAT OVERSIMPLIFIED, THE SITUATION IS THIS: THE UNITED STATES DOLLAR HAS BECOME AN INTERNATIONAL CURRENCY. FOR 10 YEARS, MORE DOLLARS HAVE BEEN LEAVING THE COUNTRY THAN HAVE BEEN COMING IN. FOREIGNERS USE THESE DOLLARS IN A VARIETY OF WAYS. THIS INCLUDES HOLDING THEM FOR POSSIBLE INVESTMENT OR BUYING GOLD FROM THE UNITED STATES. AT PRESENT FOREIGNERS HOLD \$31.2 BILLION WORTH OF CLAIMS AGAINST THE

UNITED STATES. MEANTIME OUR GOLD SUPPLY HAS SHRUNK FROM \$23 BILLION TO \$12 BILLION IN THE LAST 10 YEARS. CURRENTLY LESS THAN \$2 BILLION OF THE \$12 BILLION WE HOLD IN GOLD STOCK IS AVAILABLE FOR PAYMENT TO FOREIGN HOLDERS OF DOLLARS UPON DEMAND. THIS IS BECAUSE PRESENT LAW REQUIRES THAT ALL FEDERAL RESERVE NOTES OUTSTANDING BE BACKED BY AN EQUIVALENCY OF 25 PER CENT IN GOLD. THIS NOW TIES UP MORE THAN \$10 BILLION OF OUR GOLD STOCK.

UNDER PRESSURE OF THE CURRENT CRISIS CONGRESS MAY WELL BE FORCED TO REMOVE THE REQUIREMENT THAT A 25 PER CENT GOLD RESERVE BE HELD AS BACKING FOR OUR FEDERAL RESERVE NOTES. TO MAINTAIN CONFIDENCE IN THE DOLLAR ABROAD, WE MUST BE IN A POSITION TO REDEEM DOLLARS WITH GOLD UPON DEMAND BY FOREIGN CREDITORS.

BUT REMOVING THE FEDERAL RESERVE NOTE GOLD COVER

WILL NOT SOLVE OUR BALANCE OF PAYMENTS PROBLEM. IT WILL SIMPLY BUY TIME. IT IS SYMPTOMATIC OF THE DEEP FINANCIAL TROUBLES BESETTING US INTERNATIONALLY--AND DOMESTICALLY AS WELL.

IT IS VITAL TO AMERICA AND TO THE FREE WORLD THAT THE UNITED STATES RESTORE ITS INTERNATIONAL FINANCIAL EQUILIBRIUM--THAT WE QUICKLY REGAIN OUR BALANCE AND ULTIMATELY ACHIEVE A SURPLUS IN DOLLARS THROUGH INTERNATIONAL EXCHANGE. WE MUST EARN MORE DOLLARS ABROAD THAN WE SEND AND SPEND ABROAD.

THIS IS OF UTMOST IMPORTANCE NOT ONLY TO THE BANKER AND THE INDUSTRIALIST BUT ALSO TO THE CONSUMER, THE WORKER, AND THE FARMER.

THE DOLLAR IS THE MAJOR VEHICLE FOR TRANSACTIONS IN INTERNATIONAL TRADE AND FOR FLOWS OF CAPITAL BETWEEN FREE WORLD NATIONS. THIS IS SO BECAUSE THE DOLLAR HAS BEEN STRONG.

JUST AS A STRONG DOLLAR IS THE BULWARK OF THE INTERNATIONAL MONETARY SYSTEM, SO A STRONG AND STABLE INTERNATIONAL MONETARY SYSTEM IS THE FOUNDATION FOR HEALTHY WORLD TRADE. IT PROVIDES A MEANS FOR CONVERSION OF ONE NATION'S CURRENCY INTO ANOTHER, SO THAT TRADE BETWEEN NATIONS CAN PROCEED SMOOTHLY.

THE DOLLAR IS THE FOUNDATION OF THE ENTIRE FREE WORLD ECONOMY BECAUSE IT IS THE FOUNDATION OF THE INTERNATIONAL MONETARY SYSTEM. IF WE CONTINUE TO SUFFER LARGE AND CHRONIC BALANCE OF PAYMENTS DEFICITS, THE DOLLAR WILL GO SOFT AND CONFIDENCE IN IT WILL BE DESTROYED.

IF CONFIDENCE IN THE DOLLAR COLLAPSES, SO TOO WILL WORLD TRADE. THE INEVITABLE RESULT WOULD BE A FREE WORLD DEPRESSION.

THUS WE RETURN TO THE CONSUMER, THE WORKER AND THE

FARMER, AND THE IMPORTANCE TO EVERY AMERICAN THAT THE BALANCE OF PAYMENTS PROBLEM BE MET.

THE LONGER THE UNITED STATES HAS VERY LARGE DOLLAR LIABILITIES ABROAD, THE GREATER WILL BE THE DIFFICULTY OF MAINTAINING CONFIDENCE IN THE DOLLAR AND IN THE INTERNATIONAL MONETARY SYSTEM ITSELF.

TO THOSE WHO RECOGNIZE NO SUCH ENTITY AS "WORLD COMMUNISM" THE WORDS I NOW AM ABOUT TO SPEAK WILL SEEM MEANINGLESS. THE SAME WILL BE TRUE OF THOSE WHO BELIEVE THE THREAT OF COMMUNIST DOMINATION OF THE WORLD IS VASTLY EXAGGERATED.

I PERSONALLY BELIEVE THAT THE COMMUNIST POWERS OF THE WORLD IMPLACABLY SEEK THE DOWNFALL OF THE FREE WORLD NATIONS--CHIEFLY, THE UNITED STATES.

THERE ARE TWO MEANS OPEN TO THEM TO ACHIEVE THIS

OBJECTIVE. ONE IS MILITARY, THE OTHER, ECONOMIC.

THE UNITED STATES AT LEAST FOR THE PRESENT ENJOYS NUCLEAR SUPREMACY OVER THE SOVIET UNION AND RED CHINA, AND CERTAINLY NEITHER OF THESE COMMUNIST NATIONS HAS THE POWER TO BRING ABOUT AN ECONOMIC COLLAPSE OF THE FREE WORLD.

BUT THE FREE WORLD COULD BRING ABOUT ITS OWN DEFEAT THROUGH AN INTERNATIONAL DEPRESSION CAUSED BY LOSS OF CONFIDENCE IN THE DOLLAR AND A RESULTING COLLAPSE OF FREE WORLD TRADE.

I AM NOT PREDICTING THE DEMISE OF THE DOLLAR AND COLLAPSE OF FREE WORLD ECONOMIES. BUT THE SERIOUSNESS OF THE U.S. BALANCE OF PAYMENTS SITUATION AND THE THREAT TO THE INTERNATIONAL MONETARY SYSTEM CANNOT BE OVERSTATED.

THIS TAKES US BACK TO NEW YEAR'S DAY 1968 WHEN THE ADMINISTRATION ANNOUNCED A SERIES OF DRASTIC MEASURES AIMED

AT PLUGGING THE DEFICIT IN OUR BALANCE OF PAYMENTS.

AN ATMOSPHERE OF FISCAL CRISIS SUDDENLY ENVELOPED THE FREE WORLD. IT PRESSED IN MOST HEAVILY AND MOST CLOSELY UPON THE UNITED STATES AND UPON ENGLAND, WHICH HAS ITS OWN SEVERE BALANCE OF PAYMENTS PROBLEM AND HAD DEVALUED THE POUND STERLING IN A STEP TO SOLVE IT.

THIS COUNTRY'S BALANCE OF PAYMENTS PROBLEM HAS LONG BEEN WITH US. IT DID NOT DEVELOP OVERNIGHT. BUT IT ASSUMED THE MAGNITUDE OF A CRISIS AFTER BRITAIN DEVALUED THE POUND STERLING AND OUR OWN BALANCE OF PAYMENTS DEFICIT SITUATION BADLY WORSENERD IN DECEMBER OF 1967.

OURS IS A NATION IN CRISIS. WE ARE BEING CALLED UPON TO DEFEND THE DOLLAR AND IN DOING SO WE SORELY NEED THE HELP OF FREE WORLD NATIONS WHICH HAVE BEEN RUNNING A SURPLUS IN THEIR BALANCE OF PAYMENTS. IN A BROAD SENSE AT LEAST, IT

IS TIME FOR WESTERN EUROPE TO REPAY THE UNITED STATES FOR THE GENEROUS MARSHALL PLAN AID WHICH PUT THE WORLD ECONOMY BACK ON ITS FEET AFTER WORLD WAR II.

THE ADMINISTRATION ON NEW YEAR'S DAY ANNOUNCED EMERGENCY MEASURES AIMED AT A TOTAL RECOUPMENT OF \$3 BILLION IN DOLLAR OUTFLOW IN 1968 AFTER THE BALANCE OF PAYMENTS DEFICIT FOR 1967 REACHED \$3.5 TO \$4 BILLION.

THE NEW PROGRAM WOULD RESTRICT INVESTMENTS ABROAD BY AMERICAN CORPORATIONS, REDUCE LENDING ABROAD BY AMERICAN BANKS AND OTHER FINANCIAL INSTITUTIONS, RESTRAIN TRAVEL BY AMERICANS OUTSIDE THE WESTERN HEMISPHERE AND REDUCE THE AMOUNTS THEY SPEND OUTSIDE THE HEMISPHERE, SAVE ON MILITARY EXPENDITURES ABROAD, NEGOTIATE A BETTER DEAL FOR AMERICAN PRODUCTS IN WESTERN EUROPE AGAINST BARRIERS OTHER THAN TARIFFS, INCREASE LONGTERM SALES OF AMERICAN GOODS ABROAD,

AND STIMULATE MORE FOREIGN INVESTMENT AND TOURISM IN THE UNITED STATES.

I AM NOT ENDORSING ALL OR ANY PART OF THE ADMINISTRATION'S PROPOSALS AT THIS POINT IN TIME. BUT WE MUST HAVE AN EMERGENCY PROGRAM TO GET US THROUGH THE CURRENT CRISIS.

I HEARTILY DISLIKE PARTS OF THE ADMINISTRATION PROGRAM--THOSE ELEMENTS WHICH INTERFERE WITH FREEDOM OF INVESTMENT AND FREEDOM OF TRAVEL ON A MANDATORY BASIS. THESE ARE MEASURES WHICH ARE ALIEN TO A FREE SOCIETY AND DESTRUCTIVE OF FREE INTERCOURSE IN GOODS AND PERSONS BETWEEN NATIONS. AS SUCH, THEY ARE DAMAGING TO GOALS AMERICA HAS PURSUED OVER THE LAST SEVERAL DECADES.

FROM A PRACTICAL STANDPOINT, THE CONTROLS ON INVESTMENT ABROAD WILL BE SELF-DEFEATING IF CONTINUED FOR

LONG. THE REASON IS THAT SUCH A LIMITATION WILL REDUCE THE INFLOW OF DOLLARS OVER THE LONG RUN. THE INFLOW FROM OVERSEAS INVESTMENTS NOW IS ABOUT \$4 BILLION AS COMPARED WITH AN OUTFLOW OF \$2.5 BILLION TO \$3 BILLION.

THE PROPOSAL TO RESTRICT TRAVEL MAY RUN INTO TROUBLE IN CONGRESS BUT IT IS TOO EARLY TO TELL. THE ADMINISTRATION IS SIMPLY EXPLORING POSSIBLE APPROACHES WITH THE HOUSE WAYS AND MEANS COMMITTEE. IT'S A TOUCHY MATTER AND THEY'RE AFRAID OF IT POLITICALLY.

THE VIETNAM WAR ACCOUNTS FOR ABOUT \$1 BILLION OF OUR BALANCE OF PAYMENTS GAP. THERE IS NOT MUCH WE CAN DO ABOUT THAT EXCEPT TO TRY TO END THE WAR AS QUICKLY AS POSSIBLE ON TERMS NOT DETRIMENTAL TO OUR NATIONAL INTEREST.

THE BASIC APPROACH TO A PERMANENT SOLUTION OF OUR BALANCE OF PAYMENTS PROBLEM SHOULD BE THREE-PRONGED--

PERSUADING CERTAIN OF OUR FREE WORLD FRIENDS TO ASSUME PART OF OUR PRESENT BURDEN OF WORLD DEVELOPMENT AND PEACE-KEEPING, IMPROVING OUR POSITION IN WORLD TRADE, AND RESTORING PRICE STABILITY AND LABOR-MANAGEMENT PEACE AT HOME.

WE SHOULD LONG AGO HAVE SHIFTED FAR MORE OF THE WORLD DEVELOPMENT BURDEN TO THOSE FREE WORLD NATIONS WHICH ARE ENJOYING A BALANCE OF PAYMENTS SURPLUS. WE MUST DO THIS BY EXPANDING PROGRAMS OF **MULTI**-LATERAL AID TO UNDERDEVELOPED NATIONS AND SIMULTANEOUSLY REDUCING OUR UNILATERAL FOREIGN AID PROGRAM TO THE BAREST MINIMUM.

IN THIS CONNECTION, IT IS INTERESTING TO NOTE THAT THE PRESIDENT LESS THAN THREE MONTHS AGO DENOUNCED CONGRESS FOR REDUCING HIS 1968 FOREIGN AID REQUEST. AND VICE-PRESIDENT HUMPHREY, WHILE VISITING AFRICA, SAID OUR FOREIGN AID PROGRAM SHOULD BE DOUBLED OR EVEN TRIPLED. THIS SEEMS SOMEWHAT

INCONSISTENT IN VIEW OF THE BALANCE OF PAYMENTS DEFICIT AND THE STATED CONCERN OF THE ADMINISTRATION.

IN ADDITION TO MOVING MUCH FARTHER INTO MULTI-LATERAL AID AND AWAY FROM UNILATERAL ASSISTANCE, WE MUST ALSO GET OUR FREE WORLD MILITARY ALLIES TO PAY MORE OF THE COSTS OF MAINTAINING U.S. FORCES ON THEIR SOIL. NATO, IN EFFECT, SHOULD BE MADE INTO AN ECONOMIC UNIT AS WELL AS A MILITARY ALLIANCE.

BUT THE BEST HOPE OF SOLVING OUR BALANCE OF PAYMENTS PROBLEM AND BOLSTERING CONFIDENCE IN THE DOLLAR IS TO GREATLY IMPROVE OUR TRADE POSITION.

WE STILL ENJOY A BALANCE OF TRADE SURPLUS BUT IT HAS DECLINED SHARPLY. FROM 1960 TO 1965 OUR TRADE SURPLUS-- EXCESS OF EXPORTS OVER IMPORTS--AVERAGED \$5.2 BILLION. IT CLIMBED TO A RECORD HIGH OF \$6.7 BILLION IN 1964. BUT IT

BEGAN DROPPING IN 1965 AND SLIPPED TO \$3.7 BILLION IN 1966. LAST YEAR THERE WAS A SLIGHT IMPROVEMENT TO \$4 BILLION.

OUR TRADE POSITION HAS WORSENERD SINCE MID-1965 PRIMARILY BECAUSE OF A RISE IN PRICES OF U.S. PRODUCTS DUE TO AN UPSURGE OF DEMAND AT HOME AND A GENERAL OVERHEATING OF THE AMERICAN ECONOMY. OUR OVERALL BALANCE OF PAYMENTS POSITION ALSO DETERIORATED FURTHER AS A RESULT OF THE FOREIGN EXCHANGE COSTS OF THE VIETNAM WAR.

WE SHOULD NOT OVERLOOK THE FACT THAT OUR TRADING PARTNERS HAVE SUBJECTED OUR EXPORTERS TO INDIRECT TAXES WHICH HAVE PLACED THE UNITED STATES AT A DISTINCT DISADVANTAGE IN SELLING TO THOSE COUNTRIES. THIS IS A PROBLEM OUR GOVERNMENT HAS IGNORED FAR TOO LONG. IT MUST BE RESOLVED.

AS FOR THE VIETNAM WAR, THE ENDING OF IT WILL NOT SOLVE OUR BALANCE OF PAYMENTS PROBLEM ALTHOUGH IT WILL HELP.

A RECENT U.S. TREASURY DEPARTMENT REPORT STATES:
"WE HAD A BALANCE OF PAYMENTS PROBLEM BEFORE VIETNAM, AND
THE CESSATION OF THE FIGHTING WILL NOT IN AND OF ITSELF
EFFECT A CURE."

ONE FACT IS FUNDAMENTAL TO A SOLUTION OF THE DOLLAR
CRISIS, THE BALANCE OF PAYMENTS CRISIS. THE BASIC REMEDY
LIES IN A RESTORATION OF STABLE PRICES ON U.S. PRODUCTS
AND CONSEQUENT EXPANSION OF AMERICAN EXPORTS. THIS CAN
ONLY BE ACHIEVED THROUGH A RETURN TO PRUDENT MONETARY AND
FISCAL POLICIES IN THIS COUNTRY--AND TO RESTRAINT ON THE
PART OF MANAGEMENT, LABOR, INDUSTRY AND GOVERNMENT. THAT
RESTRAINT MUST BEGIN AT THE TOP. IT WON'T WORK FOR THE
GOVERNMENT TO OVERSTIMULATE THE ECONOMY BY SPENDING FAR IN
EXCESS OF ITS INCOME AND THEN TO SAY TO ALL AMERICANS--DO
AS I SAY, NOT AS I DO.

THE PRESIDENT HAS PROPOSED A 10 PER CENT INCOME TAX SURTAX AS A MEANS OF RESTORING PRICE STABILITY. THIS MIGHT BE SALUTARY EXCEPT THAT THE KIND OF INFLATION WE NOW ARE EXPERIENCING IS PRIMARILY DUE TO INCREASES IN PRODUCTION COSTS PUSHING UP PRICES ON THE FINISHED PRODUCT.

THE RESPECTED RETAILER'S NEWSPAPER, "WOMEN'S WEAR DAILY," BLUNTLY SAYS IN ITS JAN. 30 ISSUE:

"BUSINESS GENERALLY WILL PASS ALONG TAX INCREASES-- AND THE PUBLIC WILL HAVE TO PAY HIGHER PRICES, WITH LESS MONEY WITH WHICH TO PAY THEM."

IT GOES WITHOUT SAYING THAT A TAX INCREASE ALSO WILL ADD TO THE PRODUCTION COSTS OF U.S. PRODUCTS WE ARE TRYING TO SELL OVERSEAS.

IT IS DIFFICULT TO SEE HOW AN INCOME TAX INCREASE IS GOING TO INCREASE THE ABILITY OF AMERICAN BUSINESS TO

COMPETE IN FOREIGN MARKETS.

YET THE TREASURY DEPARTMENT REPORT STATES: "IN THE LONG RUN, THE BEST WAY TO RESTORE OUR BALANCE OF PAYMENTS IS TO INCREASE OUR TRADE SURPLUS BY INCREASING THE RATE OF OUR EXPORT GROWTH."

SHARPLY RISING PRICES COULD THREATEN TO PRICE MORE U.S. GOODS OUT OF WORLD MARKETS--AND TAX INCREASES WILL ADD TO COSTS THAT ARE RISING TOO FAST.

I FIND IT IMPOSSIBLE TO ACCEPT THE PRESIDENT'S NEW YEAR'S DAY STATEMENT TO THE EFFECT THAT THE DOLLAR "CAN BE SOUND AT HOME--AS IT SURELY IS--YET CAN BE IN TROUBLE ABROAD."

ONE REASON THE DOLLAR IS IN TROUBLE ABROAD IS THAT IT IS IN TROUBLE AT HOME. AND THAT IS WHERE THE BASIC SOLUTION TO THE TROUBLE MUST BEGIN--AT HOME.

ALL IS NOT DARKNESS IN THE CURRENT SITUATION. THE

UNITED STATES MAY, IN EFFECT, MUDDLE THROUGH THE PRESENT CRISIS. THIS IS TRUE DESPITE THE SICK JOKE THAT'S GOING AROUND WASHINGTON--"COME BACK NEXT NEW YEAR'S FOR THE DEVALUATION ANNOUNCEMENT."

THE SAVING ELEMENT--BUT ONE WHICH CANNOT BE COUNTED ON INDEFINITELY--IS THAT THE FATE OF OTHER FREE WORLD ECONOMIES IS TIED CLOSELY TO OURS. THIS MEANS THAT FOREIGN GOVERNMENTS PROBABLY WILL REFRAIN FROM TOUCHING OFF A RUN ON THE DANGEROUSLY SMALL U.S. GOLD STOCK FOR FEAR OF THE CONSEQUENCES TO THEMSELVES. THEY ALSO SHOULD FIND IT IN THEIR OWN BEST INTERESTS TO HELP THE UNITED STATES ACHIEVE AND MAINTAIN BALANCE OF PAYMENTS EQUILIBRIUM.

MUCH OF OUR FINANCIAL FUTURE, WHICH WE SEE ONLY DARKLY, RESTS ON OUR ADVANTAGEOUSLY POSITIONED TRADING PARTNERS. NOW WE NEED HELP.

BUT WE MUST NEVER FORGET THAT OUR BEST HOPE FOR HELP LIES WITHIN OURSELVES. IT IS WISELY WRITTEN: "GOD LOVES TO HELP HIM WHO STRIVES TO HELP HIMSELF." ONLY BY FOLLOWING THAT PRECEPT CAN WE CAST OFF OUR PRESENT WEAKNESS AND "GO FROM STRENGTH TO STRENGTH."

-END-