BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

DATE: May 10, 1971

TO: CHAIRMAN BURNS

FROM: ROBERT C. HOLLAND

Attached is a memo from David Hexter that tries to summarize briefly the issues involved in the question of the relation of U.S. anti-trust laws to our balance of payments. It is the final paragraph on page 3 that seems to me to give us the basis for an early letter. I have asked Hexter to try drafting such a letter.

After you read this memo, a discussion session between you and the staff group could be helpful, I think, to guide both the letter and the follow-up study.

Attachment

DRAFT
DBH:rj
5/3/71

U.S. Antitrust Laws and the Balance of Payments.

I. Potential benefits to BoP from changes in the antitrust laws (and their interpretation and application).

A. Are the antitrust laws a major impediment to effective competition by U.S. enterprises with foreigners (1) in the U.S. or (2) abroad?

In discussing this subject, sometimes there is a tendency to focus solely on the ability of U.S. business to export its products. Actually, U.S. competition with foreigners takes at least four forms:

1. Competing abroad, using goods produced in U.S.

2. Competing abroad, using goods produced abroad by subsidiaries of U.S. enterprises ("multinational corporations").

3. Competing in U.S. markets against imported goods.

4. Competing in U.S. markets against goods produced in U.S. by subsidiaries of foreign enterprises ("multinational corporations").

From the BoP standpoint, categories 2 and 4 are less significant than categories 1 and 3, because the former affect the BoP only to the extent of the profits that are transmitted to the U.S. parent (category 2) or the foreign parent (category 4). Categories 1 and 3 have a BoP effects measured by a major part of the selling price of the goods (as well as having a material effect - favorable in one case, unfavorable in the other - on U.S. employment). Over the long run, U.S. investment abroad or foreign investment in the U.S. may have a large effect (witness the $5 billion (net) the U.S. receives annually from investments abroad), but our BoP problem requires focus on shorter term effects.

According to a 1964 report of the Subcommittee on Antitrust of the Senate Judiciary Committee, at hearings during the preceding year "witnesses from the State, Commerce and Justice Departments all testified that there was no evidence that our antitrust laws had inhibited the activities of American firms abroad." ("Antitrust Developments in the European Common Market", p. 57) Although that testimony dealt with "activities . . . abroad", the antitrust laws would hardly be a greater obstacle to competition against imports in U.S. markets.

The core question is whether the impediments to U.S. competition with foreign-produced goods derive crucially from the restraints of our antitrust laws. To a large extent, the problem is one of price competition. It may be argued that the cost of U.S. products could be substantially reduced ~~through economies that could be achieved~~ through "cooperation" by U.S. producers along such lines as combining their research and development efforts; patent arrangements; unified

purchasing, selling, and shipping; division of markets; and so on. Even if this is conceded, however, it may be that the demonstrated ability of foreigners to undersell U.S. producers in important fields stems from lower labor costs (and to a lesser extent, from more efficient modern plant) to such a degree that no attempts to give countervailing advantages to U.S. producers, such as relaxation of antitrust, could redress the imbalance.

B. What changes in antitrust laws are needed to enable U.S. enterprises to command a substantially larger share of the markets in which they compete with foreigners (either here or abroad)?

If the conclusion on the preceding question ("A") is that the antitrust laws are not a major impediment to effective competition with foreigners - that no changes in those laws would materially increase the U.S. share of relevant markets - this question "B" need not be dealt with. However, if the opposite conclusion is reached, or question "A" is deliberately left unresolved, this matter must be considered.

It is improbable that material BoP benefits could be expected from any but radical relaxations of antitrust laws. For over a half century, we have had the Webb-Pomerene Act, designed to enable U.S. business to increase export sales through activities that otherwise would contravene the antitrust laws. That Act has been used relatively little, and experts have concluded that it offers few benefits, if any, with respect to export trade.*

It seems, therefore, that if relief is available at all through the antitrust route, it would necessarily be through permitting U.S. business to combine "in restraint of trade" in U.S. operations not related principally to export trade. Prima facie, it seems unlikely that exemptions from provisions of the Sherman and Clayton Acts could be tailored so as to confine their effect to competition with foreign organizations; this seems obvious from the nature of the potential relaxations mentioned in the last paragraph of "A". If that is so, we must evaluate proposals to repeal the antitrust laws in fundamental respects.

Any suggestion and action along these lines doubtless would be confined to industries found (by Congress, the Department of Justice, or otherwise) to be in particular need of relief from the effects of foreign competition - for example, industries or "product areas" in which a specified percentage of the domestic market has been captured by foreign competitors in the preceding year.

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* "You get all the protection under the antitrust laws themselves that you get under the Webb-Pomerene Act." Thurman Arnold, former U.S. Judge and former Assistant Attorney General (Antitrust Division), testifying in hearings on "Foreign Trade and the Antitrust Laws" before the Antitrust Subcommittee of the Senate Judiciary Committee (88th Cong., July 23, 1964) 130.

II. Potential "costs" of changes in antitrust laws aimed at improving U.S. BoP.

A. It is our national position, embodied in such laws as the Sherman and Clayton Acts, that the welfare of the United States is promoted by vigorous economic competition, and that monopoly, oligopoly, and cartelization are inimical to our national welfare. Unless this premise is now to be reexamined, evaluation of proposals to relax the antitrust laws must accept the fact that any BoP advantages would be gained at the cost of the benefits secured and safeguarded by our policy favoring vigorous competition in "trade or commerce among the several States, or with foreign nations".

B. Reasoned evaluation of the cost/benefit equation is possible only on the basis of a fairly explicit plan. As previously mentioned ("I.B."), it seems unlikely that useful antitrust relaxations could be confined to our competition against foreign enterprises. In the first place, an increasingly important part of that competition relates to the impact of imports on our domestic markets, which could hardly be compartmentalized. But even if the relaxations were aimed solely at improving the competitive position of U.S. exports, it is doubtful whether we could devise any materially significant changes in the antitrust laws that would aid our export trade without affecting also competition among U.S. producers in domestic markets.

C. Can the antitrust laws be relaxed in specific ways that would enhance the ability of U.S. industry to compete successfully with foreign enterprises without destroying our general antitrust policy? To an inexpert observer, this seems improbable, but the problem can be solved - if at all - only by imaginative and courageous experts in the antitrust field. Only such experts could marshal the practicable alternatives and combinations of governmental action and decide intelligently whether the desired result could be achieved by relaxations that would not destroy the substance of U.S. antitrust policy.

D. Let us assume that (1) contrary to the apparent probabilities, changes could be made in the antitrust laws that would enable U.S. businesses to compete substantially more successfully against foreign businesses, but (2) that result could be achieved only by scrapping our antitrust policy and permitting practices of the sort adopted in countries that have opted for cartelization or "cooperation" rather than vigorous competition of the sort fostered by our antitrust laws. This presents squarely the ultimate question, which cannot be "quantified" but must be answered on the basis of intuition - whether the expectable advantages to the U.S. BoP outweigh the disadvantages to be anticipated from abandonment of antitrust as a national policy.

In considering this subject, one must keep in mind that the Sherman Act (1890) and Clayton Act (1914) were designed for a local, a regional, or - at most - a nationwide arena in which all competitors were governed by the same antitrust rules. Today we have, increasingly, a worldwide arena, in which foreign competitors are not effectively governed by the U.S. antitrust laws. This change may provide the most plausible ground for contending that to relax our antitrust laws would not be a rejection of the policy favoring vigorous competition, but only a recognition of a changed economic environment in which survival depends on the ability of U.S. business to compete with rivals who are not restrained by the same rules.

May 14, 1971

(6)

TRADE BALANCES OF THE UNITED STATES WITH PRINCIPAL FOREIGN AREAS

(millions of dollars, balance of payments basis)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Trade balance, total	4,906	5,588	4,561	5,241	6,831	4,951	3,926	3,860	624	638	2,185
Western Europe	2,549	2,787	2,602	2,880	3,377	2,682	1,914	1,581	336	1,424	2,926
UK	466	294	147	173	468	214	-24	162	-116	-86	307
EEC	2,083	2,493	2,455	2,707	2,909	2,468	1,296	1,015	151	1,031	1,740
Other							642	404	301	479	889
Canada	1,024	790	566	571	776	865	801	448	-451	-815	-1,644
Automotive trade	389	363	460	500	535	638	429	318	60	-408	-765
Other	635	427	106	71	241	227	372	130	-511	-407	-879
Japan	225	710	180	320	200	-388	-634	-345	-1,110	-1,390	-1,241
Other Developed Countries 1/	407	218	120	194	555	623	336	474	460	299	457
Other 2/	701	957	1,093	1,276	1,923	1,395	1,509	1,702	1,389	1,120	1,687

1/ Australia, New Zealand, South Africa
2/ Includes international organizations.

Paine letter to the President

May 19, 1971

STRICTLY CONFIDENTIAL (FR)

Dear John:

The international monetary crisis is not over. It is therefore highly important to plan ahead.

If things come to the pass of a U.S. suspension of gold sales and purchases, we should do all we can--both substantively and cosmetically--to make it appear that other governments have forced the action on us. We want to portray suspension as a last resort and to present a public image of a cool-headed government responding to ill-conceived, self-defeating actions of others.

The opposite tack--initiating suspension without being forced to it by the actions of others--would probably leave us in a much weaker bargaining position for post-suspension negotiations. Many foreign governments would claim that the U.S. Government had been eager to throw down the gauntlet, and had done so with insufficient excuse. In the public eye, both here and abroad, a large part of the onus for the ensuing period of crisis would probably fall on us. In such a hostile environment, it might be significantly less likely that we could negotiate limited exchange-rate flexibility, a more equitable sharing of aid and defense burdens, and other important U.S. objectives.

It is therefore desirable to pay out gold and other reserves in substantial amounts--perhaps two billion dollars--<u>before</u> a suspension. In any announcement of suspension, moreover,

STRICTLY CONFIDENTIAL (FR)

extensive albeit low-keyed publicity should be given to the actions of those countries purchasing gold in the weeks prior to suspension. There is little reason for believing that the United States would be significantly better off after suspension with, say, $10-1/2 billion of gold rather than with, say, $8-1/2 or $9 billion. The balance of advantages, therefore, is very strongly in favor of paying out reserves for an interim period before closing the gold window.

One of our main post-suspension bargaining chips (i. e., a concession to give to other governments) would be an agreement to restore dollar convertibility (into gold and SDRs) as part of a package resolution of the crisis. If anything, this bargaining chip would have a higher value if we wait to suspend until it seems to be forced on us by the actions of others.

Sincerely yours,

Arthur F. Burns

The Honorable John Connally
Secretary of the Treasury
Department of the Treasury
Washington, D. C.

Copy to: The President

For release on delivery

Statement by

Fred H. Klopstock

Manager, International Research Department

Federal Reserve Bank of New York

before the

Subcommittee on International Exchange and Payments

of the

Joint Economic Committee

June 22, 1971

It is a pleasure and a privilege to appear before this distinguished Committee which has made such an important contribution to the public's understanding of the international financial mechanism. Your committee has already added substantially to our knowledge of the subject under review this afternoon by commissioning the intensive study of the Eurodollar market that was prepared by Ira O. Scott, Jr. who was at that time Professor of Finance and Dean of the Arthur T. Roth School of Business Administration at the C.W. Post Center of Long Island University. This highly informative study, which your parent committee published last year, provides a full description of the Eurodollar market, how it operates, its structure and the policy questions its existence has raised. Therefore, with your permission, I will skip over the history of the market and its functioning, and instead will focus on some problem areas of the market that have recently surfaced. I would like to comment in particular on those aspects of the market that continue to puzzle and worry the international financial community. In this context I plan to comment briefly on the implications of the phenomenal growth of the Eurodollar market for the international position of the dollar, and on some proposals for the supervision and control of the market.

There is no doubt in my mind that the Eurodollar market has made a major contribution to the financing of economic growth in this past decade. Perhaps its outstanding merit is that it has enabled banks outside the U.S.--including the overseas branches of U.S. banks--to draw huge amounts of balances originating in many parts of the world into the financing of international trade transactions and the operations of large private and public corporations. The market has become a funnel through which temporarily unemployed funds in virtually all parts of the world are quickly and efficiently transmitted to banks in major

financial centers and, through them, to borrowers in need of loan accommodation. It has added immensely to the ability of banks in Europe, Canada and even in the United States through their overseas branches to provide financing of their customers at advantageous rates. The Eurodollar market has been an efficient transmission belt for the movement of vast amounts of funds from low interest to high interest rate countries and has made a major contribution to evening out surpluses and shortages in national money markets.

It is nevertheless true that many central bankers and other members of the international financial community have become increasingly disenchanted with the market. Many close observers of the market are appalled by its huge dimensions, and fearful of its proven ability to set into motion capital flows that are capable of undermining domestic monetary policies. While not disregarding the market's valuable contributions to the financing of world trade they increasingly have come to look upon the huge capital movements associated with it as a major source of domestic and international monetary instability.

The market is also often severely criticized because it has financed speculative attacks on currencies that are vulnerable and speculative flows into countries whose currencies are candidates for revaluation. In view of the market's gigantic size and the destabilizing capital flows which it has financed, a prominent central banker recently referred to the Eurodollar market as a "monster". Other European central bankers have suggested that much of the Eurodollar market's explosive growth is due to multiple credit creation within the market and that this uncontrolled credit expansion has been an important factor in furthering world inflation.

Several central bankers, notably Governor Carli of the Bank of Italy, have called for control of the Eurodollar market. Federal Reserve Board Chairman Arthur Burns has warned against the practice of central banks' recycling their

reserve gains into the market. The market has increasingly become a source of medium-term loans to borrowers in many corners of the world, but these loans are almost entirely financed with short-term money, often under terms and conditions that have caused a number of prominent commercial bankers to raise questions about the quality of credit in the market.

There is thus a great deal of evidence that many leaders of the international financial community are deeply worried over recent developments in the market. I believe some of this concern is justified, but it is also true that the central bank community is making a major cooperative effort to prevent the market from undermining international monetary stability and at the same time to retain and strengthen the market's valuable role in the financing of a large variety of the world's credit needs.

With your permission, I will now briefly comment on several of the market's aspects that have raised concern and uncertainties here and abroad. First a few words about the recent growth of the market and the fact that the market's net size now surpasses foreign liquid dollar holdings in the United States.

Linkage of Market's Size to Foreign Dollar Balances in the U.S.

During the past three years, the Eurodollar market has grown by leaps and bounds; this growth continued in 1970, contrary to expectations. Many observers had felt that the market would shrink as United States banks and corporations repaid their heavy Eurodollar borrowings incurred during the tight money era in 1969. However, huge borrowings by corporations in Germany in response to tight money market conditions in that country and by banks in Italy absorbed the Eurodollars set free by U.S. repayments. Heavy medium-term borrowings by multinational corporations and public and semi-public institutions in the less developed countries also added significantly to the demand for Eurodollar

loan facilities. Most of the added supplies in the Eurodollar market may be attributed to the rapidly growing placements by central banks, primarily those in the less developed countries, but also by several Western European countries that in the past had stayed away from the market.

After making allowance for double counting arising from interbank deposits within the Eurodollar area, dollar deposits in banks outside the United States now exceed $50 billion, $46 billion of this huge amount represents dollar deposits in eight European countries which make up the core of the Eurodollar system and regularly report their dollar liabilities to the Bank for International Settlements. It is on the basis of these reports, that the BIS computes the net size of the market which reflects commercial bank liabilities of these eight countries vis-a-vis monetary institutions, commercial banks and non-banks outside the area and vis-a-vis central banks and non-bank residents inside the area. But my $50 billion plus estimate also includes sizable amounts of similar net dollar liabilities of banks in several countries outside Europe that have become increasingly important participants in the Eurodollar market, notably banks in Canada, Japan and Nassau.

At more than $50 billion, the Eurodollar market far exceeds foreign liquid dollar holdings in the United States, which at the end of 1970 amounted to $43 billion. The market has grown much more rapidly than the dollar accruals to foreign accounts resulting from our balance-of-payments deficit. Some members of the financial community have expressed puzzlement over these facts and concern about their implications for the dollar's international position. They have expressed fear that dollar balances held in the Eurodollar market represent a potential claim on the United States and, therefore, on our diminishing monetary reserves. These fears are not well founded. Only those Eurodollar deposits

that Eurodollar banks have employed in the United States or that they retain in U.S. banks for reserve and transactions purposes constitute a claim on United States reserves.

Presently such balances represent no more than a small fraction of total deposits employed in the market. Eurodollar deposits that are not passed on to United States banks or borrowers in the United States give rise to claims only on the banks abroad in which they are lodged. In the event of withdrawal of these deposits, the banks would have to either acquire dollars in the foreign exchange market or fall back upon maturing Eurodollar deposits and loans, most of which are obligations of foreign banks and corporations.

To many observers it appears puzzling that the market's size exceeds foreign liquid dollar holdings in the United States, especially since each Eurodollar deposit involves a transfer of foreign dollar deposits from one account in a United States bank to another. But upon further reflection the excess of Eurodollar deposits over U.S. liquid liabilities need not evoke surprise. The size of the market is not limited by outstanding foreign dollar holdings. It is primarily determined by the cash holdings denominated both in domestic currencies and in dollars that a large variety of investors throughout the world wish to place in the market. The explanation of the discrepancy between foreign liquid holdings in the U.S. and net holdings in the Eurodollar market is that one and the same foreign-held dollar balance can be repeatedly employed for making Eurodollar deposits. Dollar balances acquired by investors for placement in the market to the extent that they are not employed in the United States are almost instantaneously returned to the foreign exchange market as the dollar-accepting banks, or borrowers from these banks, or those to whom they make payments, convert

these dollar balances into third currencies in foreign exchange markets. Some or all of these balances may be acquired by central banks. These same dollar balances, after passing through the hands of several holders--possibly in several countries--as a result of a series of transactions outside the Eurodollar system, may again become vehicles for Eurodollar deposits as investors desirous of making additional deposits reacquire them in the foreign exchange market. The repeated utilization of some part of the existing stock of foreign dollar balances associated with the recurrent reinjections of the same dollars into the market that had previously been ejected from it also explains why the increase in the size of the market during recent years far exceeds the dollar balances obtained by foreigners as a result of our balance-of-payments deficit.

It is, of course, true that certain Eurodollar placements, primarily those by United States residents, add to our liquid liabilities. Some Eurodollar deposits, notably those that are borrowed by U.S. banks or are invested by the overseas branches in U.S. Treasury or Export-Import Bank securities, as well as reserve and transaction balances of Euro-banks, are reflected in our liquid liabilities. Some portion of foreign-held dollar balances--actually no more than a small portion--performs a vehicle role in the placing of Eurodollar deposits. But the great bulk of Eurodollar deposits does not affect our short-term liabilities and the growth rates of the two magnitudes are therefore to a large extent independent of each other.

Multiple Credit Creation in the Eurodollar Market

Several central bankers as well as some prominent members of the academic profession have attributed the enormous expansion of the market to the process of multiple credit creation. They have suggested that the Eurodollar system functions in the same way as the U.S. banking system where, as borrowers disburse loan proceeds, the recipients have virtually no choice but to redeposit them in the same or another American bank. This bank, as a result of the attendant reserve gains, may find itself in a position to make additional loans and investments.

Those who believe that this phenomenon is also a characteristic of the Eurodollar market claim that a very substantial amount of Eurodollar deposits represents balances that can be traced directly to Eurodollar loan proceeds. In fact, concern over multiple credit creation in the market has caused some of its close observers to support recommendations that Eurodollar borrowing be made subject to reserve requirements. I have argued elsewhere that at least until the end of 1969 multiple credit creation has played no more than a minimal role in the expansion of the Eurodollar market. This argument is supported by the fact that the market experienced its most impressive rate of growth in the late 1960's when most new Eurodollar deposits were pulled out of the market by U.S. banks and corporations that borrowed heavily in it. These funds were used in the United States and thus could not serve as a base for multiple credit expansion in the Eurodollar market. In 1970, the credit multiplier tended to increase inasmuch as several central banks during the year acquired sizable dollar balances that originated in the Eurodollar market and redeposited them in the market. But even now the great bulk of Eurodollar borrowings is either paid to U.S. residents or converted in foreign exchange markets into local and third-country currencies and not returned to the market by those who acquire these balances. Altogether, the available evidence on worldwide uses of Eurodollars suggests that only a small part of the proceeds of Eurodollar credit is redeposited in the market, and in my view the multiplier remains only a fraction of the figures that have recently been publicized.

Central Bank Participation in the Market

Another question widely discussed by Eurodollar market participants is the placement by official monetary institutions of part of their dollar holdings in the Eurodollar market. In any appraisal of central bank participation in the Eurodollar market, a sharp distinction should be drawn between (a) dollar balances recycled by Western European central banks that deposit part of their dollar gains either directly in European banks or in the Bank for International Settlements,

and (b) deposits in European banks by monetary authorities throughout the world, notably in lesser developed countries and also in Eastern Europe. According to the Bank for International Settlements, during the past year central bank deposits in the Eurodollar market have increased by approximately $7 billion. A large portion of these deposits was placed by European central banks, but a very substantial part originated in less-developed countries. Many central banks in these countries, dependent as they are on the income from their exchange reserves, found it difficult to resist the relatively attractive yields available in the Eurodollar market.

Undoubtedly, as Federal Reserve Board Chairman Arthur Burns recently pointed out in Munich, central banks as they place funds in the Eurodollar market have aggravated their own problems. Such deposits have added to the explosive growth of monetary reserves in Europe, flooded European economies with unwanted liquidity, expanded money supplies and thus contributed to inflationary pressures. The process through which this occurs is simple. Typically, a sizable part of the central bank deposits placed in Eurobanks is used for loans to European borrowers. These borrowers or those to whom they make payments tend to convert all or virtually all of their dollar borrowings into local currencies. As the borrowers sell dollar balances to their commercial banks, their domestic currency deposits and thus their nations' money supply increase. The commercial banks--by selling all or part of the resulting dollar accruals to their central bank--are in turn in a position to add to their reserve balances and consequently to their lending capacity. In this process, the central banks, in their capacity as residual buyers of dollars in the foreign exchange market, in effect reacquire the balances that they had placed in the Eurodollar market. According to press reports, the major European central banks are presently reviewing the investment

of their monetary reserves with a view toward limiting their placements in the Eurodollar market. They are reported to be ready to withdraw balances from the market, if market conditions permit them to do so.

Incidentally, central bank deposits in the Eurodollar market are solely an obligation of the banks in which they are deposited. Taken together, they are not a reserve liability of the United States and do not affect our balance of payments.

Control of the Market

The phenomenal growth of the market together with its credit creation potential, and its ability to mobilize massive amounts of funds that may flow quickly from country to country and thus undermine domestic monetary policies, have given rise to demands for a comprehensive system of international control of the market. These demands have gained in strength in recent weeks as Eurodollar balances, as has happened often in the past, have again been used on a large scale to feed speculative movements into currencies that have become candidates for revaluation, notably the Deutsche mark.

In appraising demands for international control of the market it should be kept in mind that presently the market is already subject to a large measure of national controls. For many years, central banks have used a variety of devices to regulate the flow of Eurodollars out of and into their countries. Moreover, for many years, central bankers have exchanged views on their Eurodollar market policies and on occasion have taken concerted action to coordinate their regulatory activities in this area. At times, notably at year-ends, central banks have rechannelled substantial deposits into the market either directly or through the Bank for International Settlements, with a view to smoothing out temporary disturbances in the market when such action did not conflict with basic monetary policy objectives then being pursued.

Central banks are likely to strengthen their existing controls and supervision of the market. As a matter of fact the central bank governors meeting regularly in Basle have set up a study group to analyze the problem and to work out terms of reference for a standing group which might suggest policies to be adopted by the governors. There is thus every reason to expect that central bank coordination and cooperation with respect to policies affecting the Eurodollar market will become more intensive in the months and years ahead. For instance, central banks could intensify cooperation so as to avoid that national controls work at cross-purposes. They might well make even greater efforts than in the past to coordinate their monetary policies with a view to reducing the emergence of large scale capital movements that do not serve their purpose. But it is difficult to visualize any system of supranational control of the Eurodollar market. In my personal view, central control on a worldwide scale is not a practical proposition. There is no international institution extant that can effectively control the vast supplies in the market or restrict the worldwide demand for Eurodollars. International control of the market would, moreover, call for comprehensive foreign exchange regulations that many countries are unwilling to adopt. The obstacles to control by an international institution also stem for divergencies in national objectives of the countries whose banks play a major role in the market. Hopefully, central bank cooperation involving primarily coordination of national controls will serve to reduce, if not eliminate, Eurodollar flows that tend to undermine international monetary stability.

Medium-Term Lending and the Worsening of Credit Quality

Another recent development in the Eurodollar market is the rapid growth of medium-term lending of Eurodollars. During the last year or two, the overseas branches and affiliates of American banks, as well as other major banks in London and elsewhere in Europe, have been heavily engaged in extending 5 to 8 year roll-over Eurodollar loans, usually to large commercial and semi-public corporations,

with the lending rate periodically adjusted in line with the interbank rate for three or six-months Eurodollars. Typically, the banks managing such loan arrangements syndicate them, placing varying portions with a number of other banks and retaining in some cases only a small portion on their own books. Borrowers of medium-term loans reside in many countries throughout the world. In order to serve this rapidly growing market for Eurodollar term loans, several groups of United States and European banks have established a large number of jointly owned international banks.

In meeting the deep-seated need for medium-term finance, the balance sheets of many banks operating in the Eurodollar market have become less self-liquidating. Of course, the fact that interest rates for these loans are periodically readjusted in line with prevailing Eurodollar interbank rates eliminates the risk that rates in the market will run against the lender. This risk has been passed on to the borrower who hopefully is always in a position to assume it. The fact that the Eurodollar market, despite its dependence on purchased as distinct from hard-core demand deposit money, has become so large a source for meeting the world's medium-term credit needs should not be overlooked in any assessment of its overall position.

Quite apart from the growing maturity gap, many thoughtful bankers have become increasingly concerned over the disregard in Eurodollar banking of the strict lending standards that have long been in vogue in term lending in the United States. Elaborate term loan agreements with a number of appropriately protective covenants such as the obligation of the borrower to maintain his working capital at minimum levels are much less common in Eurodollar banking than in the United States. Few Eurodollar term loans include amortization arrangements that provide for the tailoring of maturities in line with prospective

cash flows. Single-payment revolving loans stretching over five years are not uncommon. It is probably true that as rapid an expansion in the number of borrowers as occurred during the last two years has brought into the market some second class names not deserving of unsecured loan facilities.

It is encouraging that prominent bankers have publicly drawn attention to the easing of Eurodollar lending criteria. Still and all I do not believe that there has been any fundamental deterioration of credit quality in the market. The market continues to be dominated by the biggest and strongest banks in Western Europe and generally these banks remain highly selective as to the borrowers to whom they extent loan facilities.

Conclusion

In concluding my remarks, I should like to reemphasize the important contribution of the Eurodollar market to the growth of the international economy and the expansion of world trade. It would be most unfortunate if the widespread demand for control of this market should give rise to restrictions on international capital movements that would regulate it out of existence or impair its functioning as an efficient medium for allocating credit on a worldwide scale. Meanwhile, the obvious ill-effects of the market and some undesirable deposit and loan practices that have recently emerged are receiving the intense attention of the central banking community and there is every reason to expect timely action to maintain the fundamental soundness of the Eurodollar system.

6/25/71

SUPPLEMENTAL APPENDIX A: THE U.S. BALANCE OF PAYMENTS: REVISED PRESENTATION*

Beginning in the June 1971 Survey of Current Business the presentation of the U.S. Balance of Payments accounts will be revised. Some of the disaggregated components of the accounts have been redefined and two new summary balances have been derived. The new balances are the "Balance on Current Account and Long-term Capital" and the "Net Liquidity Balance." The definition for the "Official Reserve Transactions Balance" remains unchanged. The old "Liquidity Balance" has been dropped.

Unlike other macro-measures, such as the Gross National Product, the "balance" of a set of international transactions involves a selection of relevant items rather than a simple summary or averaging of all available data. No one "balance" can in itself measure an absolute degree of deviation from some "equilibrium" position. The summary balances are presented merely to provide a not-too-misleading starting point for discussions of whether the underlying balance of payments position is changing in a desirable direction or not.

Presentation of the basic data has been reorganized so that the various summary balances can be derived directly from the disaggregated listing of transactions in the main balance of payments tables, with and without seasonal adjustment (Tables 2 and 3 in the June 1971 Survey of Current Business). A new summary table has been introduced (Table 1 in the Survey) which shows the relationship of each balance to the others. See Table A-2 at the end of this Appendix.

The newly presented "Balance on Current Account and Long-term Capital" is intended to give a rough indication of trends in the U.S. balance of payments apart from movements of short-term capital. This balance is the sum of net export of goods and services, remittances and pensions, U.S. Government grants and capital, and the net flow of U.S. and foreign long-term capital (except to and from foreign official reserve holders.) See Table A-1, below, lines 1 through 9.

Equally new is the presentation of a "Net Liquidity Balance" which is intended to be a broad indicator of trends apart from movements of the more liquid types of short-term capital. This balance includes not only those items that went into the balance on current account and long-term capital but also changes in the nonliquid short-term claims and liabilities reported by private U.S. concerns, net

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* Prepared by Kathryn A. Morisse, Economist, Balance of Payments Section, Division of International Finance.

errors and omissions, and the allocation of special drawing rights (SDRs). See Table A-1, line 1-17. Unfortunately, insofar as changes in errors and omissions reflect variations in liquid capital outflows, their inclusion detracts from the usefulness of this balance as a measure of what it is intended to measure.

The new "Net Liquidity Balance differs from the old "Liquidity Balance" in two ways. First, changes in short-term liquid U.S. claims are now treated symmetrically with changes in U.S. liquid liabilities -- both are "below the line" for the "Net Liquidity Balance," being considered to be part of the financing of that balance. See Table A-1, lines 11 and 19. Since the changes in private liquid claims were above the line for the old "Liquidity Balance," a simultaneous increase in such claims and in U.S. liquid liabilities increased the old "Liquidity" deficits but such a simultaneous change does not affect the new "Net Liquidity Balance." The second difference relates to the treatment of certain U.S. liabilities to foreign official reserve holders[1/] that were put into the nonliquid category in former years in order to have a favorable impact on the old "Liquidity Balance." The nonliquid liabilities involved in this type of special financial transaction have now been moved below the line and a change in such liabilities therefore has no impact on new "Net Liquidity Balance." See Table A-1, lines 8 and 21.

The "Official Reserve Transactions Balance" is reached by adding to the "Net Liquidity Balance" changes in short-term liquid private U.S. claims and liabilities. See Table A-2, lines 13 through 18. The definition of this last balance is unchanged. It is the balance financed by changes (decreases) in U.S. official reserve assets plus changes (increases) in U.S. liquid and nonliquid liabilities to foreign official reserve holders. This balance is a rough proxy for exchange market pressures on the dollar.

The revised presentation of the balance of payments accounts reflects the results of a study begun in the fall of 1970 by the Interagency Committee on Balance of Payments Statistics that was set up by the Office of Management and Budget in recognition of the growing dissatisfaction with the balances as previously presented -- particularly the old "Liquidity Balance."

1/ The Survey of Current Business does not use the term "reserve holders" but we find it useful to distinguish such holders from other foreign government agencies which hold claims in the United States such as military export prepayment accounts.

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6/25/71

Table A-1
COMPARISON OF NEW "NET LIQUIDITY BALANCE"
WITH FORMER "LIQUIDITY BALANCE" FOR 1970
(in millions of dollars)

		1970 "Net Liquidity Balance"	1970 "Liquidity Balance" Revised data	1970 "Liquidity Balance" As published March 1971
1.	Balance on goods & services	+3,592	+3,592	+3,672
2.	Remittances & pensions	-1,410	-1,410	-1,387
3.	U.S. Gov't grants & capital	-3,332	-3,332	-3,235
4.	(of which advance repayments)	(+244)	(+244)	(+243)
5.	Long-term capital			
6.	U.S. private	-5,781	-5,781	-5,233
7.	Foreign except "special"	+3,716	+3,716	+3,253
8.	Foreign "special" 1/	+176	-99	-95
9.	BALANCE ON CURRENT ACCOUNT & LONG-TERM CAPITAL	-3,038	-3,314	-3,025
10.	Short-term capital			
11.	U.S. claims, "liquid" (excl. reserve assets)	...2/	+273	-1,118
12.	U.S. claims, "nonliquid"	-1,378	-1,378	
13.	U.S. liabilities, "nonliquid"	+830	+830	+704
14.	Errors & omissions	-1,132	-1,132	-1,274
15.	BALANCE BEFORE SDR ALLOCATION	-4,719	-4,721	-4,715
16.	SDR allocation	+867	+867	+867
17.	BALANCE AFTER SDR ALLOCATION	-3,852	-3,854	-3,848
	FINANCED BY			
18.	U.S. reserve assets, decrease(+)	+2,477	+2,477	+2,477
19.	Other "liquid" claims, decrease(+)	+273	...	...
20.	Liquid liabilities to reserve holders and others, increase(+)	+1,377	+1,377	+1,371
21.	Other liabilities to reserve holders, decrease(-)	-275	...	...
	MEMORANDUM ITEMS:			
22.	Total Special Transactions 3/	(+420)	+145	+148
23.	Balance before SDR allocation & before special transactions	...	-4,866	-4,863

1/ The figure for special transactions in column 1 differs from that in column 2 because the decrease in "other liabilities to reserve holders" (line 21) is now treated as a negative financing item whereas before it was a special transaction enlarging the deficit.
2/ Now treated as a financing item (line 19).
3/ Sum of lines 4 and 8.

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(until published)

June 25, 1971

Table A-2. U.S. BALANCE OF PAYMENTS
(in millions dollars, seasonally adjusted)

	Source SCB June 1971 1/	Years 1969	Years 1970	1970 Qtr.1	1970 Qtr.2	1970 Qtr.3	1970 Qtr.4	1971 Qtr.1
1. Balance on goods & services	T.1 # 11	+2,011	+3,592	+881	+1,045	+995	+670	+1,051
2. Remittances & pension	T.3 # 31,32	-1,266	-1,410	-338	-362	-359	-351	-351
3. U.S. Gov't grants & capital	T.3 # 30,33	-3,837	-3,332	-841	-757	-838	-895	-1,031
4. Long-term capital								
5. U.S. private	T.3 # 39,40,41,44	-4,855	-5,781	-1,925	-1,128	-1,492	-1,237	-1,692
6. Foreign	T.3 # 48,49,50,52,55	+5,068	+3,892	+926	+632	+1,354	+981	+607
7. BALANCE ON CURRENT ACCOUNT & LONG-TERM CAPITAL	T.1 # 26	-2,879	-3,038	-1,297	-570	-340	-832	-1,416
8. Short-term capital, nonliquid								
9. U.S. nonliquid claims	T.3 # 42,45	-693	-1,378	-270	-315	-245	-548	-100
10. U.S. nonliquid liabilities	T.3 # 51	+91	+830	+163	+151	+124	+392	0
11. Errors & omissions	T.3 # 64	-2,603	-1,132	-62	-430	-433	-207	-1,268
12. SDR allocation	T.3 # 63	--	+867	+217	+217	+217	+216	+180
13. NET LIQUIDITY BALANCE	T.1 # 33	-6,084	-3,852	-1,250	-945	-679	-977	-2,604
14. Short-term capital, liquid								
15. U.S. liquid claims	T.3 # 43,46	+124	+273	+257	-81	-15	+112	-232
16. U.S. liabilities to commercial banks	T.1 # 39	+9,166	-6,507	-1,863	-441	-1,315	-2,888	-3,025
17. U.S. liabilities to other private	T.1 # 40,41	-504	+265	-9	+65	-68	+277	+338
18. OFFICIAL RESERVE TRANSACTIONS BALANCE	T.1 # 42	+2,702	-9,821	-2,865	-1,402	-2,077	-3,476	-5,523
19. Financed by								
20. U.S. reserve assets, decrease (+)		-1,187	+2,477	+264	+805	+584	+824	+682
21. Liquid liabilities to foreign official agencies, increase (+)		-517	+7,619	+3,021	+97	+1,738	+2,763	+5,065
22. Nonliquid liabilities to foreign official reserve holders, decrease (-)		-998	-275	-420	+500	-245	-111	-224

1/ Survey of Current Business, June 1971, U.S. Balance of Payments, Table 1 and Table 3.

CHAIRMAN BURNS

For Information Only

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

June 29, 1971

To: Board of Governors

From: A. B. Hersey

Attached are three memoranda (by Mrs. Higgins, Mr. Karcz, and Mr. Kohn) reporting on testimony at the Reuss hearings last week. These cover:

Arndt Birnbaum Bronfenbrenner Houthakker	)	on surplus nations and the U.S. competitive position,
Cohen Brazier	)	on military expenditures,
	and	
Javits Halm Bergsten Willett	)	on reform of the international monetary system

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 22, 1971

To Mr. Ghiardi

From Ilse S. Higgins/ll

Subject: Congressional Hearings on Balance of Payments Problems

This morning's Reuss hearings on the "Surplus Nations and the U.S. Competitive Position" opened with a statement by Klaus-Dieter Arndt, head of the Berlin Economic Research Institute. The Berlin Institute -- in a minority move -- had recommended a revaluation of the DM rather than a floating in the May report of the five economic institutes.

1. In reply to questions by Reuss regarding the possible improvement in the U.S. competitive position from the recent exchange rate moves in Europe, Arndt pointed out that -- unless all EEC countries, ideally also Japan -- appreciate their currencies, the improvement in the competitive position of the U.S. will "not be significant." Arndt stressed, however, the obstacles to a joint revaluation move within the EEC: that is the strong resistance of at least two member countries (France and Italy). A unilateral revaluation on the part of Germany, on the other hand, he expects to be resisted particularly by the agricultural sector. Arndt also added that, if other industrial countries revalue their currencies, the U.S. should respond by liberalizing its economic relationships, ridding itself of import quotas, and untying aid. Arndt also pointed out repeatedly that Germany was not much of a surplus nation any longer.

Questioned by Reuss whether he considered a revaluation of all EEC currencies the desired solution with respect to aiding

the U.S. competitive position, and if so -- which percentage revaluation -- Arndt answered in the affirmative, but was vague on the percentage appreciation of the currencies. He indicated that the rate of revaluation would need to be larger if the yen was also revalued. However, if Germany alone upvalued its currency, it would not be by more than the Austrian or Swiss rate (5 to 7 per cent, respectively). Reuss concluded that "the more the revaluations the merrier the dollar." Arndt agreed.

2. Arndt's statement was followed by that of Birnbaum who focussed on the U.S. balance of payments problems, his objections to, or views on, related restrictive official policies and consequences, and the current Euro-dollar problem. More specifically, he advanced his theory on the concept of "current account convertibility." (See paper for details.) Reuss objected to the "dreadful phrase" of current account convertibility, and had Birnbaum clarify the concept by explaining that the dollar would be legally convertible under such an arrangement not only for current account transactions, but also for capital transactions.

3. Bronfenbrenner focussed on the question whether the Japanese are likely to revalue the yen. He emphasized that no yen revaluation can be expected in the months to come, and that Japanese authorities are likely to use other devices instead to ward off pressures on the yen, such as lower official interest rates (even at the risk of domestic inflation), large-scale lowering of tariff rates, especially on products from developing countries, large increases in

foreign aid, as well as some liberalization in capital transactions. Here, Reuss pointed out that a liberalization of capital movements was not necessarily beneficial for the U.S. On the contrary, U.S. capital exports to Japan, and the possibility of investment earnings not being repatriated, may make matters worse from the U.S. Balance of Payment's viewpoint.

Despite the substantial undervaluation of the yen, Bronfenbrenner could see a revaluation only in the long run. As one of the reasons for the strong resistance against a revaluation, he cited the high dollar-debts and the dollar-invoiced orders in the Japanese shipbuilding industry. Bronfenbrenner reasoned that unless the debts are paid off, and new contracts contain a yen-clause, a revaluation appears quite unlikely. Other reasons given were the still low level of reserves in terms of imports, as well as the low Japanese standard of living.

Reuss then asked all three witnesses for their opinion on the question:

"If international action (revaluations) is unsuccessful, would it be a good idea to (1) close the gold window, (2) support the dollar legally by foreign exchange operations, using IMF support, or (3) present the governors of the IMF with the undisputable truth that the world is suffering from disequilibrium, and ask the IMF to work out new parities, if necessary, using an 'interim transitional float.'"

Arndt answered vaguely that it would be a good idea to introduce more flexibility into the rules of the IMF; but he felt unqualified to comment on the kind of move the U.S. should take.

Bronfenbrenner agreed with closing the gold window, but disagreed on having the Fund establish new parities ("new parities-new problems").

Birnbaum opined that the question of parity realignment following a change in the dollar value has been exaggerated. He would consider some realignment of parities helpful, but warned that the actual effect may be modest and not worth it. Contrary to Reuss, he argued that the exchange rate is a very important price, which cannot be changed "like the price of cabbage." Countered Reuss: "Since the exchange rate is such an important price, we have to correct it when it is out of line."

4. Houthakker, the fourth witness in this morning's hearings, was much more optimistic on the beneficial effects of the recent European exchange rate actions on the U.S. balance of payments (see paper). With regard to Reuss' proposal of a "transitional dollar float," Houthakker opposed the idea of closing the gold window, and suggested working through the existing IMF system. More specifically, he doubted whether a dollar float may remove the yen problem.

Much of the question-and-answer exchange between Reuss and Houthakker evolved around the workings of the Fund whose task it should be -- according to Reuss -- to "sit down for one weekend

and redesign the exchange rate system," (Houthakker objected), and the question on how one could convince Japan to revalue the yen.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 23, 1971

To Mr. Ghiardi

From Jan W. Karcz

Subject: Congressional Hearings on Balance of Payments Problem

I have attended the morning session of the Subcommittee of the Joint Economic Committee on Monday, June 21. The session was devoted to the impact of our military expenditures on the balance of payments.

Two testimonies only were of importance; these were by Professor Benjamin J. Cohen of Princeton and by Deputy Assistant Secretary of Defense Don R. Brazier. There was virtually no question session as apart from Chairman Reuss (who periodically left the room) no other members of the Subcommittee attended the session.

The highlights of the testimony were as follows:

1. Prof. Cohen differentiated between the direct and indirect effects of our military activities on the balance of payments. The direct effects, which had been making a negative contribution of about $3.5 billion p.a. lately, stem from our expenditures in foreign exchange related to our military presence abroad and are partially offset by sales of military hardware. The indirect effects Cohen classified as:

a. Induced increase in domestic demand resulting from our military activities abroad (and hence higher level of imports generally).
b. Increased imports of materials used in higher level of domestic production of defense-related items.
c. Upward shift of propensity to import for U.S. personnel and their families stationed abroad (this may be a long-lasting effect, continuing even after the personnel returns home).

d. The induced upward shift of foreign demand for U.S. goods resulting from dollar earnings by foreigners.

e. Sales of military hardware tied to our presence abroad (e.g., sales to Germany under the successive offset agreements).

Prof. Cohen estimates that the net result of the indirect effects is positive and reduces the overall impact of our military activities to the level of, currently, about $3 billion per annum.

Prof. Cohen further examined two areas in which our commitments abroad could be reduced and the balance of payments thus improved: Europe and Asia. Without prejudicing the case, he concluded that balance of payments considerations cannot be used as an argument to bring the troops home and, conversely, bringing the troops home by itself will not solve the balance-of-payments deficit.

2. Mr. Brazier's testimony could be described as an apologia for the adverse impact of our military presence abroad on the country's balance of payments. He argued that as long as national defense considerations require us to be abroad such impact must result. All the Department of Defense could do (and has been doing) is to ensure the optimum level of expenditures commensurate with defense requirements. He pointed out that in spite of various improvements and savings effected, the overall level of foreign-exchange spending has been rising because wage levels in countries where we maintain defense establishment had been rising very rapidly in recent years.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 25, 1971

To Mr. Ghiardi

Subject: JEC Hearings, Wednesday morning, June 23, 1971

From Martin J. Kohn MJK

Summary:

All four witnesses at the Joint Economic Committee hearings on the U.S. balance of payments on Wednesday morning, June 23, urged reform of the international monetary system. The four witnesses were Senator Javits, George N. Halm, C. Fred Bergsten, and Thomas D. Willett.

The proposals for reform ranged from a very vague plan put forward by Senator Javits for setting up an international federal reserve system to Professor Willett's recommendation that the United States adopt a purely passive approach to its balance of payments, placing the burden of adjustment squarely on the rest of the world.

There was a broad measure of agreement among the witnesses on many points, however. All agreed, for example, that greater exchange rate flexibility was called for, with a widening of the bands around parity being the minimum requirement. Furthermore, three of the witnesses advocated termination or drastic curtailment of the dollar's role as a reserve currency and the fourth -- Professor Willett -- felt such a step was necessary if his recommendation of a "flexible dollar standard" -- the logical consequence of the passive approach to the U.S. balance of payments -- was not implemented.

Another point in common among the witnesses was a sense of irritation over the lack of cooperation by Japan in matters of international trade and finance.

Though for the most part the witnesses confined their comments to the international sphere, Senator Javits directed several comments to the state of the U.S. economy. Deploring high unemployment, lagging productivity and rapid inflation, he urged a wage and price freeze, a step he claimed the public would welcome at this point.

Bergsten Testimony

Bergsten urged reform of the international monetary system, with changes in the role of the dollar being "negotiated" as a major part of the reform.

He held that the objections of foreign countries to the U.S. balance of payments deficit are far more political than economic in nature. He estimated the underlying deficit as being about $2.5 to $3 billion -- or "a bit more," when one takes into account the administrative and legal restraints on capital outflows. He further estimated that, in line with the dollar's position as the world's pre-eminent vehicle currency, foreign countries would welcome additions of dollars to their reserves in an amount up to about $2.5 billion annually. However, foreign countries nevertheless resent our deficits on equity grounds, he said, maintaining that "Persistent U.S. deficits financed by foreign dollar accruals look unfair to the rest of the world, since no other country has such a means to resist adjusting, even if they represent no economic disequilibrium under the present system and therefore in reality call for no adjustment."

To deal with this essentially political problem, Bergsten recommended that the U.S. "accept monetization of outstanding official dollar balances, via an additional creation of special drawing rights for that purpose, to whatever extent desired by present holders and with the firm agreement that dollars not so converted would continue to be held in national reserves except in cases of balance of payments need." Bergsten noted that under this plan the U.S. would be permanently relieved of the liabilities converted in this manner into SDR's. Similar suggestions, by Triffin, for example, have called for the funding of foreign dollar claims exchanged for other reserve assets issued by an international agency. Under the arrangement advocated by Bergsten, the U.S. would also be obliged to "convert, into U.S. reserve assets, future dollar accruals to whatever extent individual countries declare in advance that they do not wish to hold such dollars."

In return for limiting the use of dollars to finance deficits, the U.S. should insist, according to Bergsten, that improvements in the adjustment mechanism be worked out and that an adequate supply of liquidity from "non-dollar sources" be provided for. The basic element in the new system of adjustment would be "more frequent and probably much smaller changes in parities based upon presumptive criteria indicating the need for such changes."

In answer to a question by Reuss, Bergsten said that while the dollar could adjust against other currencies under his plan, this

would be difficult -- given the continuation of the dollar's role as a vehicle and intervention currency -- and that the system would work most efficiently if other currencies adjusted against the dollar. He favored providing for sanctions against countries that ignore the presumptive criteria, which constituted the lynchpin of the system.

The need for liquidity would probably be reduced by the new adjustment system, Bergsten said. He indicated that adding $4 or $5 billion a year in SDR's -- a much larger amount than is likely to be authorized -- starting in 1973 would probably assure a satisfactory amount of liquidity.

Bergsten also advocated widening the bands to 3 per cent on both sides of parity. If this were done, formal changes in parity would simply "ratify" changes which in effect had already taken place.

Bergsten emphatically opposed "unpegging the dollar from gold at this time." Such a move was unnecessary he said, and, if made, probably might not work anyway, since other countries -- viewing such action as an adoption by the U.S. of a beggar thy neighbor policy -- could prevent appreciation of their currencies by maintaining their dollar intervention points.

Willett Testimony

The gist of Willett's presentation was that a choice must be made between two distinct adjustment mechanisms. The first -- and the one he favors on economic grounds -- is based on the adoption of a full-fledged dollar standard. Under this arrangement, the United States takes a passive approach to its balance of payments, letting the rest of the world adjust their exchange rates in order to maintain balance. The other alternative is for the dollar to be stripped of its reserve currency role and be allowed to adjust as any other currency can.

Willett declared that "Either of the two polar positions . . . would secure the major U.S. interest -- freedom from the need to use controls or restrictive macroeconomic policy to correct a balance of payments."

The U.S., he believes, should force a choice, something it could do simply by announcing that "until such a time as the international community might decide that it wishes to adopt a workable U.S.-as-equal system which gives the United States effective ability to change the exchange-rate of the dollar vis-à-vis other countries, we shall adopt a full fledged passive balance of payments policy -- the flexible dollar standard solution."

Reuss was skeptical of the passive balance of payments approach. ("Not so glorious" he called it.) He noted that failure to respond to benign neglect tactics by countries with undervalued

currencies can create severe unemployment problems here. In particular, he cited the harmful impact on employment in steel and electronics that Japan's continued refusal to revalue can be expected to have. Willett characterized this as a "trade problem," which would not hamper efforts -- which can be more freely made when the balance of payments is ignored -- to expand aggregate demand and thus boost overall employment. But Reuss felt that unemployment might not be so easily reduced, given the immobility of many of the workers in the affected industries.

Reuss was also concerned over the probable disappearance of the remainder of our gold stock if Willett's passivity prescription were followed, a prospect that left Willett unperturbed. Reuss -- who, of course, favors the elimination of the use of gold in international monetary affairs -- nevertheless considers it advisable to hang on to what gold we still have until an international monetary agreement is worked out.

Halm Testimony

Halm advocated "a considerable measure of limited flexibility," but indicated that measures to increase flexibility should follow "a general realignment of parities." By "considerable measure of limited flexibility" he meant a combination of wider bands and some form of crawling peg, preferably one not based on a formula but on "presumptive rules." He was confident that "the gliding-band system would enable us

to improve the international payments situation so substantially that we could then consider U.S. deficits with 'benign neglect.'"

To the move toward inflexibility within the EC -- that is, toward establishment of fixed parities among European currencies -- Halm was vehemently opposed. "The EEC's decision to achieve full monetary union is dangerous and completely unnecessary," he said, after stating that "monetary union is not at all needed for the welding together of European markets and the best allocation of resources. Yet the tensions produced by enforced integration may well blow up the whole EEC."

Javits Testimony

The high point in Javits' prepared remarks was his recommendation that an international "federal reserve system" be established. He advocated the demonetization of gold and the eventual elimination of the dollar's position as a reserve currency.

Javits provided few details on his proposed fed-for-the-world, indicating only that the new agency could be separate from the IMF and should be given "sufficient power to control the supply of official reserves in the world economy, and to prevent the misallocation of reserves and sharp currency flows which have plagued the monetary system recently."

Javits urged that several interim measures be adopted before the international central bank begins to operate, including widening of

the bands around parity and abandonment of any obligation on the part of the U.S. to buy or sell gold (though, unlike Reuss, he did not want to "close the gold window" immediately, preferring to settle this question through international negotiations).

In the discussion of his testimony, Javits -- in response to a question by Senator Percy, the only other member of Congress besides Reuss present at the session -- said he would be willing to see the dollar float at the present time. "The U.S.," he said, "has to take its chances with everybody else." He predicted that the dollar would turn out to be "the most stable currency in the world," if it were floated, by which he presumably meant that it would not depreciate significantly with respect to other major currencies. His argument seemed to be that floating the dollar would have a shock effect om America, leading to a major campaign to enhance productivity, whose success would make our good competitive with little or no fall in the price of the dollar.

Javits placed great stress on the need to improve productivity, urging the revival of productivity councils such as those set up in the U.S. during World War II. These councils, which operated at all levels in the economy, from the plant on up, were staffed with representatives of labor, management and the public.

Javits also urged a wage and price freeze, a step he claimed would be broadly welcomed by the public at this point. His theme throughout was that the country is in deep trouble and that drastic

measures are called for. Such measures, he forecast, far from alarming or demoralizing the people, would have a tonic effect on their morale, leading them to undertake a vigorous campaign to set things right.

With respect to international matters, Javits, joined by Percy, urged far more "Burden sharing" by our allies. Javits said this objective would be best accomplished by adopting a tone of "indignation" in addressing ourselves to our allies rather than by use of threats.

Both Javits and Percy dwelt at some length on our problems with Japan. In his prepared statement Javits said, "There are some encouraging signs that Japanese political leadership is beginning to realize the implications of Japan's too-little-too-late foreign economic policies on the world's international economic order and on the long-term interests of Japan herself." But both Senators clearly felt Japan was still not doing enough. Percy urged Japan to relieve pressures leading to a trade war by easing restriction on imports of both goods and capital.

Percy also observed that Europe was intensifying our problems with Japan by maintaining a multitude of restrictions on Japanese imports, thereby causing an even larger influx of Japanese goods into the United States.

June 29, 1971

Export Credits and the VFCR

Demands continue to be made that U.S. bank credit to foreigners be exempted from the Voluntary Foreign Credit Restraint (VFCR) Program. There are firm grounds for maintaining that the exemption is neither necessary to ensure adequate financing of U.S. exports nor desirable in terms of achieving balance of payments objectives.

The vast bulk of U.S. bank export financing is done by a handful of institutions. Of 14,000 banks in the country, only 170 have enough foreign loans and investments ($500,000 or more) to be considered participants in the VFCR Program. Of those 170, the biggest 20 account for three fourths of the VFCR ceilings and almost four fifths of the foreign assets (loans and investments) under the ceilings. Furthermore, the biggest five banks account for almost half of the total VFCR ceilings and almost half of the foreign assets under those ceilings. (See Table I.)

The 20 biggest banks have substantial latitude to make export credits under the existing program.

First, their General and Export Term-Loan Ceilings aggregate almost $8-1/2 billion. The 20 biggest banks can use their domestic funds to make loans under ceilings to this amount.

Second, they can use the resources of their foreign branches. Loans by foreign branches with foreign-source funds are outside the VFCR.

The London branches alone of the 20 biggest U.S. banks have over $25 billion in resources. (See Table II.)

The biggest 20 banks, in the face of a long-standing request to give priority to export financing, are devoting only a minor portion of their domestic and foreign branch resources to financing U.S. exports. As of late 1970, one sixth of these banks' foreign loans and investments subject to the VFCR ceilings were credits to finance U.S. exports. (See Table III.)

The medium-sized and smaller banks, which make up 150 of the VFCR reporting banks and which account for about one fourth of the ceilings and foreign assets under the General Ceiling, have lesser foreign resources than the big banks but have more room under the ceilings. At the end of May, they had leeway of 15 per cent under their General Ceilings. Many of them have foreign branches today -- about 50 having "shell" branches at Nassau that may be used for obtaining resources and making loans outside the Program if they, individually, use up their ceilings.

(All size categories of banks have large leeway under the separate ceiling for export loans of over one year maturity. In April, there were a little over a quarter billion dollars of such loans under an Export Term-Loan Ceiling that aggregated almost $1-1/2 billion.)

VF

The Need for Continued Restraint

Any removal of export credits from the VFCR would lead to a capital outflow. It would induce banks to lend from their head office resources where they are now lending from foreign branch resources. It would also make it difficult to adjust and to administer restraints on nonexport credits. (1)

In recent months the banking system has been provided with a generous amount of funds. As monetary conditions ease in the United States, banks tend to reduce their borrowings from foreigners and to increase their loans and investments abroad. Since the fall of 1969, U.S. banks have repaid $12 billion of over $14 of borrowings from their foreign branches. Any further outflow at this time would be concentrated in their foreign lending and investment. The VFCR program, however, restrains the banks from making foreign loans and investments and insures that the funds supplied by the Federal Reserve will be utilized to stimulate the domestic economy rather than resulting in capital outflow.

(2) definition - administration problems surrounding what is "export credit"

(3) Foreigners - who uses or on col loans - would use U.S. credit

Table II

Total Assets of London Branches of 20 Largest VFCR Reporting Banks 1/ as of March 31, 1971
(thousands of dollars)

Banks Ranked by Size, Largest First	Total Assets
1-5	15,252,452
6-10	5,605,179
11-15	2,744,755
16-20	1,536,163
Total	25,138,549

1/ These are the assets of the London branches with total dollar liabilities exceeding $10 million.

June 29, 1971

Table III

Export Credit as a Percentage of Outstanding Foreign Credit[1/]
(millions of dollars)

Ranking of banks by size largest first	Foreign credits outstanding under VFCR	Export loans subject to VFCR	Export loans as % of VFCR credit	Non-export loans as % of VFCR credit	Foreign credits related to Exim/DoD	Share of export credit in total foreign credits[3/]	Share of non-export credit in total foreign credits
1 - 5	4,554	683	15.0	85.0	408	22.0	78.0
6 - 10	1,628	320	19.7	80.3	87	23.7	76.3
11 - 15	770	111	14.5	85.5	33	18.0	82.0
16 - 20[2/]	224	31	13.1	86.9	7	16.2	83.8
Largest 20	7,176	1,145	16.0	84.0	535	21.8	78.2
All other banks in survey	1,032	229	22.2	76.7	93	28.6	71.4
Total of 72 banks in survey	8,208	1,374	16.7	83.3	628	22.7	77.3

1/ Based on data for November 1970.

2/ One bank in this group was not included in the survey.

3/ This column shows export credit exempt from VFCR by virtue of being Exim or DoD related plus export credit under VFCR as a percentage of total outstanding foreign credit, excluding Canada.

June 29, 1971

Table 1

VFCR Ceilings by Size of Bank 1/ Assets as of May 31, 1971
(millions of dollars)

Banks Ranked by Size, Largest First	Adjusted General Ceiling		Adjusted Export Term - Loan Ceiling		Combined General and Export Term - Loan Ceiling		Total Assets of December 31, 1968		Outstanding Assets Subject to the General Ceiling on May 31, 1971	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
1 - 5	4,673.7	47.0	492.2	33.6	5,165.0	45.3	71,626.1	28.9	4,809.9	48.8
6 - 10	1,700.0	17.1	212.5	14.5	1,912.3	16.8	34,415.4	13.9	1,862.4	18.9
11 - 15	803.8	8.1	132.9	9.1	936.8	8.2	23,523.8	9.5	794.8	8.1
16 - 20	331.5	3.3	77.0	5.3	408.5	3.6	14,993.4	6.0	305.1	3.1
Subtotal, 20 largest Banks	7,509.1	75.5	914.7	62.5	8,423.8	73.8	144,558.7	58.3	7,772.2	78.8
All other reporting Banks	2,441.3	24.5	549.4	37.5	2,990.7	26.2	103,556.4	41.7	2,085.7	21.2
Total, all VFCR reporting Banks	9,950.4	100.0	1,464.1	100.0	11,414.5	100.0	248,115.1	100.0	9,857.9	100.0

World Financial Markets

Morgan Guaranty Trust Company of New York

January 19, 1972

23 Wall Street, New York 10015

Banking offices also in London, Paris, Brussels, Antwerp, Frankfurt, Düsseldorf, Milan and Rome (Banca Morgan Vonwiller), Zurich, Tokyo, Nassau

Representative offices in Madrid, Beirut, Sydney, Hong Kong, São Paulo, Caracas

The balance of payments in 1971

The U.S. balance-of-payments deficit in 1971 exceeded all expectations. On the official-settlements basis the deficit is estimated to have been about $31 billion, excluding the effect of the January 1971 allocation of SDRs. This was nearly three times the size of the $10.7-billion deficit recorded on the same basis in 1970. The huge, $20-billion increase in the official-settlements deficit between the two years was due both to a very large rise in the deficit on current account and long-term capital transactions and to massive short-term capital outflows from the United States.

The deficit remained very large following the August 15 measures and the cutting of the gold-dollar link. In the fourth quarter of last year, the official-settlements deficit was about $6.7 billion, before seasonal adjustment. Although this was substantially below the approximately $12½-billion deficit recorded in the third quarter, it was slightly above the average deficit in the first two quarters of 1971.

The net liquidity balance was in deficit by about $23 billion last year, again after the exclusion of allocated SDRs, compared with $4½ billion in 1970. The net liquidity balance, which measures changes in U.S. reserve assets and in private and official net liquid claims on them, has lost much of its significance as a guide to policy.

During 1971, U.S. official reserve assets fell by about $2.4 billion, to $12.1 billion, with virtually all of the change occurring in the period prior to August 15. At the same time, U.S. liabilities to foreign official institutions increased by more than $29 billion, to an estimated $52½ billion by yearend, of which about $45 billion was in the form of U.S. Government obligations. These liabilities continued to rise until the exchange-rate realignment in the middle of December, reflecting the heavy exchange-market intervention of foreign monetary authorities. There was a small, $700-million reduction toward yearend, following the realignment.

While details still are fragmentary, the balance on current account and long-term capital transactions – or basic balance – showed a deficit estimated at about $10 billion in 1971. This compares with a deficit of $3 billion in 1970 and an average of under $2½ billion for the years 1966-1970, and is considerably larger than was expected a few months ago. The 1971 deficit probably was swollen by $1 billion or more be-

Table 1

U.S. balance of payments
in millions of dollars; excluding SDRs

	1970	1971e
Merchandise trade	+2.1	−2½
Current account	+0.4	−2½
Long-term capital	−3.4	−8
Basic balance	−3.0	−10½
Net liquidity balance	−4.7	−23
Official-settlements balance	−9.8	−31

e—estimated

cause of the absence of the usual, very large yearend capital reflows, due to the decision to allow American corporations two additional months – until the end of February 1972 – to repatriate from abroad the funds necessary to satisfy OFDI rules.

The increase in the basic deficit can be attributed to a significant worsening of the balance on merchandise trade and, even more, to a sharp increase in various net long-term capital outflows.

The deficit on merchandise trade may have reached nearly $2½ billion last year, resulting in an adverse swing of about $4½ billion from the $2.1-billion trade surplus achieved in 1970. During the first eleven months of 1971 exports rose only 1½% while imports increased by 13½%. The rise in total exports, however, concealed a decline in the value – and an even sharper drop in the volume – of exports to some major countries and areas, such as Japan and Europe. Data for the period January-November 1971 show pronounced worsening in U.S. trade balances with Canada ($450 million worse), Japan ($1,675 million), Common Market countries ($1,035 million) and other European countries ($1,105 million).

Although the trade outcome was distorted by U.S. dock strikes and the threat of a steel strike, the trend clearly was one of sharp deterioration. Coming as it did in the absence of a strong economic expansion in the United States, the distinct weakening of the U.S. trade position was a major factor leading to the new U.S. approach to international economic policy.

In contrast, most other current-account items showed improvement relative to 1970. In particular, direct investment income is estimated to have risen by $800 million. U.S. military expenditures abroad fell by about $100 million, while military sales rose by approximately $500 million, so that net military outlays declined by at least $600 million. Thus, the adverse swing in the overall current account was only $2.8 billion – from a $400-million surplus in 1970 to a $2.4-billion deficit in 1971.

Net long-term capital outflows probably totaled more than $8 billion in 1971, representing an increase of some $4½ billion over the figure for 1970. Accordingly, about two-thirds of the widening of the basic deficit last year was due to stepped-up long-term capital outflows. Four major factors accounted for these increased outflows. U.S. companies raised their direct investment outflows by $1 billion, to more than $5½ billion last year. Foreign direct investment in the United States, which increased by almost $1 billion in 1970, probably dropped by $300 million – a turnaround of $1.3 billion. Another $1-billion adverse swing was attributable to U.S. banks' long-term lending abroad, which rose by as much as $800 million in 1971, following a $200-million decline in 1970. Net portfolio capital inflows were only about $700 million – down from more than $1.2 billion in 1970 – as a result of both reduced foreign purchases of U.S. securities and increased U.S. purchases of foreign securities.

Net short-term capital outflows of about $20 billion accounted for the difference between the estimated $10-billion basic deficit and the $31-billion official-settlements deficit in 1971. The difficulty of identifying the short-term capital flows is indicated by the $8½ billion of transactions classified as errors and omissions in the balance-of-payments figures for the first three quarters of 1971 alone. However, some $6 billion of the $20-billion total was due to the reduction of U.S. banks' Euro-dollar liabilities, of which $5 billion can be attributed to the major, weekly-reporting banks. An additional $2 billion may have been transferred abroad by U.S. agencies and branches of foreign banks.

Perhaps another $1½ billion or more took the form of an increase in U.S. banks' short-term loans to nonresidents, some of which probably were related to exchange-rate uncertainties. Finally, American companies and foreign-controlled companies resident in the United States may have transferred overseas at least $10 billion. The corporate outflows occurred chiefly through a wide variety of leads and lags in commercial transactions.

Accordingly, of last year's $20-billion short-term capital outflow, $8 billion or so was a movement of interest-rate sensitive funds, and mainly represented a reversal of inflows from the Euro-dollar market recorded during the 1968-69 period. These funds are unlikely to return to the United States. The remaining $12 billion has a potential for reversal, although the unwinding of leads and lags is a very gradual process which could take more than a year.

The exchange-rate realignment

On December 18, the Group of Ten countries agreed on a new pattern of exchange rates and a temporary widening of the margins, of up to 2¼%, on each side of their new central rates. Subsequently, a large number of countries outside the Ten also realigned the exchange rates for their currencies against the dollar and adopted the broader bands. Countries that maintained the previously existing exchange rates for their currencies relative to the dollar account for only about 18% of total U.S. trade. A few countries devalued against the dollar, but for reasons largely unrelated to the multilateral exchange-rate realignment.

Table 2

Exchange-rate changes

	percentage changes against the U.S. dollar from pre-May 1971 paritiest, expressed in U.S. cents			trade-weighted average changes against a group of major currencies		
	new central rates	market rates Dec 31	market rates Jan 18	new central rates	market rates Dec 31	market rates Jan 18
United States dollar	0.00	0.00	0.00	−10.35	−9.05	−9.58
Canadian dollar	+8.49*	+7.87	+7.43	+5.58*	+5.44	+4.77
Japanese yen	+16.87	+14.37	+15.17	+11.93	+10.34	+10.78
British pound	+8.57	+6.35	+7.51	+0.67	−0.43	−0.07
German mark	+13.58	+12.01	+13.87	+4.54	+4.24	+4.89
French franc	+8.57	+6.45	+7.78	−1.31	−2.20	−2.14
Italian lira	+7.48	+5.28	+6.28	−1.90	−2.76	−2.96
Belgian franc	+11.57	+11.61	+13.17	+1.51	+2.79	+2.91
Dutch guilder	+11.57	+11.33	+13.19	+1.17	+2.12	+2.56
Swiss franc	+13.87	+11.75	+12.94	+3.89	+3.39	+3.31
Austrian schilling	+11.59	+9.59	+11.54	+0.60	+0.22	+0.74
Danish krone	+7.45	+6.26	+6.80	−1.31	−1.17	−1.70
Norwegian krone	+7.49	+6.56	+6.82	−1.41	−1.04	−1.80
Swedish krona	+7.49	+6.47	+7.60	−1.46	−1.16	−1.07
Australian dollar	+8.57	+6.12	+6.35	−0.24	−1.15	−1.63

Four currencies with market rates above new central rates on 1/18/72

† pre-June 1970 for Canada

* A central rate has not been set for the Canadian dollar. The December 17, 1971 market rate is used in lieu of a central rate.

The actual devaluation of the dollar against all major currencies is in sharp contrast to the view widely held only 12 to 18 months ago that the dollar could not be successfully devalued against more than just a handful of currencies. Moreover, the assumption generally made that all less-developed countries would automatically follow the United States by maintaining existing exchange rates for their currencies *vis-à-vis* the dollar has proven wrong. Clearly, the world accepted the necessity of a sizable effective dollar devaluation. Moreover, many countries discovered that, in the context of a world-wide realignment of exchange rates, an appreciable revaluation of their currencies against the dollar need not result in a significant effective revaluation against all currences, measured on a trade-weighted average basis.

The percentage changes in the new central rates for the major currencies, expressed in U.S. cents per unit of foreign currency, from the exchange-rate parities that existed prior to May 1971 are shown in the first column of Table 2. In announcing the results of the Group of Ten meeting last month, Secretary Connally stated that the effective devaluation of the dollar against major industrial countries, weighted by bilateral trade, amounted to 12%. This figure is the trade-weighted average change in the exchange rates for the dollar *vis-à-vis* eight other countries, expressed in U.S. cents per foreign-currency unit. These eight countries are the other members of the Group of Ten with the exception of Canada. The United States conducts only about 38% of its total trade with these eight countries. The exclusion of Canada – with which the United States conducts approximately one-fourth of its total trade – from the calculation is an important omission. Canada apparently was excluded because it continues to float its currency, but this omission tends to distort the extent of the effective devaluation of the dollar.

Table 3

Three-month interest rate arbitrage

				spread against Euro-dollars[d]			
				hedged		unhedged	
	loan rates[a]	money market rates[b]	forward exchange premium or discount[c]	loan rates	money market rates	loan rates	money market rates
Euro-dollars[e]	6.07	5.19					
Germany	7.25	5.25	p 1.31	– 2.49	+1.37	– 1.18	+0.06
France	8.65	5.25	d 0.23	– 2.35	– 0.17	– 2.58	+0.06
Italy	8.00	5.50	p 0.61	– 2.54	+0.92	– 1.93	+0.31
Belgium	7.00	5.15	d 0.68	– 0.25	– 0.72	– 0.93	– 0.04
Netherlands	6.50	5.00	d 0.37	– 0.06	– 0.56	– 0.43	– 0.19
Switzerland	7.00	1.50	p 4.81	– 5.11	+1.12	– 0.93	– 3.69
United Kingdom	5.50	4.50	p 0.28	+0.29	– 0.41	+0.57	– 0.69
Japan	7.10	5.25	p 4.75	– 5.78	+4.81	– 1.03	+0.06

a latest available rates for all countries

b latest available representative money market rates for all countries except Switzerland, for which the 3-month bank deposit rate is used

c based on New York noon quotes on 3-month forward rates for foreign currencies on January 18, in per cent per annum

d in favor of domestic currency, +; in favor of Euro-dollars, –

e noon rates on January 18

Vis-à-vis the 14 major currencies listed in Table 2, the new central rates represent an effective devaluation of the dollar of 10.35%, on a trade-weighted average basis. The United States conducts about two-thirds of its total trade with this group of countries. Since a central rate has not been set for the Canadian dollar, the December 17, 1971, market rate is used in lieu of a central rate for this computation. The method used in this publication for calculating the trade-weighted average devaluation of the dollar was described in the October 1971 issue. It should be noted that apart from the inclusion of more countries than were used in the 12% figure, the method used here measures changes in exchange rates expressed in U.S. cents per foreign-currency unit as well as those expressed in foreign-currency units per U.S. dollar.

Against all currencies which revalued relative to the dollar, the dollar's effective devaluation was about 9.7%, on a trade-weighted average basis. These countries account for nearly 80% of total U.S. trade. Finally, against all of the currencies of the world, including those which did not change their exchange rates *vis-à-vis* the dollar and those which devalued *vis-à-vis* the dollar – such as Israel, Ghana, South Africa, and Yugoslavia – the effective dollar devaluation on a trade-weighted average basis was about 7½%.

The outlook

It is reasonable to expect the basic balance to show some improvement this year from 1971's $10-billion deficit, but it is not prudent to project this improvement to be more than a few billion dollars. The trade and current account deficits should not be expected to decline much this year, but long-term capital outflows are likely to remain considerably below the record outflows of 1971.

The effective dollar devaluation could favorably affect the U.S. trade balance over time by at least $6 billion. However, such research as has been done in this field indicates that it takes about two to three years for exchange-rate changes to have an appreciable effect on trade patterns, and even longer to exert their full impact. The short-term effects of exchange-rate changes are small. Experience with the devaluation of the pound sterling in November 1967 and the revaluation of the German mark in October 1969 attest to the long period that is required for exchange-rate changes to exert their full influence.

Another important reason not to anticipate significant improvement in the trade balance this year is that the U.S. economy is expected to show a substantial expansion in the year ahead while other major industrial countries, as a whole, are likely to show only very modest economic growth, at least through the first half of 1972.

Furthermore, the potential realignment effect can be eroded unless the United States is able to keep its price increases below those of other major industrial countries.

The potential trade benefits cannot be reaped unless U.S. industry is willing to take full advantage of the new opportunities presented by the realignment. The past tendency to de-emphasize exports and give a very high priority to investing abroad has to change to help bring about a major swing in the U.S. trade balance. Also, the hoped-for results will not be forthcoming unless some of the major surplus countries ease trade barriers that no longer are warranted by their balance-of-payments positions.

There are offsetting forces at work in the area of invisibles. The revaluation of foreign currencies will

increase the dollar value of overseas investment income – a large part of which is denominated in foreign currencies – earned by U.S. corporations, banks and other parties. In contrast, the revaluation will tend to increase the dollar cost of U.S. military expenditures abroad. Similarly, the balance-of-payments benefit of the considerable decline in U.S. interest rates will be offset by the sharp rise in total U.S. liabilities to foreigners.

There could be a reduction of $2 billion to $3 billion in long-term capital outflows. This could result from a much smaller increase than in 1971 in U.S. banks' long-term loans to foreigners; a resumption of foreign direct investments in the United States; a reduction in U.S. direct-investment capital outflows, which were unusually large last year; and stepped-up foreign portfolio investment in U.S. securities. However, such a development requires a large measure of confidence, not only in the exchange-rate structure, but also in such things as U.S. economic performance. Moreover, such a favorable trend could be thwarted in part by a further easing of U.S. controls over long-term capital movements.

Since the basic balance will continue to be in substantial deficit this year, there will still be a heavy, undercurrent outflow of dollars from the United States. The question arises as to the extent to which this outflow will be covered by the reflow of short-term capital. As noted above, at most $12 billion of last year's short-term capital outflow has the potential of being reversed.

If a large part of this outflow indeed is reversed during 1972, it would offset the basic deficit, and as a result the balance of payments on an official-settlements basis could be in equilibrium or could even show a modest surplus this year. Conversely, if the reflux remains small, the accumulation of dollars by foreign central banks will continue. In fact, U.S. liabilities to foreign central banks rose by $600 million through the first two weeks of January, thus nearly offsetting the decline in these liabilities during the last two weeks of 1971.

A large reflux of short-term capital requires the restoration of confidence in the pattern of exchange rates as well as appropriate market incentives. For market participants to unwind their leads and lags, and positions taken in yen, marks and other foreign currencies, they have to consider exchange rates – even within their new 4½% bands – to be attractive. This was not the case in the first few weeks after the realignment, when all foreign currencies were in the lower part of their bands. It was not until the second week in January that several foreign currencies moved up to around their new central rates; the mark, guilder and Belgian franc moved above their central rates. As a result, on January 19 the trade-weighted average devaluation of the dollar reached 9.58%. Although this was close to the highest percentage since the realignment agreement, it was still below the 10.35% based on central rates.

Another important market factor that has deterred the reversal of short-term flows has been the lack of any interest-rate incentives. Money-market rates in the United States have been low and declining. Although rates in European countries and Japan also have come down, 3-month lending and money-market rates there, as a rule, have been well above U.S. and Euro-dollar rates, both on a hedged and an unhedged basis (see Table 3). Accordingly, European companies, especially those in Germany, had little or no incentive to reduce their heavy foreign indebtedness.

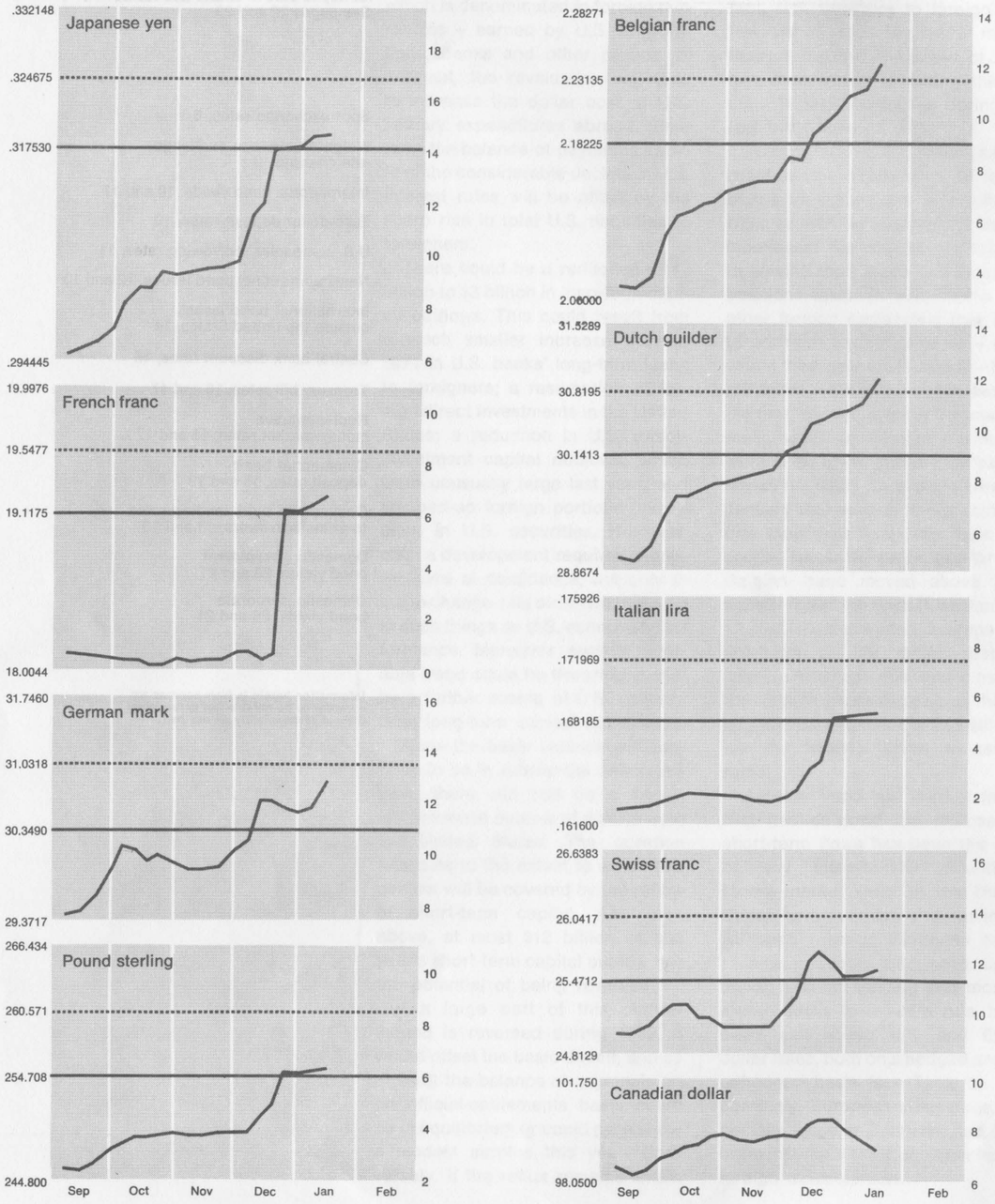
Statistical appendix

for key to data in charts and tables
See pages 22 and 23

Spot exchange rates

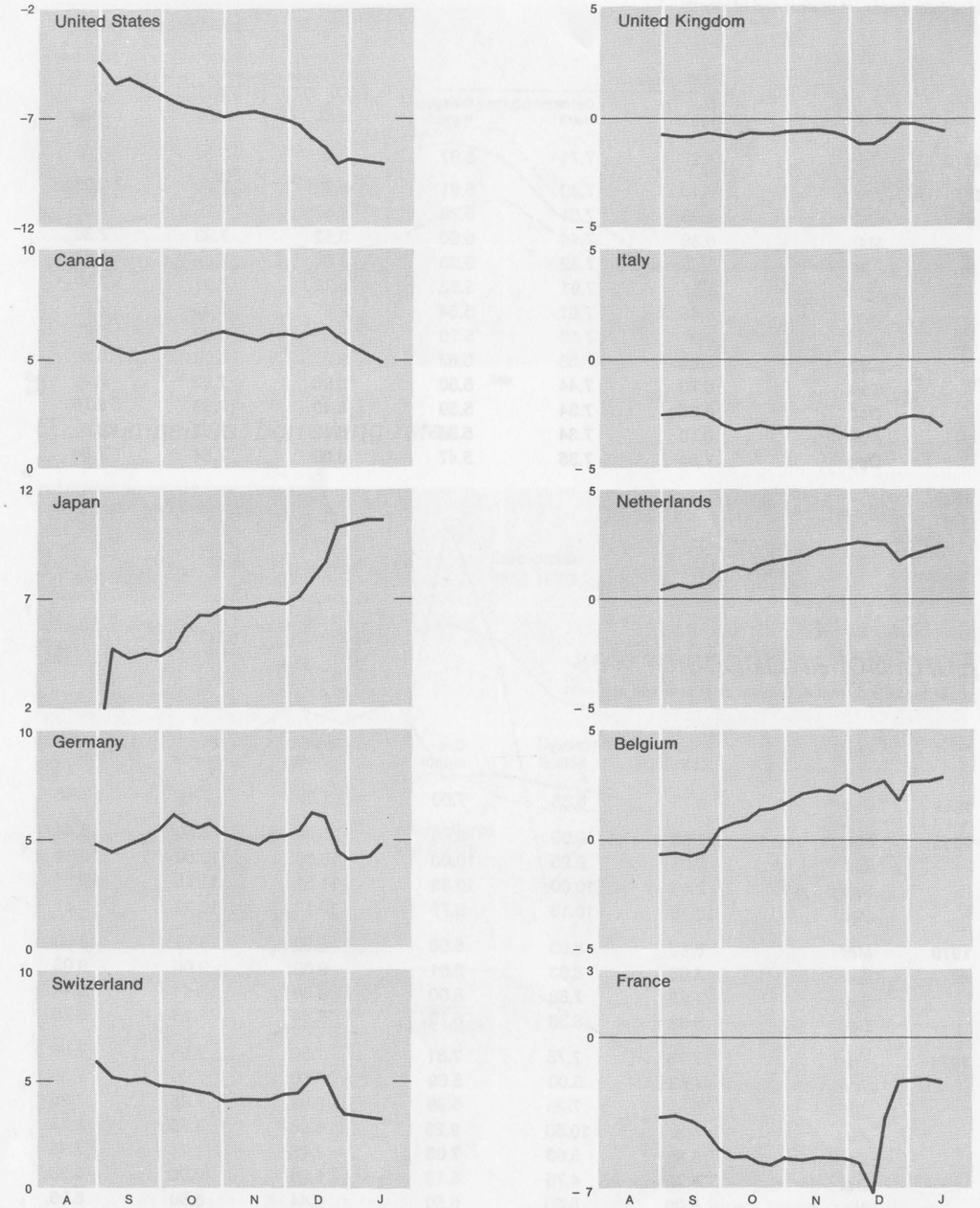
left scale: U.S. cents per unit, weekly average of daily rates in New York

right scale: percentage change from parities existing as of April 1971



Exchange rate changes vis-à-vis a group of 14 major currencies weighted according to 1970 bilateral trade†

changes from pre-May 1971 parities (pre-June 1970 for Canada), based on weekly average of daily exchange rates for commercial transactions



†Based on method described in October 1971 *World Financial Markets.*

International bond yields

Long-term issues, at or near end of month

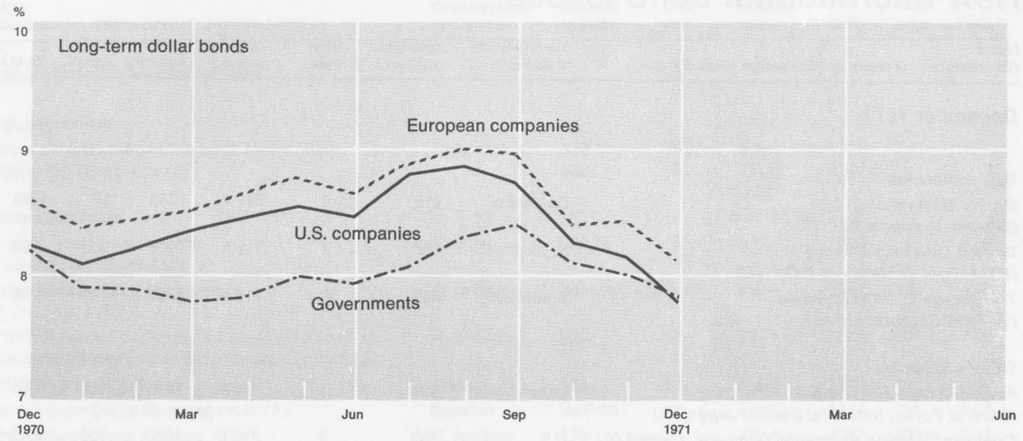
		U.S. companies			European companies		Governments
		U.S. dollar	German mark	Swiss franc	U.S. dollar	German mark	U.S. dollar
1970	*Dec*	8.27	7.71	5.97	8.61	8.04	8.23
1971	*Jan*	8.10	7.40	5.91	8.38	7.89	7.96
	Feb	8.23	7.61	5.78	8.46	7.98	7.92
	Mar	8.36	7.44	5.66	8.52	7.93	7.80
	Apr	8.46	7.32	5.53	8.64	7.84	7.84
	May	8.56	7.91	5.52	8.78	7.91	7.99
	Jun	8.48	7.61	5.64	8.67	8.05	7.96
	Jul	8.81	7.56	5.70	8.91	8.00	8.07
	Aug	8.89	7.68	5.67	9.00	8.09	8.31
	Sep	8.76	7.44	5.50	8.98	7.92	8.39
	Oct	8.28	7.34	5.39	8.40	7.89	8.10
	Nov	8.16	7.34	5.36	8.42	7.92	8.01
	Dec	7.84	7.35	5.47	8.09	7.84	7.84

Euro-dollar deposit rates

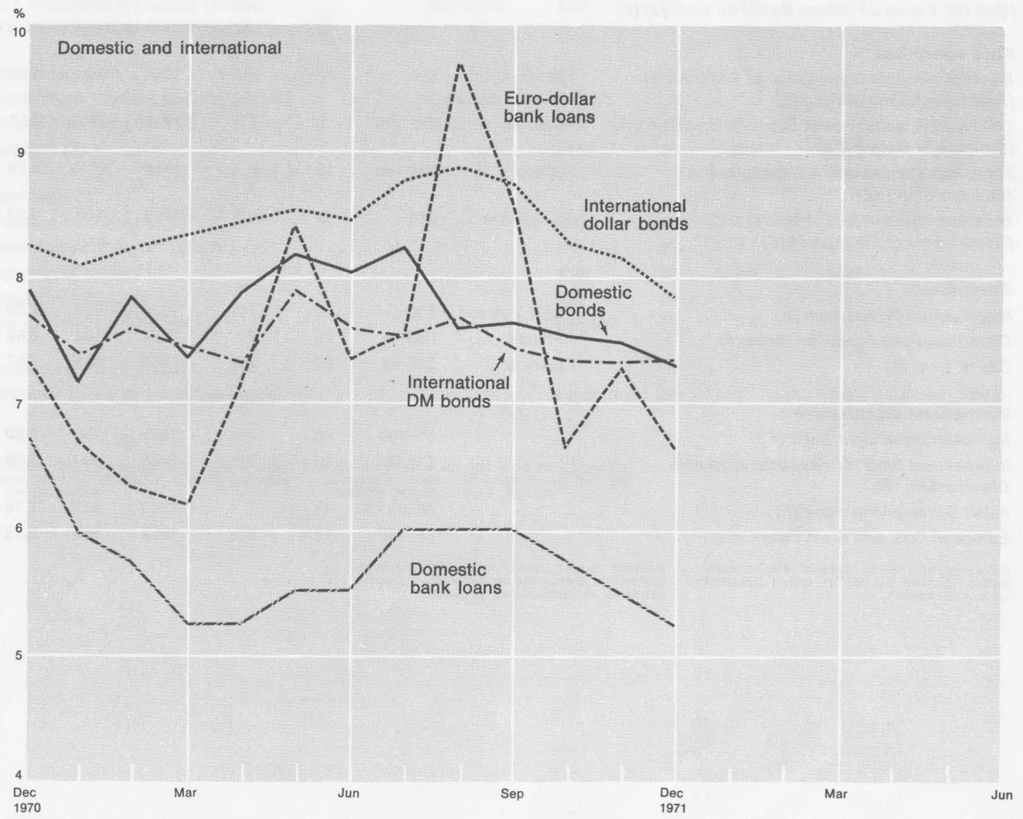
prime banks' bid rates in London, at or near end of month

		Call	7-day notice	One month	Three months	Six months	Twelve months
1968	*Dec*	6.75	6.88	7.00	7.06	7.13	7.13
1969	*Mar*	7.88	8.00	8.63	8.44	8.50	8.44
	Jun	9.25	9.25	10.00	10.50	10.50	10.94
	Sep	9.63	10.00	10.38	11.31	11.25	10.94
	Dec	10.13	10.13	9.75	10.13	10.06	9.81
1970	*Mar*	8.63	8.63	8.50	8.50	8.50	8.50
	Jun	8.63	8.63	8.81	9.00	9.06	9.06
	Sep	7.88	7.88	8.00	8.38	8.44	8.44
	Dec	5.38	5.38	6.19	6.44	6.75	6.75
1971	*May*	7.75	7.75	7.81	7.56	7.56	7.56
	Jun	4.63	5.00	5.69	6.50	7.00	7.38
	Jul	5.50	7.25	6.69	6.69	7.25	7.25
	Aug	n.a.	10.50	9.25	8.88	8.75	8.13
	Sep	5.38	5.63	7.06	7.75	7.75	7.75
	Oct	4.75	4.75	5.13	5.94	6.06	6.38
	Nov	5.00	5.00	6.50	6.44	6.50	6.56
	Dec	5.13	5.25	5.75	5.75	5.81	6.00

International bond yields



U.S. companies' borrowing rates



New international bond issues

Issuer (Guarantor) (Euro-bond: E; Foreign bond: F)	Country/state of domicile	Amount, millions	Offer date	Coupon rate [a]	Maturity	Offer price	Yield [b]
December 1971							
U.S. companies							
Grolier International, Inc. (Grolier, Incorporated) (E)	Delaware	$15	6	8¾ [a]	1986	97	9.00
DuPont Overseas Finance N.V. (E.I. duPont de Nemours & Co.) (E)	N. Antilles	$30	7	7½ [a]	1978	100	7.36
Transocean Gulf Oil Company (Gulf Oil Corporation) (E)	Delaware	$40	30	7½ [a]	1987	100	7.36
Other companies							
Bank of Tokyo Holding S.A. (Bank of Toyko; Industrial Bank of Japan) (E)	Luxembourg	$25	1	7¾ [a]	1978	100	7.61
Commercial Union Assurance Company, Limited (E)	U.K.	$30	7	8½ [a]	1986	100	8.33
		$15	7	7⅞ [a]	1978	100	7.73
Refineria de Petróleos del Norte S.A. (Gulf Oil; Banco de Bilbao; Banco de Vizcaya) (E)	Spain	$15	20	8½ [a]	1986	99½	8.38
State enterprises							
Electricity Supply Commission of South Africa (Republic of South Africa) (E)	South Africa	$20	2	8½ [a]	1986	98	8.57
The Hydro-Electric Power Commission of Ontario (Province of Ontario) (E)	Canada	DM 100	8	7½	1986	98½	7.67
Europistas Concesionaria Española, S.A. (Spanish State) (E)	Spain	DM 100	15	8	1986	97½	8.29
Development Bank of Singapore, Limited (Government of Singapore) (E)	Singapore	$10	22	8½ [a]	1981	100	8.33
Governments							
New Zealand Government (F)	New Zealand	£10	1	7¼	1977	99¾	7.30
Department des Alpes-Maritimes (F)	France	SwF 9	20	7 [a]	1987	100	6.88
City of Oslo (F)	Norway	DM 80	23	7½	1986	98½	7.67
International organizations							
European Investment Bank (F)		FF 100	6	7¾ [a]	1981	100	7.60
International Bank for Reconstruction and Development (F)		DM 250	10	7½ [a]	1986	100	7.36
Asian Development Bank (F)		ASch 150	13	7	1983	98½	7.19
European Coal and Steel Community (F)		FF 150	15	8½ [a]	1989	100	8.33

[a] Coupon interest is payable semiannually unless followed by an "a" which indicates an annual coupon.

[b] Where coupon interest is payable annually, payment is discounted semiannually for comparability in computation of yield.

New international bond issues

Issuer (Guarantor) (Euro-bond: E; Foreign bond: F)	Country/state of domicile	Amount, millions	Offer date	Coupon rate [a]	Maturity	Offer price	Yield [b]
January 1972 — preliminary							
U.S. companies							
Union Oil International Finance Corporation (Union Oil Company) (E)	Delaware	$20	19	7 [a]	1979		
		$30	19	7½ [a]	1987		
Other companies							
Imatran Voima Osakeyhtiö (Republic of Finland) (E)	Finland	DM 75	5	8	1987	99½	8.06
Bayer International Finance N.V. (Bayer, A.G.) (F)	N. Antilles	SwF 80	7	6¼ [a]	1987	100	6.16
British Insulated Callender's Cables Finance N.V. (British Insulated Callender's Cables Limited) (E)	N. Antilles	$20	13	7¾ [a]	1987	99½	7.66
Crédit Lyonnais S.A. (E)	France	$25	13	6½ [a]	1975	100	6.40
Stora Kopperbergs Bergslags A.B. (F)	Sweden	SwF 60	14	6¼ [a]	1987	99	6.26
Shell International Finance N.V. (Shell Petroleum N.V., Shell Petroleum Co., Ltd.) (E)	N. Antilles	$70	20	7½ [a]	1987	100½	7.31
Sandvikens Jernverks A.B. (E)	Sweden	DM 75	20	7½	1987	99¾	7.53
I.C.I. International Finance Limited (Imperial Chemical Industries) (E)	Bermuda	$50	25	7¼	1992		
State enterprises							
Copenhagen Telephone Company (E)	Denmark	DM 40	3	7½	1986	98½	7.67
Norges Kommunalbank (E)	Norway	$20	12	7½ [a]	1987	99¼	7.45
Eurofima (E) [c]		Fl 50	20	7 [a]	1979		
Governments							
Kingdom of Denmark (E)		$30	11	7½ [a]	1990	99	7.46
Commonwealth of Australia (E)		DM 100	21	7	1987		
Republic of Iceland (E)		$15	26	8 [a]	1987		
Republic of South Africa (E)		$25	26	8 [a]	1987		
New Zealand Government (E)		DM 100	27	7 [a]	1987		
International organizations							
European Coal and Steel Community (F)		Lit 20,000	20	7	1987	94½	7.62

[a] Coupon interest is payable semiannually unless followed by an "a" which indicates an annual coupon.

[b] Where coupon interest is payable annually, payment is discounted semiannually for comparability in computation of yield.

[c] Private placement.

International bond issues outside the United States

in millions of U.S. dollars

	1967	1968	1969	1970	1971	1971 Oct	1971 Nov	1971 Dec	Jan 1972 p	Jan 1971
Euro-bonds, total	**2 002**	**3 573**	**3 156**	**2 966**	**3 624**	**155**	**530**	**255**	**461**	**290**
by category of borrower										
U.S. companies	562	2 096	1 005	741	1 090	34	195	85	50	25
Other companies	575	603	817	1 065	1 119	11	224	85	212	109
State enterprises	442	349	682	594	838	55	56	85	67	129
Governments	303	500	584	351	479	42	55	–	132	27
International organizations	120	25	68	215	98	13	–	–	–	–
by currency of denomination										
U.S. dollar	1 780	2 554	1 723	1 775	2 203	35	445	200	325	181
German mark	171	914	1 338	688	786	82	71	55	121	71
Dutch guilder	–	–	17	391	298	27	14	–	15	28
Other [a]	51	105	78	112	337	11	–	–	–	10
by type of security										
Long-term straight debt	1 427	1 108	1 852	1 995	2 623	128	371	185	381	247
Medium-term straight debt	260	480	173	733	706	27	84	70	55	28
Certificates of deposit	55	75	–	–	–	–	–	–	25	–
Convertible	260	1 910	1 131	238	295	–	75	–	–	15
Foreign bonds, total	**403**	**1 135**	**827**	**378**	**1 527**	**132**	**146**	**170**	**71**	**27**
by category of borrower										
U.S. companies	48	139	223	55	200	44	–	–	–	14
Other companies	65	56	128	83	208	21	34	–	37	13
State enterprises	–	12	107	16	156	–	5	–	–	–
Governments	157	317	98	53	254	–	–	51	–	–
International organizations	133	611	271	171	709	67	107	119	34	–
by currency of denomination										
German mark	10	674	531	89	308	–	–	93	–	–
Swiss franc	153	238	196	193	659	65	54	2	37	27
Italian lira	24	72	24	–	32	–	–	–	34	–
British pound	102	19	–	12	138	–	–	24	–	–
Other [b]	114	132	76	84	390	67	92	51	–	–
by type of security										
Long-term straight debt	377	956	641	345	1 204	104	146	146	71	27
Medium-term straight debt	2	179	120	33	293	28	–	24	–	–
Convertible	–	–	66	–	30	–	–	–	–	–
International bonds, total	**2 405**	**4 708**	**3 983**	**3 344**	**5 151**	**287**	**676**	**425**	**512**	**317**

[a] *Includes European unit-of-account, European Currency Unit, and £/DM option issues.*
[b] *Includes £/$ option issues.*
p *Preliminary*

Central bank discount rates

	1968 end Dec	1969 end Dec	1970 end Dec	1971 end Mar	1971 end Jun	1971 end Sep	1971 end Dec	Current Jan 18 1972	Current Effective since
United States	5.50	6.00	5.50	4.75	4.75	5.00	4.50	4.50	Dec 13, 71
Canada	6.50	8.00	6.00	5.25	5.25	5.25	4.75	4.75	Oct 25, 71
Japan	5.84	6.25	6.00	5.75	5.50	5.25	4.75	4.75	Dec 29, 71
Belgium	4.50	7.50	6.50	6.00	6.00	5.50	5.50	5.00	Jan 6, 72
France	3.50	8.00	7.00	6.50	6.75	6.75	6.50	6.00	Jan 14, 72
Germany	3.00	6.00	6.00	6.00	5.00	5.00	4.00	4.00	Dec 23, 71
Italy	3.50	4.00	5.50	5.00	5.00	5.00	4.50	4.50	Oct 14, 71
Netherlands	5.00	6.00	6.00	6.00	5.50	5.00	5.00	4.50	Jan 6, 72
Denmark	6.00	9.00	9.00	8.00	7.50	7.50	7.50	7.00	Jan 10, 72
Norway	3.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	Sep 27, 69
Sweden	5.00	7.00	7.00	6.50	6.00	5.50	5.00	5.00	Nov 12, 71
Switzerland	3.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	Sep 15, 69
United Kingdom	7.00	8.00	7.00	7.00	6.00	5.00	5.00	5.00	Sep 2, 71
South Africa	5.50	5.50	5.50	6.50	6.50	6.50	6.50	6.50	Mar 30, 71

Day-to-day money rates

monthly averages

	1967 Dec	1968 Dec	1969 Dec	1970 Dec	1971 Jun	1971 Jul	1971 Aug	1971 Sep	1971 Oct	1971 Nov	1971 Dec
United States	4.51	6.02	8.97	4.90	4.91	5.31	5.57	5.55	5.20	4.91	4.14
Canada	5.67	5.46	7.78	5.14	3.03	3.64	4.01	4.14	4.16	3.72	3.61
Japan	7.30	7.15	8.50	7.50	6.50	6.25	6.25	6.00	5.50	5.50	5.00
Belgium	2.54	3.36	6.07	5.55	2.68	4.53	3.55	3.60	3.55	4.20	4.10
France	4.76	8.22	10.38	7.48	6.38	5.91	5.75	5.96	5.94	5.94	5.30
Germany	2.80	2.06	8.13	7.50	7.00	6.25	6.25	7.00	7.50	4.63	5.88
Netherlands	4.05	4.96	7.11	6.73	2.91	2.69	5.53	3.80	5.35	3.79	4.91
Switzerland	2.00	3.25	4.75	5.50	2.50	2.50	0.50	0.50	0.13	0.00	0.00
United Kingdom	7.45	6.52	7.64	6.66	5.88	5.75	5.16	4.92	4.66	4.13	4.06
Australia	4.16	4.18	4.40	4.90	5.91	5.88	5.59	5.70	5.74	5.11	5.14
South Africa	4.85	4.55	4.21	4.35	5.35	5.36	5.27	5.39	5.39	5.51	5.72
Euro-dollars	5.03	6.58	10.00	6.97	5.58	5.29	n.a.	6.42	5.19	5.08	5.26

Treasury bill rates

bond-equivalent yields, at or near end of month

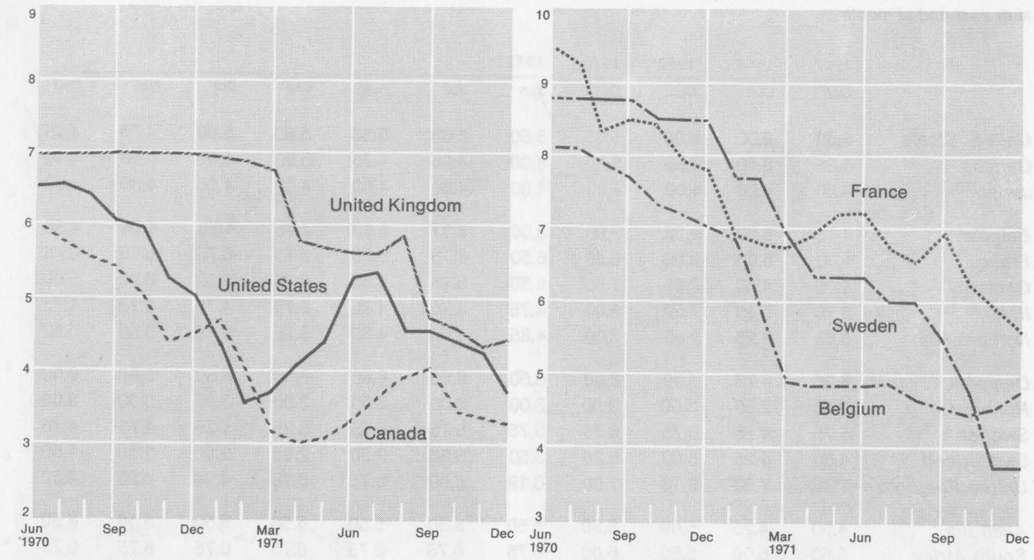
	1967	1968	1969	1970	1971						
	Dec	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	5.09	6.38	8.28	5.03	5.24	5.34	4.56	4.56	4.41	4.25	3.72
Canada	5.95	6.24	7.81	4.44	3.37	3.68	3.91	4.06	3.47	3.37	3.21
Japan	5.71	5.71	5.94	5.81	5.42	5.42	5.17	5.17	5.17	5.17	5.17
Belgium	4.40	5.00	8.50	6.95	4.80	4.90	4.70	4.60	4.50	4.60	4.80
France	5.23	8.41	10.18	7.73	7.17	6.80	6.61	6.96	6.32	5.97	5.68
Germany	2.78	2.78	5.83	5.83	4.30	4.30	4.30	4.30	3.80	3.80	3.28
Italy	5.05	5.05	5.70	6.57	5.80	5.90	6.52	6.30	5.90	5.53	5.41
Netherlands	4.60	5.06	6.25	6.25	4.37	4.00	4.63	4.75	4.75	4.00	5.00
Sweden	6.92	5.32	8.69	8.42	6.34	6.09	6.09	5.56	4.79	3.79	3.79
United Kingdom	7.62	6.90	7.80	6.95	5.68	5.64	5.90	4.78	4.61	4.33	4.46
Australia	4.50	4.50	4.79	5.65	5.37	5.37	5.37	5.37	5.37	5.08	5.08
South Africa	5.07	4.71	4.42	4.55	5.58	5.56	5.50	5.62	5.64	5.72	6.04

Representative money-market rates

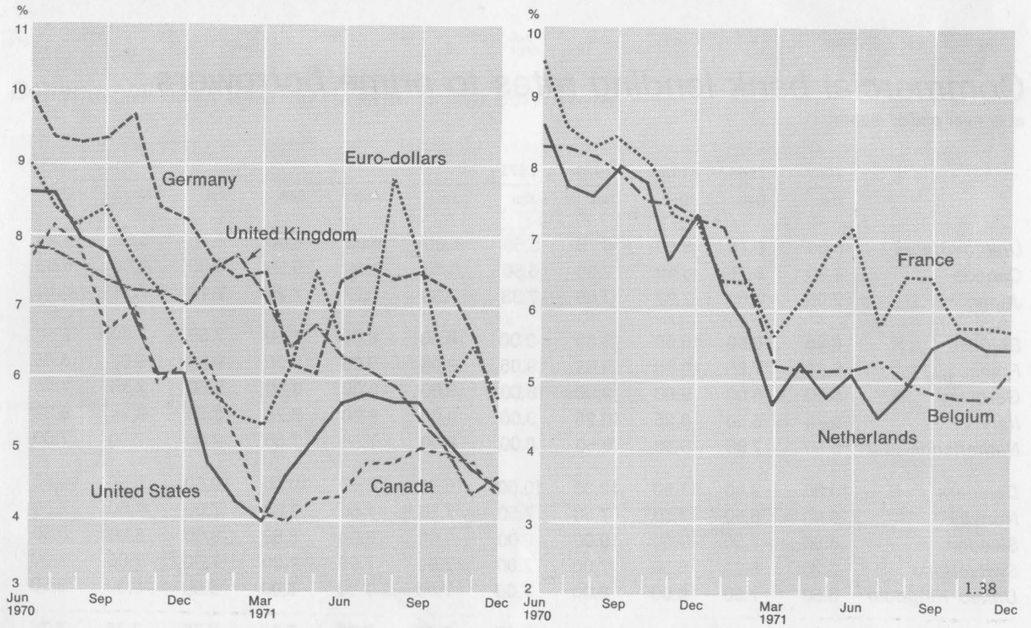
bond-equivalent yields, at or near end of month

	1967	1968	1969	1970	1971						
	Dec	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	5.91	6.96	9.46	6.05	5.65	5.79	5.65	5.65	5.13	4.75	4.49
Canada	6.74	6.61	9.34	6.09	4.30	4.81	4.81	5.06	4.94	4.81	4.42
Japan	8.03	8.40	9.25	8.75	7.00	6.50	6.50	6.25	5.75	5.75	5.75
Belgium	4.90	5.25	8.75	7.25	5.15	5.30	5.05	4.90	4.80	4.80	5.15
France	4.94	8.50	10.88	7.25	7.13	5.88	6.50	6.50	5.81	5.81	5.75
Germany	4.63	4.50	9.13	8.25	7.38	7.63	7.38	7.50	7.25	6.50	5.50
Italy	3.52	3.41	5.00	7.38	5.88	5.75	5.75	5.50	5.38	5.25	5.50
Netherlands	5.50	6.13	9.00	7.38	5.10	4.56	5.00	5.56	5.75	5.50	5.50
United Kingdom	8.00	7.75	9.13	7.00	6.25	6.13	5.88	5.38	5.06	4.38	4.63
Australia	5.00	5.25	5.75	6.00	7.75	7.25	7.00	7.00	6.50	6.25	6.50
South Africa	5.78	5.37	5.47	7.44	7.23	7.54	7.13	7.96	7.85	8.00	8.68
Euro-dollars	6.25	7.06	10.13	6.44	6.50	6.69	8.88	7.75	5.94	6.44	5.75

Treasury bill rates



Representative money market rates



Commercial bank deposit rates

at or near end of month

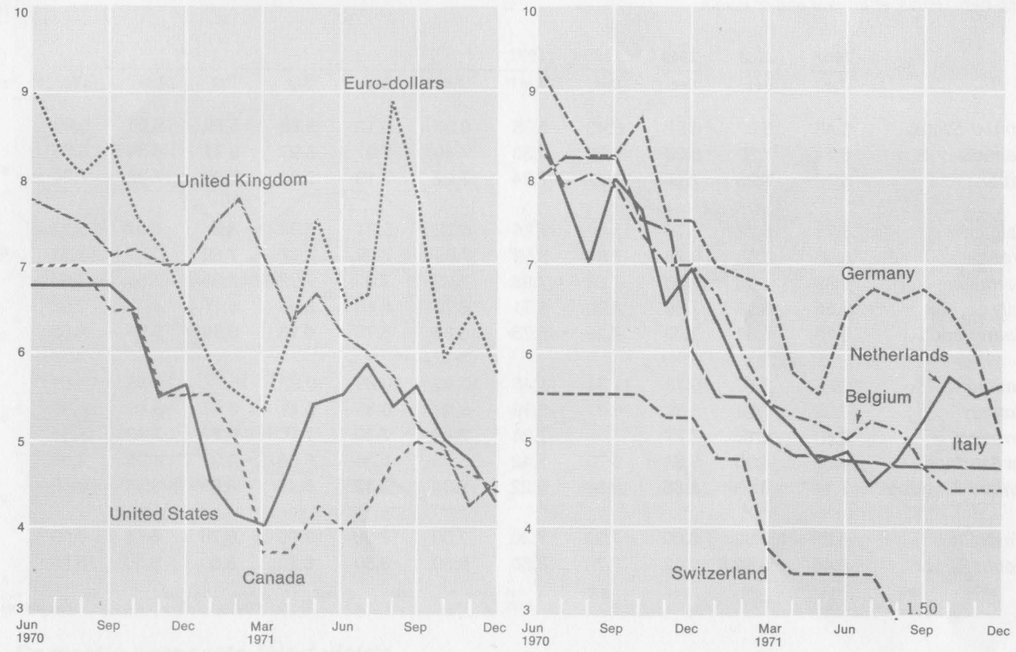
	1967	1968	1969	1970	1971						
	Dec	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	5.50	6.00	6.00	5.63	5.50	5.88	5.38	5.63	5.00	4.75	4.25
Canada	6.25	6.50	7.50	5.50	4.00	4.25	4.75	5.00	4.88	4.63	4.40
Japan	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Belgium	4.75	6.63	9.25	7.00	5.00	5.31	5.13	4.75	4.50	4.50	4.50
France	4.00	6.00	9.00	6.50	6.50	6.75	6.75	6.75	6.75	6.75	6.75
Germany	4.00	4.38	8.63	7.50	6.50	6.75	6.63	6.75	6.50	6.00	5.00
Italy	2.75	5.50	7.50	6.00	4.75	4.75	4.75	4.75	4.75	4.75	4.75
Netherlands	5.63	6.25	9.00	7.00	4.85	4.50	4.80	5.25	5.75	5.50	5.63
Denmark	6.25	4.75	7.00	8.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Norway	2.50	2.50	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Sweden	5.75	4.75	6.75	6.75	5.75	5.75	5.75	5.25	5.25	4.75	4.75
Switzerland	4.00	4.25	5.00	5.25	3.50	3.50	2.50	2.50	2.00	1.50	1.50
United Kingdom	7.88	7.63	9.13	7.00	6.19	6.00	5.75	5.19	4.94	4.25	4.50
Australia	4.00	4.25	5.00	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
South Africa	5.50	5.00	5.50	6.00	6.75	6.75	6.75	6.75	6.75	6.75	6.75
Euro-dollars	6.25	7.06	10.13	6.44	6.50	6.69	8.88	7.75	5.94	6.44	5.75

Commercial bank lending rates to prime borrowers

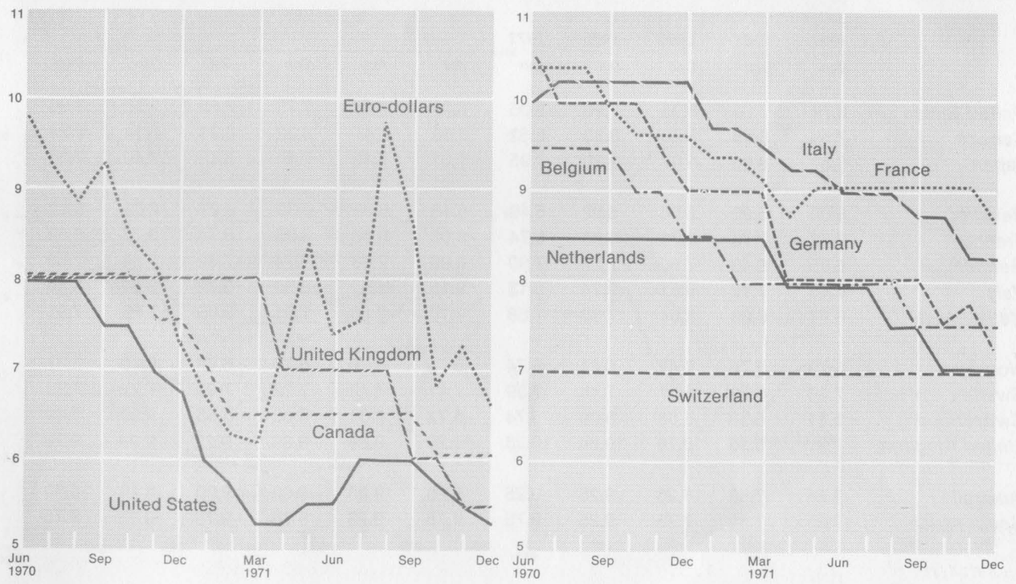
at or near end of month

	1967	1968	1969	1970	1971						
	Dec	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	6.00	6.75	8.50	6.75	5.50	6.00	6.00	6.00	5.75	5.50	5.25
Canada	6.50	6.75	8.50	7.50	6.50	6.50	6.50	6.50	6.00	6.00	6.00
Japan	7.00	7.04	7.37	7.46	7.33	7.33	7.27	7.22	7.18	7.14	7.10
Belgium	6.25	6.50	10.00	8.50	8.00	8.00	8.00	7.50	7.50	7.50	7.50
France	5.85	7.85	10.35	9.65	9.05	9.05	9.05	9.05	9.05	9.05	8.65
Germany	6.00	6.00	9.00	9.00	8.00	8.00	8.00	8.00	7.50	7.75	7.25
Italy	6.75	6.50	8.25	10.25	9.00	9.00	9.00	8.75	8.75	8.25	8.25
Netherlands	6.50	7.00	8.50	8.50	8.00	8.00	7.50	7.50	7.00	7.00	7.00
Denmark	10.00	8.50	11.50	12.00	10.50	10.50	10.50	10.50	10.50	10.50	10.50
Norway	6.00	6.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50
Sweden	8.50	7.50	9.50	10.00	9.00	9.00	9.00	8.50	8.50	8.00	8.00
Switzerland	6.25	6.25	6.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
United Kingdom	8.50	7.50	9.00	8.00	7.00	7.00	7.00	6.00	6.00	5.50	5.50
Australia	6.75	7.00	7.25	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
South Africa	8.50	8.00	8.00	8.50	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Euro-dollars	7.13	7.94	11.00	7.32	7.38	7.57	9.76	8.63	6.82	7.32	6.63

Commercial bank deposit rates



Commercial bank lending rates to prime borrowers



Domestic government bond yields

long-term issues, at or near end of month

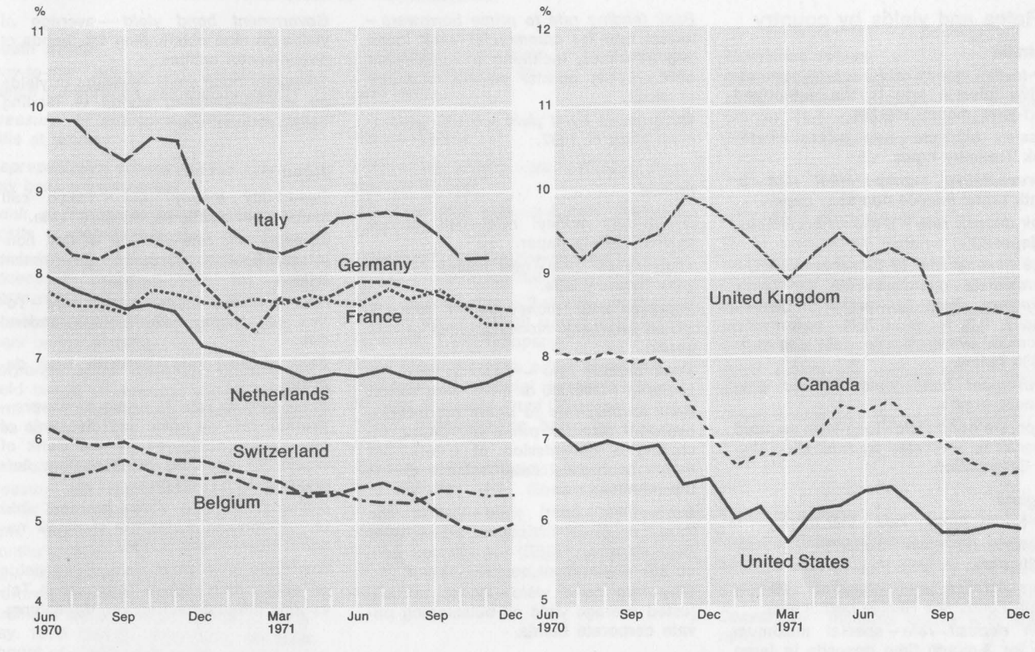
	1967	1968	1969	1970	1971						
	Dec	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	5.48	5.97	6.92	6.42	6.35	6.37	6.12	5.88	5.89	5.94	5.92
Canada	6.54	7.30	8.33	6.99	7.30	7.49	7.07	6.97	6.71	6.54	6.56
Japan	6.98	7.05	7.14	7.21	7.24	7.22	7.19	7.20	7.20	7.22	7.20
Belgium	5.23	5.22	5.77	5.49	5.24	5.22	5.21	5.34	5.34	5.32	5.33
France	5.60	6.00	6.78	7.64	7.59	7.80	7.69	7.77	7.53	7.37	7.34
Germany	6.89	6.56	7.38	7.84	7.93	7.92	7.83	7.72	7.63	7.61	7.54
Italy	6.58	6.59	7.30	8.90	8.71	8.73	8.68	8.45	8.17	8.18	7.93
Netherlands	6.13	6.34	7.50	7.16	6.75	6.83	6.75	6.76	6.58	6.65	6.83
Denmark	9.78	8.78	10.73	11.34	11.45	10.90	10.89	10.92	10.72	10.83	10.81
Norway	4.95	4.89	6.30	6.41	6.39	6.40	6.35	6.41	6.42	6.45	6.37
Sweden	6.80	6.19	7.27	7.32	7.28	7.29	7.30	7.10	7.11	7.12	7.14
Switzerland	4.55	4.35	5.34	5.70	5.42	5.45	5.31	5.09	4.97	4.86	4.99
United Kingdom	7.14	8.03	8.85	9.80	9.22	9.36	9.12	8.49	8.65	8.54	8.45
Australia	5.25	5.02	6.00	7.00	7.00	7.00	7.00	7.00	6.75	6.65	6.50
South Africa	6.46	6.44	6.42	7.75	8.50	8.50	8.50	8.50	8.50	8.50	8.50

Domestic corporate bond yields

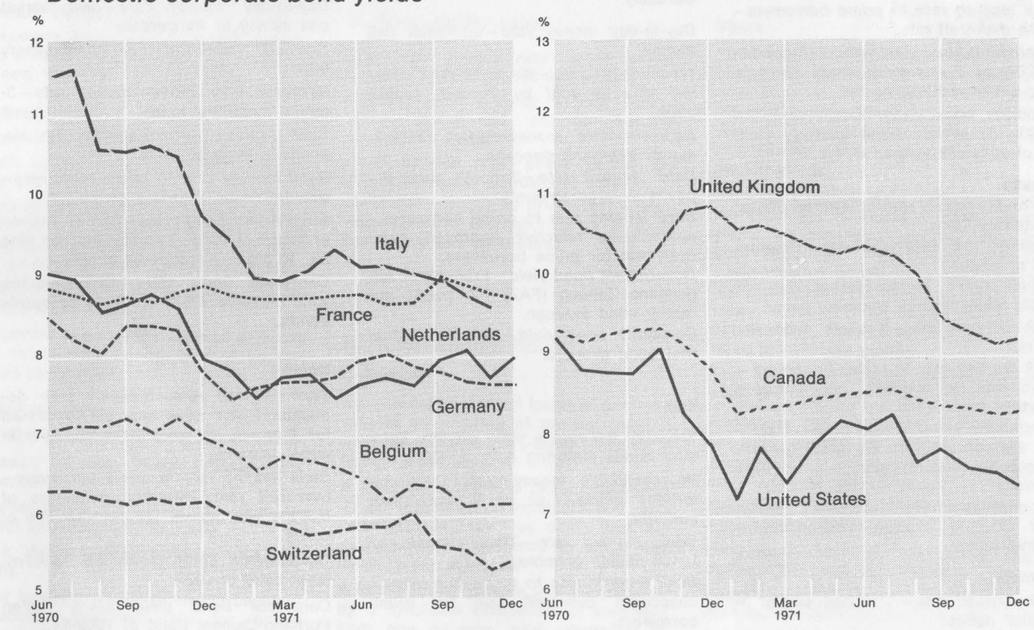
long-term issues, at or near end of month

	1967	1968	1969	1970	1971						
	Dec	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	6.74	7.04	8.95	7.90	8.05	8.25	7.60	7.75	7.55	7.50	7.30
Canada	7.59	8.18	9.29	8.83	8.52	8.56	8.41	8.32	8.21	8.14	8.24
Japan	8.57	8.66	9.07	9.20	7.95	7.61	7.49	7.44	7.42	7.49	7.38
Belgium	6.05	5.92	6.96	6.92	6.40	6.18	6.35	6.32	6.07	6.09	6.12
France	7.52	7.76	8.71	8.83	8.74	8.65	8.68	8.95	8.74	8.77	8.69
Germany	6.95	6.43	7.60	7.77	7.90	8.00	7.83	7.74	7.62	7.59	7.59
Italy	7.15	7.12	8.51	9.74	9.13	9.15	n.a.	8.92	8.72	8.62	8.46
Netherlands	6.71	6.98	8.54	7.88	7.58	7.70	7.60	7.91	8.05	7.65	7.91
Norway	5.79	5.75	7.42	6.81	6.74	6.76	6.76	6.77	6.78	6.70	6.77
Sweden	7.49	6.73	8.57	7.48	7.39	7.41	7.42	7.22	7.21	7.22	7.22
Switzerland	5.11	5.13	5.58	6.09	5.74	5.72	6.01	5.63	5.55	5.30	5.42
United Kingdom	7.97	9.16	10.70	10.84	10.38	10.26	9.99	9.36	9.22	9.09	9.19
Australia	7.25	7.50	8.25	9.25	9.25	9.25	9.25	9.00	9.00	8.75	8.50
South Africa	7.25	7.50	7.75	9.25	9.75	9.75	9.75	9.75	9.75	9.75	9.75

Domestic government bond yields



Domestic corporate bond yields



Key to data in charts and tables

I. Rates and yields by country

Australia

Day-to-day money rate – approximate effective interest rate in the authorized short-term money market.

Treasury bill rate – new issues of 13-week Treasury notes.

Representative money-market rate – 3-month prime finance company paper.

Bank deposit rate – 3-month certificates of deposit.

Bank lending rate to prime borrowers – approximate overdraft rate for prime borrowers. Rate for prime borrowers usually 0.25% to 0.75% below the maximum overdraft rate; rate shown is 0.50% below.

Government bond yield – 20-year government bonds.

Corporate bond yield – long-term secured debentures, indicated by Australian United Corporation.

Belgium

Day-to-day money rate – call money.

Treasury bill rate – 3-month Treasury certificates.

Representative money-market rate – 4-month Fonds des Rentes certificates.

Bank deposit rate – special maximum rate for 3-month time deposits in large amounts.

Bank lending rate to prime borrowers – prime overdraft rate.

Government bond yield – Kredietbank 10- to 20-year government bond average yield net of withholding tax.

Corporate bond yield – Kredietbank 10- to 20-year private bond average yield net of withholding tax.

Canada

Day-to-day money rate – chartered banks' day-to-day loans.

Treasury bill rate – 3-month Treasury bills at tender.

Representative money-market rate – 3-month prime finance company paper.

Bank deposit rate – 3-month time deposits.

Bank lending rate to prime borrowers – prime rate. In addition, compensating balances sometimes are required.

Government bond yield – Bank of Canada average yield on all direct government bonds due or callable in 10 years or over.

Corporate bond yield – McLeod, Young, Weir Co., Ltd., average yield on ten industrial bonds.

Denmark

Bank deposit rate – time deposits of 3-months' notice.

Bank lending rate to prime borrowers – lowest rate for commercial bank loans and advances, including a commission of 0.375 per quarter on the total line of credit.

Government bond yield – 4½% government bond of 1997.

France

Day-to-day money rate – call money against private paper.

Treasury bill rate – new issues of one-year Treasury bills.

Representative money-market rate – 3-month interbank money against private paper.

Bank deposit rate – 3-month time deposits of F 100,000 or more. New series.

Bank lending rate to prime borrowers – overdraft rate for prime borrowers, including a commission of 0.05% per month on highest debit balance during the month.

Government bond yield – Institut National de la Statistique et des Etudes Economiques (INSEE) tax-adjusted yield on 5% government perpetual bond.

Corporate bond yield – INSEE tax adjusted average yield on outstanding private corporate bonds.

Germany

Day-to-day money rate – interbank call money.

Treasury bill rate – 60- to 90-day Treasury bills as sold by German central bank.

Representative money-market rate – 3-month interbank deposits.

Bank deposit rate – 3-month time deposits in large amounts.

Bank lending rate to prime borrowers – approximate effective approved overdraft rate for prime borrowers.

Government bond yield – Frankfurter Allgemeine Zeitung (FAZ) 7% public authority bond average.

Corporate bond yield – FAZ 6% industrial bond average.

Italy

Treasury bill rate – yield on 5% Treasury bonds maturing April 1, 1973.

Representative money-market rate – interbank deposits of up to one-month maturity.

Bank deposit rate – Time deposits of L 100 million or more.

Bank lending rate to prime borrowers – unsecured overdraft rate for prime borrowers.

Government bond yield — average of yields on nine outstanding 6% bonds of public-sector entities.

Corporate bond yield – average of yields on ten outstanding bonds of leading Italian industrial companies.

Japan

Day-to-day money rate – Tokyo call money, unconditional, lenders' rate.

Treasury bill rate – 60- to 62-day non-interest-bearing discount government bills.

Representative money-market rate – Tokyo call money, over-month, lenders' rate.

Bank deposit rate – 3-month time deposits.

Bank lending rate to prime borrowers – average rate on loans and discounts of city banks, computed by the Bank of Japan. In addition, compensating balances may be required.

Government bond yield – average yield on outstanding maturities of 6½% national government bonds.

Corporate bond yield – average of yields on outstanding Nippon Telegraph & Telephone interest-bearing yen debentures.

Netherlands

Day-to-day money rate – open-market call money in Amsterdam.

Treasury bill rate – 3-month Treasury bills.

Representative money-market rate – 3-month municipal loans.

Bank deposit rate – 3-month time deposits in large amounts.

Bank lending rate to prime borrowers – overdraft rate for prime borrowers.

Government bond yield – Central Bureau of Statistics (CBS) average yield on nine 3% to 3½% government bonds.

Corporate bond yield – CBS average yield on three 4½% to 4¾% corporate bonds.

Norway

Bank deposit rate – 3-month time deposits. Higher rates may be negotiated for 6-month or more time deposits in large amounts.

Bank lending rate to prime borrowers – overdraft rate, including a charge of 0.375% per quarter on the total line of credit.

Government bond yield – 5% government bond of 1996.

Corporate bond yield – 5¾% Dalen Portland-Cement bond of 1969-84.

South Africa

Day-to-day money rate – National Finance Corporation call money rate.

Treasury bill rate – 3-month Treasury bills at tender.

Representative money-market rate – 90-day bank acceptances.

Bank deposit rate – 3-month time deposits at merchant banks.

Bank lending rate to prime borrowers – unsecured overdraft rate for prime borrowers.

Government bond yield – 6½% government bonds of 1994.

Corporate bond yield – an approximate yield based on average yields of long-term bonds of the semipublic ESCOM, plus ½%.

Sweden

Treasury bill rate – new issues of 3-month Treasury bills.

Bank deposit rate – deposits at 6-months' notice.

Bank lending rate to prime borrowers – overdraft rate for prime borrowers, including a fee of 1% per annum prior to May 1970 (1¼% thereafter) on total amount of credit authorized.

Government bond yield – 15-year government bonds.

Corporate bond yield – Central Statistical Bureau average yield on industrial bonds. New series as of 1970.

Switzerland

Day-to-day money rate – call money.

Bank deposit rate – 3-month time deposits.

Bank lending rate to prime borrowers – overdraft rate for prime borrowers, including commission of 0.25% per quarter on highest debit balance in quarter.

Government bond yield – Swiss Confederation bond average.

Corporate bond yield – average of yields on outstanding bonds of five leading Swiss companies.

United Kingdom

Day-to-day money rate – day-to-day loans.

Treasury bill rate – 91-day Treasury bills at tender.

Representative money-market rate – 3-month local authority deposits.

Bank deposit rate – 3-month time deposits.

Bank lending rate to prime borrowers – unsecured overdraft rate for prime borrowers.

Government bond yield – 3½% war loan.

Corporate bond yield – F.T. (Financial Times)-Actuaries 20-year debentures and loans.

United States

Day-to-day money rate – effective Federal funds rate.

Treasury bill rate – 3-month Treasury bills.

Representative money-market rate – 3-month prime industrial paper.

Bank deposit rate – 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Bank lending rate to prime borrowers – minimum commercial lending rate of Morgan Guaranty Trust Company. In addition, compensating balances are required.

Government bond yield – Morgan Guaranty 20-year U.S. Government Bond Index.

Corporate bond yield – Morgan Guaranty index of new issue yields for Aa utility bonds with five-year call protection.

II. Euro-dollar rates

Day-to-day money rate – prime banks' bid rate for call money in London.

Representative money-market rate – prime banks' bid rate for 3-month deposits in London.

Bank deposit rate – prime banks' bid rate for 3-month deposits in London.

Bank lending rate to prime borrowers – representative average rate for 3-month loans to prime borrowers.

III. International bonds

Definitions

An *international bond* issue is one sold outside the country of the borrower. It may be either a Euro-bond issue or a foreign bond issue.

A *Euro-bond* issue is one underwritten by an international syndicate and sold principally in countries other than the country of the currency in which the issue is denominated.

A *foreign bond* issue is one underwritten by a syndicate composed of members from one country, sold principally in that country, and denominated in the currency of that country.

New-issue volume

Data include all publicly announced issues, whether publicly or privately placed, but exclude those where the investor is a monetary authority.

Categories of borrower

U. S. companies include both parent companies and their affiliates, either domestic or foreign.

Other companies include private companies domiciled outside the United States and their affiliates.

State enterprises include public agencies.

Governments include central and local governments.

Types of security

Long-term straight debt – 8 years or more.

Medium-term straight debt – 3 to 7 years.

Certificate of deposit – 3 years or more.

Convertible – includes issues with warrants.

Yields

Yields are calculated to the nearest day of maturity. Interest on bonds with annual coupons is discounted semiannually for comparability in computation of yield. This applies with respect to original offering yields as well as secondary market yields.

Secondary market yield indices are simple arithmetic averages of end-of-month yields for groups of selected straight-debt securities. Yield indices for six categories of bonds have been calculated according to borrower and currency. They are based on issues of good-quality, well-known borrowers offered in 1970 and earlier.

The number of issues represented in each of the indices is as follows:

Long-term, U.S. companies, U.S. dollar – ten Euro-bond issues.

Long-term, U.S. companies, German mark – ten Euro-bond issues.

Long-term, U.S. companies, Swiss franc – ten foreign bond issues.

Long-term, European companies, U.S. dollar – ten Euro-bond issues.

Long-term, European companies, German mark – ten Euro-bond issues.

Long-term, governments, U.S. dollar – six Euro-bond issues (governments of Australia, Denmark, and Italy.

STRICTLY CONFIDENTIAL (FR)

January 28, 1972

1971 U.S. BALANCE OF PAYMENTS
(millions of dollars, seasonally adjusted)

		1971			
	Year e/	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4e/
Exports	42,753	11,016	10,706	11,466	9,565
Imports	-45,659	-10,768	-11,767	-12,026	-11,098
TRADE BALANCE	-2,906	+248	-1,061	-560	-1,533
Services, net	+2,838	+922	+1,087	+554	+275
BALANCE ON GOODS & SERVICES	-68	+1,170	+26	-6	-1,258
Remittances & pensions	-1,455	-342	-355	-388	-370
U.S. Gov't. grants & credits 1/	-4,221	-1,108	-1,059	-1,059	-995
Private long-term capital					
U.S. capital	-6,790	-1,724	-1,964	-1,782	-1,320
Foreign capital	+1,681	+722	+116	+71	+772
BALANCE ON CURRENT ACCOUNT AND LONG-TERM CAPITAL	-10,853	-1,282	-3,236	-3,164	-3,171
Private short-term nonliquid capital	-2,826	-384	-394	-1,167	-881
Private liquid capital	-7,806	-3,029	+51	-2,828	-2,000
Errors & omissions	-9,265	-1,018	-2,331	-5,141	-775
OFFICIAL RESERVE TRANSACTIONS BALANCE (ex. SDR allocation	-30,750	-5,713	-5,910	-12,300	-6,827

1/ Includes U.S. Gov't. nonliquid liabilities to other than official reserve holders.
e/ Partly estimated.

Source: Inter-agency balance of payments projection committee, 1/26/72.

STRICTLY CONFIDENTIAL (FR)

January 28, 1972

U.S. BALANCE OF PAYMENTS
(millions of dollars)

	1969	1970	1971e/	1972p/ 1/ Before Exchange Rate Changes	1972p/ 1/ After Exchange Rate Changes	
Exports	36,490	41,980	42,753	45,705	47,260	
Imports	-35,830	-39,870	-45,659	-50,770	-50,325	
TRADE BALANCE	+660	+2,110	-2,906	-5,065	-3,065	(±1,000)
Services, net	+1,351	+1,482	+2,838	+3,300	+3,450	
BALANCE ON GOODS & SERVICES	+2,011	+3,592	-68	-1,765	+385	(±1,000)
Remittances and pensions	-1,266	-1,410	-1,455	-1,510	-1,510	
U.S. Gov't. grants & credits 2/	-3,574	-3,768	-4,221	-4,405	-4,405	
Private long-term capital						
U.S. capital	-4,855	-5,781	-6,790	-5,760	-5,760	
Foreign capital	+4,805	+4,328	+1,681	+4,730	+4,730	
BALANCE ON CURRENT ACCOUNT AND LONG-TERM CAPITAL	-2,879	-3,038	-10,853	-8,710	-6,560	(±1,000)
Private short-term nonliquid capital	-602	-545	-2,826	-100	-100	
Private liquid capital	+8,786	-6,000	-7,806	?	?	
Errors & omissions	-2,603	-1,104	-9,265	?	?	
OFFICIAL RESERVE TRANSACTIONS BALANCE (ex. SDR allocations)	+2,702	-10,688	-30,750	?	?	

1/ Projected 1972 data are presented before and after allowing for exchange rate changes.
2/ Includes U.S. Gov't. nonliquid liabilities to other than official reserve holders.
e/ Partly estimated.
p/ Projected.

Source: Inter-agency balance of payment projection committee, 1/26/72.

January 28, 1972

STRICTLY CONFIDENTIAL (FR)

Table 1

U.S. BALANCE OF PAYMENTS
(In millions of dollars)

	1971				
	QI	QII	QIII	QIV p/	Year p/
1. Change in liabilities, dec., (-)	2,039	5,748	9,185	3,595	20,567
A. To foreign official agencies 1/	4,573	5,624	11,306	6,182	27,685
B. To private foreigners, liquid	-2,534	124	-2,121	-2,587	-7,118
Of which to foreign branches of U.S. banks	(-1,905)	(46)	(-1,630)	(-1,398)	(-4,887)
2. U.S. reserve assets, inc., (-)	862	838	1,373	-8	3,065
Gold stock	109	456	300	1	866
Special drawing rights	2/125	196	150	-3	468
Reserve position in IMF	255	252	851	-8	1,350
Convertible currencies	373	-66	72	2	381
3. Liquid claims, inc., (-)	-341	10	-446	n.a.	n.a.
Balances (deficit -) 2/					
Official settlements, N.S.A. (1A+2)	-5,435	-6,462	-12,679	-6,174	-30,750
" " , S.A.	-5,713	-5,910	-12,300	-6,827	
Liquidity, N.S.A. (1+2)	-2,901	-6,586	-10,558	-3,587	-23,632
" , S.A.	-2,999	-5,871	-9,992	-4,770	
Net liquidity, N.S.A. (1+2+3)	-2,560	-6,596	-10,112	n.a.	n.a.
" " , S.A.	-2,684	-5,961	-9,472	n.a.	n.a.

p/ Preliminary. n.a. = Not available.
1/ Includes IMF gold investment and deposits.
2/ Excludes allocation of $717 million of SDRs by IMF on January 1, 1971.
Note.--Data for fourth quarter and year are partly estimated.

Jan. 27, 1972

~~June 29, 1971~~.

Strictly Confidential (F.R.)

1960-1971

Financing of U.S. Balance of Payments on

Official Reserve Transactions Basis N.S.A.

(In millions of dollars)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971 JAN-NOV. PJ	Out-standing NOV. 30, 1971 PJ
Balance on offic. res. trans. (deficit, -) 1/	-3,403	-1,348	-2,702	-2,011	-1,564	-1,293	270	-3,417	1,641	2,700	-10,688	-27,575	
Financed by changes in:													
U.S. Reserve Assets (increase, -)	2,145	606	1,533	377	171	1,222	568	52	-880	-1,187	3,344	3,073	12,131
Gold Stock	1,703	857	890	461	125	1,665	571	1,170	1,173	-967	787	866	10,206
Net gold sales to or acquisitions from (-)													
United Kingdom 2/	550	306	387	-329	-618	-150	-80	879	835	--	--	-	
France	173	--	456	518	405	884	601	--	-600	-325	--	473	
Other Western Europe	995	448	262	210	301	565	138	101	434	-645	204	323	
Other countries	251	216	-272	-7	-52	23	-51	51	449	13	427	48	
International Monetary Fund	-300	-150	--	--	--	225	-177	-22	3	-10	156	22	
Net sales to domestic industrial users	34	37	57	69	89	118	140	161	52	--	--	-	
Special drawing rights 1/	--	--	--	--	--	--	--	--	--	--	16	468	1,100
Reserve position in IMF	442	-135	626	29	266	-94	537	-94	-870	-1,034	389	1,353	582
Convertible currencies	--	-116	17	-113	-220	-349	-540	-1,024	-1,183	814	2,152	386	243
Sterling	--	--	--	-15	-247	-394	-301	-898	-961	663	1,847	306	-
French francs	--	--	-1	--	-25	25	--	--	-432	235	199	-	-
Other	--	-116	18	-98	52	20	-239	-126	210	-84	106	80	243
Liabilities to for. offic. institutions (dec., -)	1,258	742	1,169	1,634	1,393	71	-838	3,365	-761	-1,513	7,344	24,502	48,910
Liquid:	1,258	742	919	1,673	1,075	-18	-1,595	2,046	-3,101	-517	7,619	24,955	44,547
IMF gold investment and deposits	300	--	--	--	--	34	177	22	-3	-11	-453	-22	544
Marketable U.S. Govt. obligations													
Bills and certificates	569	-340	1,450	-288	145	-748	-450	481	-1,493	-1,554	7,993	11,816	23,332
Bonds and notes	-100	14	-139	466	-58	-20	-245	48	-379	-79	-39	1,452	1,747
Nonmarketable U.S. Treasury securities													
Certificates payable in dollars	--	450	-90	59	-139	380	-420	1,188	-1,006	-88	1,517	4,888	6,739
Certs. payable in for. currencies	--	46	2	-18	-30	--	517	-365	311	-261	-54	636	158
Bonds and notes 3/	--	--	--	703	376	122	-945	455	-10	-163	-126	5,000	5,000
Other short-term 4/	489	572	-304	751	781	214	-229	217	-521	1,639	-1,219	1,185	7,027
Nonliquid:	--	--	250	-39	318	89	757	1,319	2,340	-996	-275	-453	4,363
Non-marketable Treasury bonds and notes													
Payable in dollars	--	--	--	13	191	130	-6	163	1,176	-237	1,049	74	2,554
Payable in foreign currencies	--	--	251	-74	-20	--	-46	250	601	150	-542	-	1,597
Certain other liab. reported by U.S. Govt.	--	--	-1	13	-2	-7	20	39	29	-75	28	-8	38
Reported by U.S. banks 5/	--	--	--	9	149	-34	789	867	534	-834	-810	-519	174

N.S.A. Not seasonally adjusted. p/ Preliminary. e/ Estimate.

1/ Excludes allocations of SDRs by IMF; $867 million on January 1, 1970; and $717 million on January 1, 1971.

2/ For period 1963-1968 includes U.S. share of Gold Pool settlement.

3/ Payable in foreign currencies except the following which are payable in dollars: 1963, $150 million; 1966, -$125 million; ~~and~~ 1969, -$25 million; and 1971, #5,000 million.

4/ Deposits (demand and time), time certificates of deposit, bankers' acceptances and commercial paper.

5/ Principally time deposits and certificates of deposit with original maturities more than one year.

6/ For payment to International Monetary Fund.

January 28, 1972.

Historical Summary of U.S. International Reserve Position 1946-1971
(In billions of dollars)

End of period	Reserve assets			Reserve liabilities		
	Total	Gold 1/	Other	Total	To official institutions in foreign countries	To International Monetary Fund 2/
1946	20.7	20.7	--	3.8	3.8	--
1947	24.0	22.9	1.1	2.2	2.2	--
1948	25.8	24.4	1.4	3.1	3.1	--
1949	26.0	24.6	1.4	3.1	3.1	--
1950	24.3	22.8	1.5	4.6	4.6	--
1951	24.3	22.9	1.4	3.9	3.9	--
1952	24.7	23.3	1.4	5.3	5.3	--
1953	23.5	22.1	1.4	6.2	6.2	--
1954	23.0	21.8	1.2	7.2	7.2	--
1955	22.8	21.8	1.0	7.8	7.8	--
1956	23.7	22.1	1.6	9.0	8.8	.2
1957	24.8	22.9	1.9	8.9	8.7	.2
1958	22.5	20.6	1.9	9.5	9.3	.2
1959	21.5	19.5	2.0	10.6	10.1	.5
1960	19.4	17.8	1.6	11.9	11.1	.8
1961	18.8	16.9	1.9	12.6	11.8	.8
1962	17.2	16.1	1.1	13.6	12.8	.8
1963	16.8	15.6	1.2	15.2	14.4	.8
1964	16.7	15.5	1.2	16.6	15.8	.8
1965	15.5	13.8	1.7	16.7	15.8	.8
1966	14.9	13.2	1.7	15.9	14.9	1.0
1967	14.8	12.7	2.1	19.3	18.3	1.0
1968	15.7	10.9	4.8	18.5	17.4	1.0
1969	17.0	11.9	5.1	17.0	16.0	1.0
1970	14.5	11.1	3.4	24.4	23.8	.6
1971 Mar.	14.3	11.0	3.3	29.0	28.4	.6
June	13.5	10.5	3.0	34.6	34.0	.5
Sept.	12.1	10.2	1.9	45.9	45.4	.5
Nov.	12.1	10.2	1.9	48.9	48.4	.5
Dec.	12.2	10.2	2.0	*52.1	* 51.6	.5

1/ Includes (a) gold sold to the United States by the International Monetary Fund with the right of repurchase, and (b) gold deposited by the IMF to mitigate the impact on the U.S. gold stock of foreign purchases for the purpose of making gold subscriptions to the IMF under quota increases.

2/ U.S. Government obligations at cost value and funds awaiting investment obtained from proceeds of sales of gold by the IMF to the United States to acquire income-earnings assets. Upon termination of investment, the same quantity of gold can be reacquired by the IMF. Beginning 1966 includes gold deposit liability to IMF.

* Strictly Confidential (F.R.); represents preliminary estimate.

Strictly Confidential (F.R.)

Jan. 27, 1972
~~June 29, 1971~~

Changes in Liabilities to Foreign Official Institutions, By Country-1960-1971
(In millions of dollars)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971 p/ JAN.—Nov.	Outstanding Nov. 30, 1971
Total: Increase or decrease (-)	1,258	742	1,169	1,634	1,393	71	-838	3,365	-761	-1,513	7,344	24,502	48,910
Western Europe	742	1,061	91	1,089	851	-499	-1,100	2,549	-2,262	-951	6,533	14,507	28,142
Germany	1,702	-640	-123	559	-745	-587	600	141	671	-1,673	6,151	3,320	10,946
Italy	-469	345	329	-612	589	298	-234	520	-1,162	-252	474	598	1,636
France	-67	412	203	343	70	-615	-294	273	-357	-211	808	1,401	2,330
Belgium	7	164	-118	224	50	-34	-5	167	-384	172	84	255	606
Netherlands	22	-119	39	123	14	-28	8	232	-363	115	338	-391	169
Total EEC	1,195	162	330	637	-22	-966	75	1,333	-1,595	-1,849	7,855	5,183	15,687
Switzerland	-87	157	88	91	179	-192	-47	191	368	-49	249	2,443	3,461
United Kingdom	189	482	-638	22	145	897	-718	480	-402	-128	-444	5,254	5,443
Sweden	9	180	80	-30	141	-22	22	-179	-61	-63	63	272	645
Total major European countries	1,306	981	-140	720	443	-283	-668	1,825	-1,690	-2,089	7,723	13,152	25,236
Other Western Europe	-564	80	231	369	408	-216	-432	724	-572	1,138	-1,190	1,355	2,906
Canada	36	167	723	-58	23	-110	-369	-23	557	-242	1,327	759	3,710
Japan	532	-427	356	78	-46	33	-53	-96	692	72	514	10,022	12,823
Latin America	39	-166	103	146	230	266	-245	270	282	24	-238	-345	1,349
All other countries	-391	107	-103	366	337	354	732	604	-56	-480	-367	-411	2,304
Certain non-liquid liabilities reported by U.S. Government 1/	--	--	-1	13	-2	-7	20	39	29	75	28	-8	38
IMF Gold investment and deposits	300	--	--	--	--	34	177	22	-3	-11	-453	-22	544

1/ Not reported by country.

p/ Preliminary.

February 4, 1972

To: Mr. Ralph C. Bryant

From: Samuel Pizer

Subject: Chairman's Statements on U.S. Balance of Payments in 1971.

I have looked through the Chairman's statements of May 19, 1971 before the Senate Committee on Banking, Housing and Urban Affairs, and of June 30, 1971 before the Subcommittee on Foreign Economic Policy of the JEC.

The May testimony took the line that although the underlying imbalance was large it was nowhere near large enough to have created a crisis -- so that the focus was placed on short-term capital flows and the events leading to the German float on May 10. The conclusion stated that there was no reason for gloom -- looking ahead -- and cites several factors that would be helpful. These factors included:

a) Relatively good price performance, especially if a stronger incomes policy is adopted here.

b) Rising investment income.

c) Foreign purchases of U.S. stocks.

d) Reductions in military expenditures.

e) The fact that the bulk of our short-term capital flows was behind us because the branch liabilities were largely liquidated.

Finally, there was mention of the need for surplus countries to see their balances change.

In the June statement, much more stress was put on the basic imbalance, though it was suggested that it had not broken out of the

range of recent years. Again emphasis was put on the fact that the underlying imbalance had been overshadowed by short-term capital movements. By June 30 the fact that the trade balance had been in deep deficit in April and May was known (at the time of the May 19 speech only the January-March data were available, still showing small surpluses) and the statement stresses our trading difficulties.

Looking ahead, the statement mentioned much the same list of favorable elements cited in May, but took the view that since a repetition of large capital outflows was unlikely the deficit should subside. However, the statement also says (page 13) that policies followed since 1958 were insufficient to restore equilibrium and that decisive steps needed to be taken to correct the situation. Main emphasis was put on price stability and the conviction that specific policies to moderate price and wage increases were necessary.

Stress was put on the need for multilateral actions including (1) reduce differences in credit conditions, (2) investment outlets for official reserve holders, (3) further role for the SDR (4) improve the adjustment process.

In connection with the last point, the need for more flexible exchange rates and wider margins is stressed, for the first time, I believe. The closing of the statement rejects complacency but emphasizes the fundamental strength of the United States.

In the light of what has happened since June 30, how do these statements stand up?

1) They were among the first to point to the worsening underlying condition of the trade balance and to warn that new, decisive policies were necessary. But, in common with other analyses being made at that time, the speed and depth of the deterioration were not yet fully appreciated.

2) At the time, there was a general feeling that after the German and other exchange rate changes of May the flow of short-term capital would be stabilizing, giving a breathing space for adjustment. In fact, in June there was an official settlements surplus of over $1 billion. However, once the DM rate moved the market began to focus on other currencies that had not appreciated, and a self-reinforcing speculative splurge ensued. This went far beyond the final liquidation of U.S. bank liabilities to branches noted in the statements, and involved huge increases, largely unrecorded, of U.S.-owned assets abroad.

In short, the statements were quite right to point out that the extent of the underlying U.S. imbalance in the first half of the year was being exaggerated by short-term capital flows, but wrong in assuming that speculation had run its course.

3) The June statement in particular mentioned pointedly the inadequacy of conventional monetary and fiscal policies for dealing with

present price and wage problems, and advocated strongly that specific actions should be taken.

4) The June statement for the first time, I believe, contained a strong plea for exchange rate adjustments. In view of the exchange crisis that had just occurred, and the delicacy in any case in advising other countries to change their exchange rates, it is difficult to see how the statements could have been any stronger or more pointed on that subject.

5) The June statement contained the leading elements of the August 15 actions -- specific action on prices and wages and need for exchange rates to change.

6) The principal failure of judgment about the underlying situation is that the list of factors mentioned that would be helpful is very largely a list of factors that will be helpful in the longer run, but could not be expected to yield benefits in the next year or two. This leads to a more optimistic near-term prospectus than was justified even in the light of what was known on June 30. However, at the time it was impossible to foresee that the situation would become even more unstable when the news of deeper trade and balance-of-payments deficits here -- so much in contrast with the growing surpluses and reserve accruals of Germany and Japan in particular -- whipped up a new wave of speculation. Moreover, even if such a course of events had been expected with a fairly high degree of probability the Chairman was scarcely in a position to predict it and precipitate a panic.

cc: Messrs. R. Solomon and Hersey
Mr. Cardon, Mr. Holland

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Prepared before U.K. decision to float

Office Correspondence

Date June 22, 1972

To Mr. Bryant

From Larry Promisel

Subject: Outline of Major Factors Affecting the Outlook for Sterling

I. There has been much concern recently about the viability of the present sterling exchange rate. This concern, reflected in statements by the press and by public figures, and, in turn, in market pressure on sterling, is based essentially on three factors:

A. the outlook for wages and prices,

B. the outlook for the balance of payments, and

C. U.K. entry into the E.C., scheduled for January 1, 1973.

II. The outlook for wages and prices has worsened.

A. Wage increases -- in the wake of the miner's settlement in February -- have been accelerating, after slowing down around the turn of the year (see Table, lines 1 and 2).

B. The outlook for wage settlements is now less favorable, partly because of the recent acceleration, but also because the new National Industrial Relations Court received major setbacks last week.

1. It was hoped that the Court would put teeth into the Government's Industrial Relations Act, thereby lessening the risk of labor disruption and tending to moderate the increase in wage settlements.

2. The Court recently ruled that a union is responsible for the actions of its shop stewards. It imposed fines totalling £55,000 on the Transport and General Workers' Union for contempt in not stopping its stewards from blocking certain road haulage companies.
3. This decision was thought by some to mark the beginning of a new -- and significantly better -- era of labor relations.
4. This decision was overruled by a Court of Appeals on June 13.
5. Another recent decision by the Industrial Relations Court, to imprison three London dock workers for ignoring an injunction to cease picketing, was overruled by the Court of Appeals on June 16.

C. Recently, price rises have been accelerating (see Table, lines 3 and 4).

D. The outlook for prices has worsened,
   1. because of the outlook for wages (see above), and
   2. the money supply has been growing at rates thought by many to be excessive (see Table, line 5).

E. A major uncertainty in the whole wage and price picture is the likelihood of formal price and income controls. So far, Heath has categorically denied that such an action is

possible, and has pinned his hopes instead on an extension -- in modified form -- of the voluntary restraint policy of the Confederation of British Industries.

III. The balance of payments surplus, which fell in the first quarter (see Table, lines 6-9), is expected to be increasingly eroded over the next year or two.

A. The balance of payments picture reflects the sharp deterioration already observed in the visible trade balance (see Table, lines 10-12).

1. The competitiveness of British goods has declined (see Table, lines 13-15), and will decline further if the unfavorable outlook for prices proves to be correct.

2. Economic activity in the U.K. is expected to pick up markedly. Given the large cyclical response of import demand previously experienced in the U.K., this upturn in activity is likely to aggravate the U.K. trade position significantly.

B. It should be emphasized that the U.K. current account is still roughly in balance, with the surplus on invisibles offsetting the visibles deficit, and that the U.K. reserve position is strong. A serious basic balance of payments deficit is not really expected, before 1973, at the earliest.

IV. U.K. entry into the Common Market may influence the timing of a devaluation of sterling.

A. If a devaluation of sterling within a year or two appears inevitable, then it could be argued that it would be easier -- and, therefore, better -- to devalue before entry, rather than after.

B. Note: Entry into the Common Market is also expected to have an adverse impact on the U.K. balance of payments, at least initially, as the cost to Britain in agriculture is expected to outweigh any gains in the industrial sector in the short run.

UNITED KINGDOM: SELECTED STATISTICS

	1971				1972					
	Q1	QII	QIII	QIV	QI	Jan.	Feb.	Mar.	Apr.	May
Percentage change over previous period at annual rate.										
1. Hourly wage rates	+16.1	+8.2	+10.2	+13.5	+13.9	+11.9	+1.8	+5.9	+6.7	n.a.
2. Average hourly earnings (SA)	+ 8.2	+9.8	+11.6	+ 7.3	+ 9.1*	+10.7	*	+20.7*	+28.5	n.a.
3. Retail prices	+10.9	+14.2	+ 5.6	+ 5.2	+ 6.1	+12.7	+5.4	+ 4.5	+10.7	+5.9
4. Wholesale prices (manufactured products, home market sales)	+ 8.8	+ 8.6	+ 5.8	+ 2.9	+ 3.8	+ 4.7	+3.8	+ 1.9	+ 6.6	+7.6
5. Money Supply M_3 (SA)	+11.2	+ 6.7	+10.0	+19.3	+21.9	+21.9	+3.0	+30.4	+25.6	n.a.

*As industrial activity was severly disrupted by restricted electricity supplies, no enquiry was held in February. The changes are therefore computed with January and March data only.

UNITED KINGDOM: SELECTED STATISTICS (cont.)

	1971					1972					
	Year	Q1	QII	QIII	QIV	QI	Jan.	Feb.	Mar.	Apr.	May
Balance of Payments (£ million)											
6. Current balance	+979	+51	+338	+331	+259	-50					
7. Investment and other capital flows	+1858	+626	+306	+474	+452	+54					
8. Balancing item	+391	+296	-10	-137	+242	+53			N.A.		
9. Total currency flow	+3228	+973	+634	+668	+953	+57					
10. Exports (f.o.b., SA)	8880	1995	2286	2322	2280	2214	742	751	721	750	751
11. Imports (f.o.b., SA)	8580	2061	2172	2145	2205	2325	741	784	804	800	794
12. Visible balance (SA)	+300	-66	+114	+177	+75	-111p	+1	-33	-83	-50	-43
Unit Values (1961 = 100)											
13. Exports	148	143	146	149	152	155	154	154	156	156	
14. Imports	136	133	137	138	138	139	139	138	139	139	
15. Terms of trade	108	108	107	108	111	112	111	112	113	113	

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 23, 1972

To Mr. Ralph Bryant

Subject: The EEC and Sterling

From Charles Siegman

1. General features of intervention, interim financing procedures and settlements arrangements under system of narrower EEC exchange rate margins.

A. Intervention procedures

a. each central bank intervenes on its own exchange market. A special telephone system links participating central banks, providing them the means to consult each other on a regular basis and whenever necessary

b. intervention in Community currencies is required when the 2.25 per cent fluctuation limit between the strongest and weakest EEC currency is reached "snake"

c. intervention in dollars is required when a Community parity or central rate reaches ±2.25 per cent against the dollar "tunnel"

d. intervention within these bands requires Community agreement

B. Interim financing

a. the positions built-up in the process of maintaining the narrow intra-EEC bands will be covered by a swap system which would provide exchange guarantees and a uniform

interest rate -- equal to the average of participating central banks discount rates -- on the balances.

b. there are no limits to the interim financing arrangements and the financing is unconditional

C. Monthly bilateral settlement arrangements

a. a debtor country could attempt to repurchase strongest currency for repayment of swap if market permitted during month

b. settlement of net creditor-debtor positions among central banks as a result of their intervention in EEC currencies will take place on the final business day of the month following date of intervention

c. a debtor central bank may request a three month extension from its settlement date

d. the debtor country may first use for settlement any balance of the creditor's currency it might be holding.

e. for the remainder, the reserves used for settlement should be in proportion to the composition of the debtor country's reserve position at the end of the month preceding the settlement date. For this purpose, reserves are classified into two categories: gold and holdings having a gold link and foreign exchange.

f. settlement in other forms requires the mutual consent of the debtor and creditor countries.

2. EEC contingency plans regarding pressure on the operation of narrower intra-EEC bands

There do not appear to have been any contingency plans by the EEC Commission or EEC Council of Ministers in anticipation of possible difficulties in managing the narrower intra-EEC margins. When the narrowing of intra-EEC margins was instituted April 24th, it was considered to be somewhat experimental, with a number of technical and operational details to be ironed-out as the central banks would acquire experience. (As events during the past 10 days have shown, in fact, the mechanisms with which the narrower EEC bands were attempted to be maintained faced a variety of technical difficulties.) No serious problems -- such as having one EEC currency showing persistent weakness while other EEC currencies showing persistent strength - were envisaged, since at the start the EEC currencies were safely inside the 2.25 per cent "snake" band and the international financial markets were experiencing relative calmness. If there was a European currency which was considered to be a potential candidate for showing divergent exchange rate developments and thereby placing pressure on the narrower EEC bands, it was thought to be the lira. An indication that EEC officials did not consider sterling to be a possible

source of tension for the operation of narrower intra-EEC margins arrangements may be drawn from the fact that the United Kingdom was invited to participate by the EEC prior to official entry into the EEC. There was no need to do so if difficulties were anticipated. Moreover, the United Kingdom, not yet being an EEC member, would not be entitled to draw on the $1 billion EEC automatic short-term swap network established in 1970 and on the $2 billion medium-term credit facility which was approved in 1971 and to become effective this year.* Thus, no thought that a serious test of the effectiveness of the operation of the EEC narrow margins was expected so soon, nor of the magnitude of intervention as has occurred, and not involving sterling at this time. The EEC therefore has been caught unprepared for this immediate crisis.

3. EEC capital controls.

The EEC Council of Ministers' resolution to move towards economic and monetary union which was approved on March 21, 1972 -- of which the narrowing of intra-EEC margins was only one element -- included a paragraph dealing with Community action to counter destabilizing capital flows.

> "5) So as to discourage excessive flows of capital and to neutralize their negative effects on internal liquidity, the Council adopts the directive proposed by the Commission on June 23, 1971, concerning the regulation of international financial flows and the neutralization of their undesirable effects on internal liquidities."

*Although these credit facilities have not yet been used by EEC members, they were considered to provide support to the operation of the narrow intra-EEC margins.

According to the June 1971 proposals, in order to counter capital inflows or neutralize their impacts Community central banks were to be given such weapons as the suspension of interest payments on foreign deposits, curbs on external borrowing by banks or business firms and controls on non-resident purchases of securities. Since March no significant progress appears to have been made in devising such uniform capital controls. Nor has there been agreement on individual country application of specific capital control measures. For the time being capital control measures are still being instituted on a unilateral basis. Although recent reports suggest that the Germans may be mellowing somewhat with regard to their previous strong opposition to exchange and capital controls, the fundamental differences between France and Germany regarding the desirability and form of such controls remains. It does not appear likely that the EEC is ready at this juncture to adopt uniform capital control measures. There may be a greater likelihood for EEC countries again to adopt a joint position to regulate short-term capital movements, with each country selecting its own instruments.

4. Immediate future of narrower intra-EEC margins.

Although the EEC has incentives -- mainly political and psychological -- to make an effort to continue operating the narrower intra-EEC margin arrangements once the United Kingdom has departed from the grouping, there is likely to be mounting pressure on the

operation of the narrower intra-EEC margins in the weeks ahead. If the divergence between the lira and other EEC exchange rates widens, a new pressure point may be building up. It is doubtful whether Germany, France, Belgium and the Netherlands would be willing to extend credit to Italy so soon after the experience of these past 10 days. If such pressure points do arise, it is safe to conclude that the experiment to narrow intra-EEC margins will be suspended.

5. Joint EEC float?

It would appear highly unlikely for the EEC countries to reach agreement at this time to adopt a joint Community float against the dollar. The Netherlands would object since she considers the December 1971 revaluation of the guilder to have been excessive, and would not countenance a further appreciation. Italy also would oppose a joint float since she would not want to see the lira appreciate, given the limited confidence in the strength of the lira owing to political instability and labor difficulties. France would likely strenuously oppose a joint float on the grounds that such an action would provide the United States total freedom to pursue its external and internal policies at the "expense" of the rest of the world. In addition, France would not like to see any appreciation of the franc. Only Germany might be likely to look favorably on a joint float, but it is doubtful whether she will be able to convince her partners.

cc: R. Solomon, R. Sammons, R. Gemmill, A. Hersey, H. Junz, and D. Roxon

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 23, 1972

To Mr. R. Bryant

From Helen B. Junz

Subject: Likely choice of option for exchange rate regime among Common Market countries.

If and when foreign exchange markets reopen on Tuesday next week, it is most likely that the Common Market currencies, with exception of sterling, will be trading according to the rates and rules established at the Smithsonian agreement last December. Strains on the rates are likely to be warded off by exchange controls of some sort.

A common float of the six against the dollar does not seem a really viable option at the moment. The French, the Italians and probably the Belgians would not wish to see their rates appreciate against the dollar and, philosophically, would prefer exchange controls of some sort in any event. The Germans and the Dutch, who might wish to avoid going the road of controls, have little leverage at the moment. Neither would feel that they can afford to appreciate against the other Common Market currencies, so that the option of floating by themselves, as they did last year, is really not open to them now. Without this leverage, the chance of getting the other Common Market countries to agree to a common float is small. In addition, it is not even clear that the Germans, at this point, would not consider some control regime the lesser of two evils. They might find further appreciation of the snake against the dollar tolerable, if it were small, but an appreciation against the yen would probably be thought to be intolerable.

Furthermore, an upward move of the E.E.C. snake would put great pressure on the Italians. The lira is at the lower limit of the E.E.C. band and rather than float up with the other E.E.C. currencies, the Italian authorities might wish to take the opportunity to move the lira rate down. The dilemma faced by the E.E.C. governments, thus, is that of keeping the currencies of the Six within the E.E.C. band without creating further pressure on the lira. Still, it seems that the status quo, buttressed by exchange controls, is the most likely outcome at the moment.

To some extent holding to the Smithsonian agreement by all currencies except sterling may well be the best that can be expected. The short-term gain of a lessening of pressure on the dollar associated with a common float of the E.E.C. currencies might be useful, but a coming apart of the Smithsonian agreement under market pressure, and before any real negotiation or reform has started, might be counterproductive in the long run. This would be so, even if a further depreciation of the dollar rate were thought to be desirable.

The rate at which sterling is likely to settle in a free float depends upon the attitude the British government takes towards the exchange crisis. If it is taken that the current wave of speculation reflects only the conviction that the current sterling rate vis-à-vis the Common Market currencies is not realistic and would have to be revised at some time around the forthcoming E.E.C. summit scheduled for October next, market reaction may well drive sterling below $2.50. However, if it is taken that current concerns were triggered also by the view that relative rates of inflation tend to make the current sterling rate unrealistic and measures are taken to moderate inflationary trends, sterling may hold at around $2.50. It would seem that the latter course of action is the more appropriate, particularly because the fact that a $2.40 rate would

put considerable pressure on the cost of living provides leverage for the adoption of, and compliance with, incomes policy measures. However, a managed float as a holding operation may be successful in the short run and possibly is the more likely course of action to be expected at this time.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 23, 1972

To Mr. Ralph Bryant

Subject: U.K. Balance of Payments

From Larry Promisel

A summary of the U.K. balance of payments is presented in Table 1. Since the British no longer provide a breakdown of capital flows into long-term and short-term flows, the best measure of the balance of payments is the "Total Currency Flow." On the basis of this, the U.K. balance of payments surplus deteriorated sharply from a quarterly average of £807 million in 1971 to only £57 million in the first quarter of this year.

This deterioration can be traced to several elements. A large part of it reflected the absence of speculative inflows, which had been very sizeable in 1971 -- particularly in the fourth quarter.

U.K. private investment overseas was the largest capital outflow in the first quarter, amounting to £360 million, compared to a quarterly average outflow last year of £190 million. About half of the first quarter outflow was direct investment. Portfolio investment -- almost entirely by financial institutions investing in the United States and the E.E.C. -- was about £120 million, compared to a quarterly average of about £10 million in 1971. However, this portfolio investment was financed by foreign-currency borrowing by U.K. banks.

The most significant element in the deterioration of the balance of payments was the current account, which showed a surplus of only £30 million (seasonally adjusted) after showing quarterly surpluses last year averaging almost £250 million. This, in turn, reflects a worsening of the balance on visible trade, although there was also a slight reduction in the surplus on invisibles.

The recent trend of U.K. trade is presented in Table 2. Exports this year are actually lower than they were the last three quarters of last year, both in value terms and, more markedly, in volume terms, since there has been a continuing improvement in the terms of trade. This poor export performance has frequently been explained by noting that (1) world trade has been growing more slowly in recent quarters, and (2) the U.S. dock strike and the U.K. coal miners' strike caused disruption to exports. However, (1) world trade has not actually declined, even in real terms, as have U.K. exports, and (2) although the effects of the power shortage during the miners' strike is clearly seen in the March export figure, the fact that the recovery of exports since then has been disappointing (the April-May average was less than the average of the last three quarters of 1971), suggests that something else -- probably a decline in competitiveness -- is the explanation. The expectation that prices in the United Kingdom are going to rise faster

Table 1. U.K. Balance of Payments
(£ millions)

	1969	1970	1971	1971				1972
				1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
				Seasonally adjusted				
A. Current account								
Visible trade	- 141	+ 7	+ 297	- 66	+ 113	+ 176	+ 74	- 118
Invisibles	+ 584	+ 604	+ 682	+ 166	+ 170	+ 178	+ 168	+ 148
CURRENT BALANCE	+ 443	+ 611	+ 979	+ 100	+ 283	+ 354	+ 242	+ 30
				Not seasonally adjusted				
B. Currency flow and official financing								
Current balance	+ 443	+ 611	+ 979	+ 51	+ 338	+ 331	+ 259	- 50
Investment and other capital flows	- 97	+ 578	+ 1,858	+ 626	+ 306	+ 474	+ 452	+ 54
Balancing item	+ 397	+ 98	+ 391	+ 296	- 10	- 137	+ 242	+ 53
TOTAL CURRENCY FLOW	+ 743	+ 1,287	+ 3,228	+ 973	+ 634	+ 668	+ 953	+ 57
Allocation of special drawing rights (+)	-	+ 171	+ 125	+ 125	-	-	-	+ 124
Gold subscription to IMF (-)	-	- 38	-	-	-	-	-	-
Total of above	+ 743	+ 1,420	+ 3,353	+ 1,098	+ 634	+ 668	+ 953	+ 181
Financed as follows:								
Net transactions with overseas monetary authorities	- 699	- 1,295	- 1,817	- 894	- 508	- 92	- 323	+ 10
Official reserves (drawings on, +; additions to, -)(1)	- 44	- 125	- 1,536	- 204	- 126	- 576	- 630	- 191

(1) From 23 August 1971, valued in sterling at the rates at which transactions occurred (see Technical Note in December 1971 issue of Economic Trends).

Source: H. M. Treasury

Table 2. UNITED KINGDOM: MERCHANDISE TRADE
(monthly averages)

	1971				1972					
	Q1	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.	May
Value (£ millions; balance of payments basis; SA)										
Exports	665	762	774	760	740	741	756	721	750	751
Imports	687	724	715	735	779	743	790	804	800	794
Balance	-22	+38	+59	+25	-39	-2	-34	-83	-50	-43
Volume (1961 = 100; SA)										
Exports	150	169	167	162	158	159	162	152	160	n.a.
Imports	162	164	160	164	172	163	175	177	179	n.a.
Unit Value (1961 = 100; NSA)										
Exports	143	146	149	152	155	157	154	156	156	n.a.
Imports	133	135	137	137	139	139	138	139	139	n.a.
Terms of Trade	108	108	109	111	112	112	112	112	112	n.a.

Source: Central Statistical Office

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 23, 1972

To Mr. Bryant

Subject: Italian Balance of Payments

From R. H. Mills, Jr.

Italy's balance of payments has been strong for nearly two years, because of a large surplus on current account. In 1972 to date the overall balance has weakened because of larger capital outflows that were probably generated by political uncertainties. The outlook is for continued large surpluses on current account together with the possibility that intensified labor troubles and political weaknesses might further raise the level of capital outflows.

In 1971 the recorded overall external surplus was $740 million (after a downward adjustment of $40 million to eliminate the effect of exchange rate changes on the dollar value of official reserves). But this far understates the "true" surplus because it reflected $780 million of advance debt repayments by Italian state enterprises that were made at the suggestion of the authorities (although they could also have been justified by interest rate considerations as well). Adjustment for advance debt repayments gives an overall surplus last year of about $1.5 billion.

The current account was in surplus by no less than $1.9 billion on a transactions basis (more than double the 1970 figure). Balances on trade, services, and transfers all increased last year.

than prices elsewhere implies that a turnaround in U.K. export performance is unlikely (in the absence of a devaluation). We think this is true in spite of the beneficial impact on U.K. exports expected from the forecast upturn in economic activity in Britain's trading partners.

Imports in the United Kingdom have been rising strongly. As in the case of exports, some of this can be attributed to the miners' strike, which resulted in sharply higher imports (notably of coal) in February and, perhaps, in March. But, again, the maintenance of high levels of imports in April and May suggest that this trend is quite fundamental, related largely to the upturn in U.K. economic activity.

In sum, the total currency flow in the first quarter would have been somewhat higher if adjustment to the trade balance were made for strike effects, although cyclical adjustment to the trade balance would probably more than offset the strike effects. (That is, adjusted both for cyclical conditions in the United Kingdom and abroad and for the strikes, the trade deficit might have been larger.) On the other hand, the balance of payments surpluses in 1971 were inflated by speculative inflows. Nevertheless, although the raw data may overstate the case, we conclude that there has been a significant, basic deterioration in the U.K. balance of payments position.

Exports rose 13 per cent and imports 7 per cent in value, but in volume terms imports did not rise at all, a development that underscored the failure of aggregate demand in Italy to rise more than minimally (real GNP was up 1-1/2 per cent). Capital flows other than the aforementioned debt prepayments, and errors and omissions, produced a net outflow of $335 million on a transactions basis. (Trade credits are included here, but excluded from the figures on an exchange record basis.)

The first four months of this year show a $190 million overall deficit; there would have been a surplus of $130 million had there not been further debt prepayments in January-February. But that would have been less than the surplus of $370 million in the first four months of last year; and there was a deficit in March-April this year of $20 million compared with a $150 million surplus a year ago.

Net capital movements on an exchange record basis produced a $275 million net outflow in the first quarter that was additional to the debt prepayments, compared with a quarterly average net inflow (on an exchange record basis) last year of nearly $200 million. Close to two-thirds of this swing is accounted for by an increase in capital exports financed by exports of Italian banknotes. The trade balance, seasonally adjusted, changed little in either the fourth quarter of 1971 or the first quarter of 1972.

The current account should continue to be very strong, perhaps even get stronger. At present it seems doubtful that the level of economic activity in Italy in the near future will be rising as fast as in Italy's main trading partners taken as a whole. In April the OECD Secretariat projected a small rise in Italy's seasonally-adjusted current account surplus in the first half of 1972, then no change at all in the next two half-years.

As you know, the Italian economy is in a state of malaise, as was well illustrated by Gov. Carli's gloomy remarks at the Bank of Italy annual meeting May 31. Since 1969 unit labor costs have advanced enormously, profits have shrunk, the business community is pessimistic, and private investment is in a slump. A new round of crucial wage negotiations is about to start. If labor is as demanding as it was in 1969, the situation could get worse, particularly since government leadership is quite weak. While the future is very murky, the possibility of a sizeable step-up in the exodus of Italian capital seems a real one.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 23, 1972

To Mr. Ralph C. Bryant

Subject: May Trade Figures.

From Daniel Roxon

The official trade data for May was about the same as given to you earlier. The May deficit is estimated to be $7 billion at an annual rate, balance of payments basis. Though the May deficit is still high, about equal to the rate in the first quarter, it is quite a bit below the $8-3/4 billion deficit of April. The drop in the deficit in May resulted from an increase in exports, principally in foodstuffs and aircraft; imports were virtually unchanged from the high April level.

Trade Data, Balance of Payments Basis
(millions of dollars, seasonally adjusted annual rates)

	Exports	Imports	Balance
1971 - Annual	42.8	45.5	-2.7
Q-1	44.1	42.9	+1.0
Q-2	42.8	46.8	-4.0
Q-3	45.9	47.8	-1.9
Q-4	38.3	44.2	-6.0
1972 - January	50.0	55.2	-5.2
February	45.5	52.8	-7.3
March	46.2	53.8	-7.6
1Q	47.2	53.9	-6.7
April	44.5	53.3	-8.7
May	46.5	53.5	-7.0

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 28, 1972

To Mr. Gemmill

Subject: May Balance of Payments

From M. Garber

Data

STRICTLY CONFIDENTIAL

Preliminary balance of payments data for May indicate that there was a surplus of $542 million on the official reserve transactions basis and a surplus of $81 million on the liquidity basis. For the three weeks ended June 21 there were deficits of $126 million on the official reserve transactions basis and $381 million on the liquidity basis.

Bank-reported claims on foreigners declined $234 million during May; short-term declined $336 million while long-term increased $102 million.

Chairman Burns

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 26, 1972.

To Mr. Ralph C. Bryant

Subject: U.S. Merchandise Trade --

From Sujin Shin

May 1972.

In May, the U.S. trade deficit showed a moderate decline from the very high deficit of April. The deficit in May was $7.3 billion at a seasonally adjusted annual rate (balance-of-payments basis), compared with $8.7 billion in April. The drop in the deficit in May resulted from a substantial increase in exports while imports rose only slightly. For April-May combined the trade deficit was $8.0 billion at an annual rate, considerably higher than the first quarter deficit of $6.7 billion.

Imports in May were $53.7 billion at an annual rate (balance-of-payments basis), about 0.8 percent above the April level. Imports, however, have varied within a narrow range in the last three months. The rise in imports from April to May was largely in imports of foods, and industrial supplies and materials (especially steel). These advances were somewhat offset by the declines in imports of consumer goods, and automotive vehicles and parts. Arrivals of cars from Canada fell sharply from the record April level; the value of imports of cars from other sources, however, advanced in May.

Exports in May were $46.4 billion at an annual rate (balance-of-payments basis), a rise of 4.3 percent over April. The moderate increase in May reflected gains in agricultural products (foodstuffs, tobacco) and large deliveries of civilian aircraft. Both of these categories were at an exceptionally high level in May. Exports of machinery showed little change from April to May.

U.S. Merchandise Trade, Balance of Payments Basis
(billions of dollars, seasonally adjusted annual rates)

	1971	1971				1972		
	Year	1Q	2Q	3Q	4Q	1Q	Apr.	May
Exports	42.8	44.1	42.8	45.9	38.3	47.2	44.5	46.4
Imports	45.5[r]	42.9[r]	46.9[r]	47.8[r]	44.2[r]	53.9[r]	53.3[r]	53.7
Balance	-2.7[r]	+1.2[r]	-4.0	-1.9[r]	-6.0[r]	-6.7[r]	-8.7	-7.3

Note: Details may not add to totals because of rounding.

Table 1

U.S. Merchandise Trade
(billions of dollars, seasonally adjusted annual rates)

	Census Basis			Balance of Payments Basis*		
	Exports	Imports	Balance	Exports	Imports	Balance
1963	22.5	17.2	5.3	22.3	17.0	5.2
1964	25.8	18.7	7.1	25.5	18.6	6.8
1965	26.7	21.5	5.2	26.4	21.5	4.9
1966	29.5	25.6	3.9	29.3r	25.5	3.8r
1967	31.0	26.9	4.1	30.6r	26.8	3.8r
1968	34.1	33.2	0.8	33.6	33.0	0.6
1969	37.3	36.0	1.3	36.4r	35.8	0.6r
1970	42.7	40.0	2.7	42.0	39.8r	2.2r
1971	43.6	45.6	-2.0	42.8	45.5r	-2.7r
1968 I	32.1	31.5	0.6	31.8	31.3	0.5
II	33.9	32.6	1.3	33.5	32.5	1.0
III	36.1	34.2	1.9	35.5	34.3	1.2
IV	34.3	34.1	0.2	33.5	33.8	-0.3
1969 I	30.5	30.6	-0.2	30.0	30.4	-0.3
II	39.1	38.4	0.7	38.0	38.3	-0.3
III	39.6	37.3	2.3	38.4	37.1	1.3
IV	40.1	37.8	2.3	39.6	37.6	2.0
1970 I	41.3	38.9	2.4	40.9r	38.9	2.0r
II	43.2	39.5	3.7	42.3	39.3	2.9r
III	43.4	40.1	3.3	42.8	39.9r	2.9r
IV	43.0	41.3	1.7	41.8	41.1r	0.8r
1971 I	45.0	43.2	1.8	44.1	42.9r	1.2r
II	43.9	47.0	-3.2	42.8	46.9r	-4.0r
III	46.7	47.9	-1.2	45.9	47.8r	-1.9r
IV	38.9	44.2	-5.3	38.3	44.2r	-6.0r
1972 I	47.7	53.7	-6.0	47.2	53.9r	-6.7r
1971 May	45.4	47.8	-2.4	44.1r	47.6r	-3.5r
June	43.9	48.2	-4.3	43.2	48.1r	-5.0r
July	41.9	45.5	-3.6	41.1	45.4r	-4.3r
August	44.1	47.2	-3.1	43.4r	47.1r	-3.7r
September	54.1	50.9	3.2	53.3r	50.9	2.4
October	32.5	42.4	-9.9	31.7r	42.3r	-10.6r
November	37.9	40.6	-2.7	37.3r	40.5r	-3.2
December	46.3	49.6	-3.3	45.7r	49.8r	-4.1r
1972 January	50.7	54.5	-3.8	50.0r	55.2r	-5.2r
February	45.7	52.8	-7.2	45.5	52.8r	-7.3r
March	46.7	53.7	-7.0	46.2r	53.8r	-7.6r
April	45.1	53.5	-8.4	44.5	53.3r	-8.7r
May	47.0	53.6	-6.6	46.4	53.7	-7.3

*The monthly balance of payments figures are only rough estimates and are subject to considerable revision.

r = Revised.

Note: Details may not add to totals because of rounding.

Table 2

U.S. Exports of Domestic and Foreign Merchandise
by End-Use Commodity Categories
Including Department of Defense Shipments
(Seasonally adjusted; annual rates)
billions of dollars

	1971		1972		
	1st Half	2nd Half	1st Qtr.	Apr.	May
Foods, feeds, and beverages	6.1	6.1[r]	7.0[r]	6.1	7.1
Industrial supplies and materials	13.3[r]	12.2	13.7[r]	12,2	12.8
Capital goods excl. automotive	15.2	14.9[r]	16.5[r]	15.7	16.1
Civilian aircraft and parts	(3.4)	(3.1)	(3.3)	(2.7)	(4.0)
Machinery	(11.6)	(11.6)	(12.9)[r]	(12.5)	(12.4)
Automotive vehicles and parts	4.5	4.4	4.8[r]	4.9	5.1
To Canada	(3.2)	(3.2)[r]	(3.6)	(3.9)	(4.0)
To other	(1.2)	(1.2)	(1.2)	(1.1)	(1.1)
Consumer goods	2.7	2.9	3.3[r]	3.2	3.3
All other	3.2	2.9	2.8[r]	3.3	3.1
Total	45.0	43.4	48.2	45.7	47.6
Agricultural commodities	8.0	7.6	9.1	7.7	8.7
Nonagricultural commodities	36.9	35.8	39.2[r]	38.0	38.9

U.S. General Imports
by End-Use Commodity Categories
(Seasonally adjusted; annual rates)
billions of dollars

	1971		1972		
	1st Half	2nd Half	1st Qtr.	Apr.	May
Foods, feeds, and beverages	6.5	6.3	7.3[r]	6.5	6.9
Industrial supplies and materials	16.6	17.3	18.9[r]	18.5	19.2
Fuels and lubricants	(3.3)	(4.1)	(4.3)	(4.8)	(4.5)
Iron and steel	(2.9)	(2.8)	(2.7)	(2.2)	(2.9)
Captial goods excl. automotive	4.1	4.1	5.3[r]	5.2	5.2
Augomotive vehicles and parts	7.5[r]	8.4[r]	8.9	10.2	9.5
From Canada	(4.4)[r]	(4.7)[r]	(5.0)	(6.3)	(4.9)
From other	(3.1)	(3.7)	(3.9)	(4.4)	(4.6)
Consumer goods	8.7	8.4	11.5	11.5	10.4
Nondurable goods	(3.3)	(3.3)	(4.2)[r]	(3.9)	(3.6)
Durable goods	(4.8)	(4.6)	(6.5)	(6.9)	(6.0)
Unmanufactured goods	(0.6)	(0.5)	(0.7)[r]	(0.7)	(0.7)
All other	1.6	1.5	1.8	1.8	1.7
Total	45.1	46.0	53.7	53.5	53.6

Note: (1) Details may not add to totals because the commodity sections were independently adjusted for seasonal variations.
(2) Totals will not correspond to the Census basis totals in Table 1 because Department of Defense Military Grant-Aid shipments are included in exports of domestic and foreign merchandise in Table 2.

Table 3

Imports as Per Cent of GNP

(billions of current dollars)

Annual	GNP	Imports[1/]	Percent
1961	520.1	14.52	2.79
1962	560.3	16.22	2.89
1963	590.5	17.01	2.88
1964	632.4	18.65	2.95
1965	684.9	21.50	3.14
1966	749.9	25.46	3.40
1967	793.9	26.82	3.38
1968	864.2	32.96	3.81
1969	929.1	35.80 r	3.85 r
1970	974.1	39.80 r	4.09
1971	1,046.8	45.46 r	4.34 r
Half Years at Annual Rates, Seasonally Adjusted			
1968			
1H	845.7	31.90 r	3.77
2H	882.7	34.02	3.85
1969			
1H	914.1	34.31	3.75
2H	944.1	37.35	3.96
1970			
1H	962.3	39.12	4.07
2H	986.0	40.48 r	4.1r
1971			
1H	1,030.4	44.90r	4.36r
2H	1,063.2	46.02r	4.33r
Quarterly at Annual Rates, Seasonally Adjusted			
1967			
I	774.4	26.64	3.44
II	784.5	25.86	3.30
III	800.9	26.17	3.27
IV	815.9	28.62r	3.51
1968			
I	834.0	31.28	3.75
II	857.4	32.53r	3.79r
III	875.2	34.28r	3.92
IV	890.2	33.77r	3.79
1969			
I	906.4	30.36	3.35
II	921.8	38.26	4.15
III	940.2	37.11	3.95
IV	948.0	37.59	3.97
1970			
I	956.0	38.92r	4.07
II	968.5	39.32	4.06
III	983.5	39.87r	4.05r
IV	988.4	41.08r	4.16r
1971			
I	1,020.8	42.91r	4.20r
II	1,040.0	46.89r	4.51r
III	1,053.4	47.80r	4.54r
IV	1,072.9	44.23r	4.12r
1972			
1	1,103.6	53.93r	4.89r

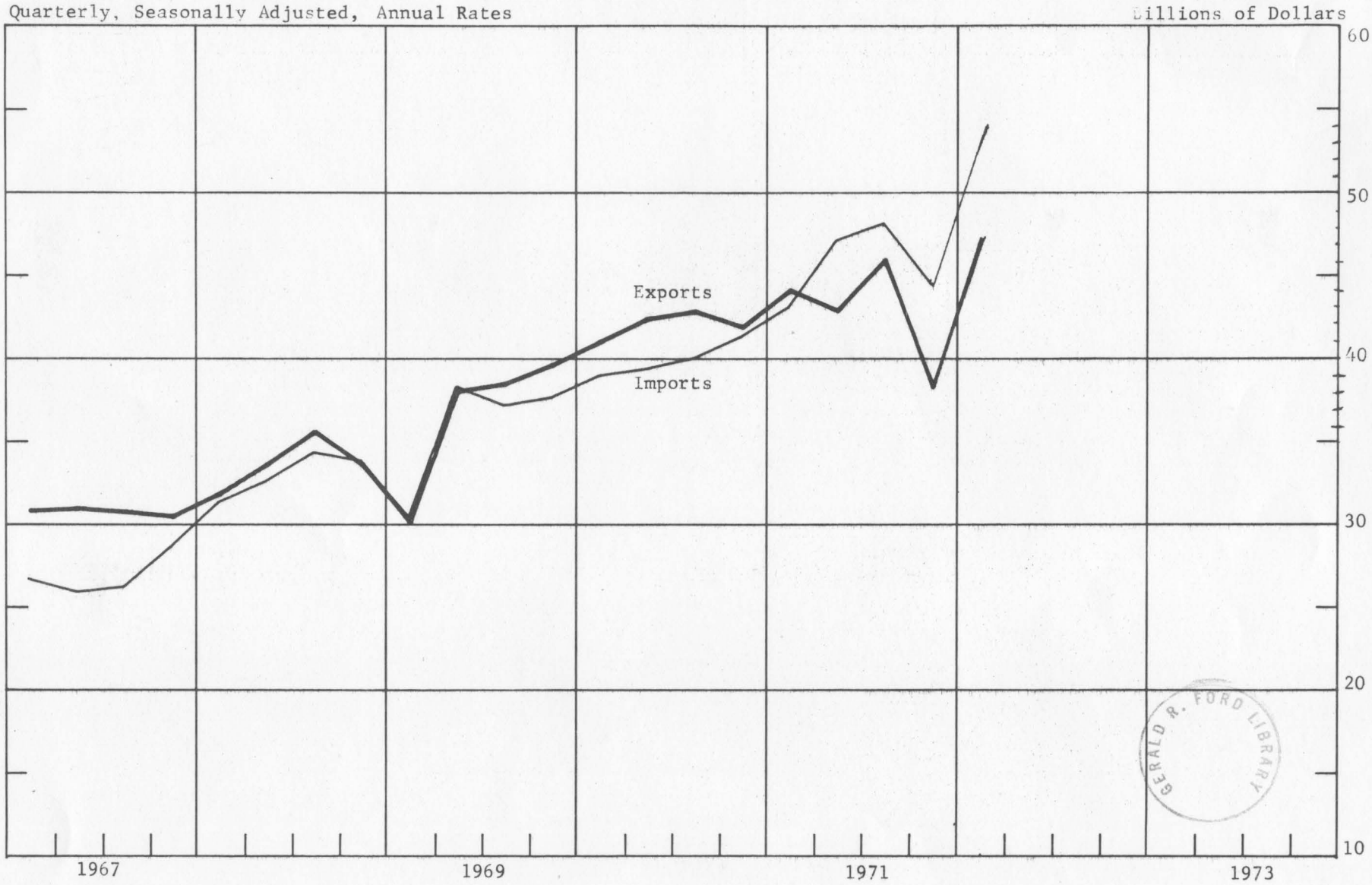
1/ Balance of payments basis.

r = Revised.

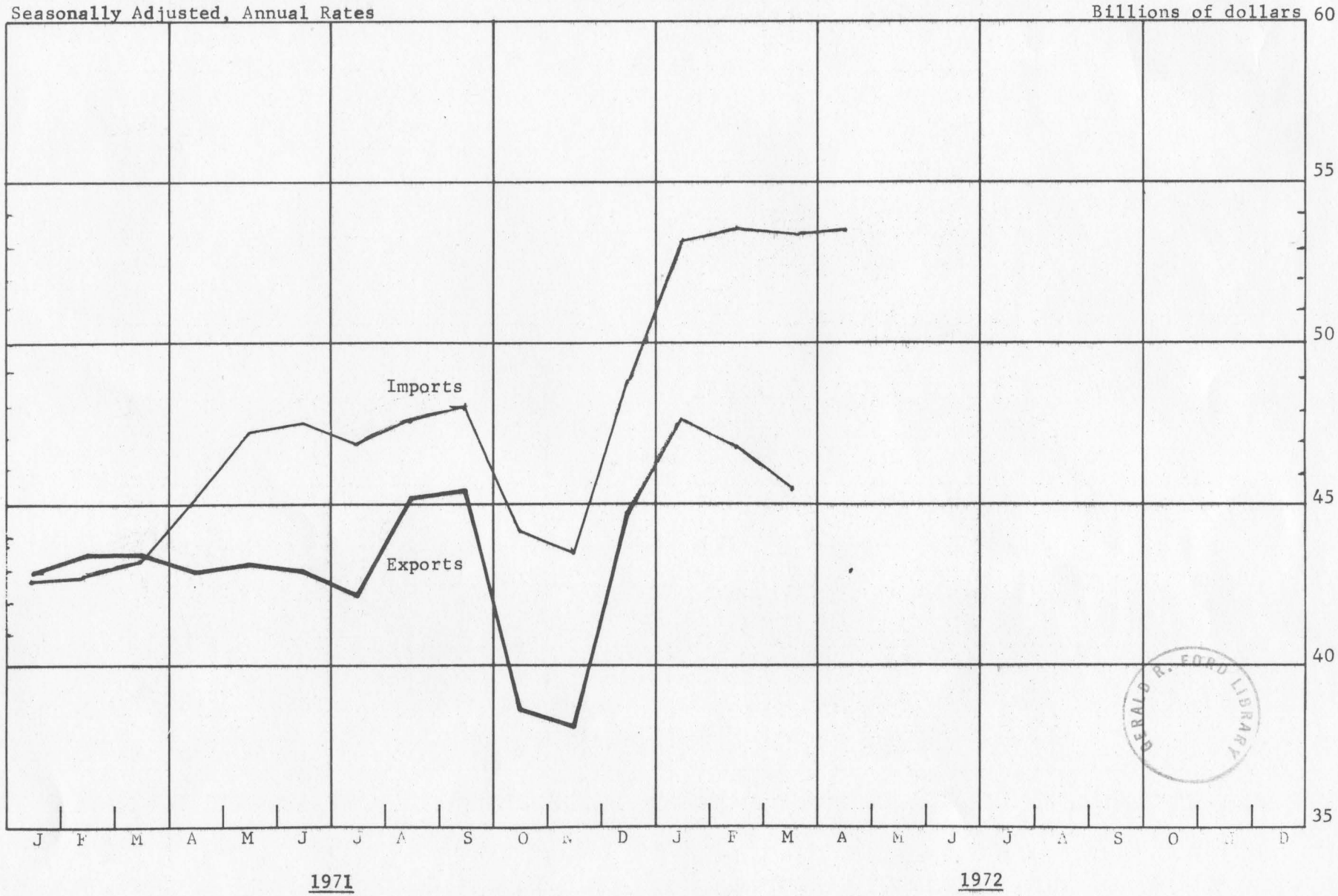
p = Preliminary.

U.S. MERCHANDISE TRADE
Balance of Payments Basis

Quarterly, Seasonally Adjusted, Annual Rates



U.S. MERCHANDISE TRADE
Balance of Payments Basis
1-2-1 Moving Averages



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 27, 1972

To Mr. Ralph C. Bryant

Subject: U.S. Merchandise Trade -- June 1972.

From Sujin Shin

In June, the U.S. trade balance was a deficit of $7.0 billion at a seasonally adjusted annual rate (balance-of-payments basis), slightly below the May deficit of $7.3 billion. The drop in the deficit in June resulted from a slight increase in exports while imports were about equal to the May level. For the second quarter of 1972, the trade balance was a deficit of $7.7 billion (SAAR), compared with a deficit of $6.7 billion for the first quarter. The levels of both exports and imports in the second quarter declined from those of the first quarter but the drop in exports exceeded that of imports.

Imports in June were $53.7 billion at an annual rate (balance-of-payments basis), equal to the May rate. In June virtually all commodity groups increased, except automotive imports from Europe and Japan which showed a significant decline. However, sales of these cars in the United States rose in June; it appears that there was a downward adjustment in inventories following an inventory buildup in the earlier months of the year. Imports of other nonfood consumer goods, which had declined in the previous two months, rose strongly in June. Imports of industrial supplies and materials (mainly metals other than iron and steel) and capital goods (mostly machinery) also increased in June.

The ratio of imports to GNP in the second quarter declined to 4.70 percent, compared with 4.86 percent in the first quarter. However, if first quarter imports were adjusted for the dock strike makeup in that period, the import/GNP ratio would probably be about the same in both quarters.

Exports in June were $46.7 billion at an annual rate (balance-of-payments basis), an increase of less than one percent from the May rate. Most of the increase in the level of exports was due to the significant increase in shipments of agricultural commodities. This advance was partially offset by the decline in nonagricultural commodities. Exports of machinery, however, showed almost no change from the previous two months.

U.S. Merchandise Trade, Balance of Payments Basis
(billions of dollars, seasonally adjusted annual rates)

	1971			1972			
	Year	1H	2H	1Q	2Q	May	June
Exports	42.8	43.5	42.1	47.2	45.9	46.4	46.7
Imports	45.5	44.9	46.0	53.9	53.6	53.7	53.7
Balance	-2.7	-1.4	-3.9	-6.7	-7.7	-7.3	-7.0

Note: Details may not add to totals because of rounding.

Table 1

U.S. Merchandise Trade
(billions of dollars, seasonally adjusted annual rates)

	Census Basis			Balance of Payments Basis*		
	Exports	Imports	Balance	Exports	Imports	Balance
1963	22.5	17.2	5.3	22.3	17.0	5.2
1964	25.8	18.7	7.1	25.5	18.6	6.8
1965	26.7	21.5	5.2	26.4	21.5	4.9
1966	29.5	25.6	3.9	29.3	25.5	3.8
1967	31.0	26.9	4.1	30.6	26.8	3.8
1968	34.1	33.2	0.8	33.6	33.0	0.6
1969	37.3	36.0	1.3	36.4	35.8	0.6
1970	42.7	40.0	2.7	42.0	39.8	2.2
1971	43.6	45.5r	-1.9r	42.8	45.5	-2.7
1968 I	32.1	31.5	0.6	31.8	31.3	0.5
II	33.9	32.6	1.3	33.5	32.5	0.9r
III	36.1	34.2	1.9	35.5	34.3	1.3r
IV	34.3	34.1	0.2	33.5	33.8	-0.2r
1969 I	30.5	30.6	-0.2	30.0	30.3r	-0.4r
II	39.1	38.4	0.7	37.9r	38.3	-0.3
III	39.6	37.3	2.3	38.3r	37.1	1.2r
IV	40.1	37.8	2.3	39.5r	37.5r	2.0
1970 I	41.3	38.9	2.4	40.9	38.9	2.0
II	43.2	39.5	3.7	42.3	39.3	2.9
III	43.4	40.1	3.3	42.8	39.9	2.9
IV	43.0	41.3	1.7	41.8	41.1	0.8
1971 I	45.0	43.2	1.8	44.1	42.9	1.2
II	43.9	47.0	-3.1r	42.8	46.9	-4.0
III	46.7	47.8r	-1.1r	45.9	47.8	-1.9
IV	38.9	44.1r	-5.2r	38.3	44.2	-6.0
1972 I	47.7	53.7	-6.0	47.2	53.9	-6.7
II	46.3	53.7	-7.4	45.9	53.6	-7.7
1971 June	43.9	48.1r	-4.2r	43.2	48.1	-5.0
July	41.9	45.5	-3.6	41.1	45.4	-4.3
August	44.1	47.1r	-3.0r	43.4	47.1	-3.7
September	54.1	50.9	3.2	53.3	50.9	2.4
October	32.5	42.3r	-9.8r	31.7	42.3	-10.6
November	37.9	40.5r	-2.6r	37.3	40.5	-3.2
December	46.3	49.5r	-3.2r	45.7	49.8	-4.1
1972 January	50.7	54.5	-3.8	50.0	55.2	-5.2
February	45.7	52.8	-7.2	45.5	52.8	-7.3
March	46.7	53.7	-7.0	46.2	53.8	-7.6
April	45.1	53.5	-8.4	44.5	53.3	-8.7
May	47.0	53.6	-6.6	46.4	53.7	-7.3
June	46.9	53.9	-7.1	46.7	53.7	-7.0

*The monthly balance of payments figures are only rough estimates and are subject to considerable revision.

r = Revised.

Note: Details may not add to totals because of rounding.

Table 2

U.S. Exports of Domestic and Foreign Merchandise
by End-Use Commodity Categories
Including Department of Defense Shipments
(Seasonally adjusted; annual rates)
billions of dollars

	1971		1972			
	1st Half	2nd Half	1st Qtr.	2nd*/ Qtr.	May	June
Foods, feeds, and beverages	6.1	6.1	7.0	6.9	7.1	7.5
Industrial supplies and materials	13.3	12.2	13.7	12.5	12.8	12.5
Capital goods excl. automotive	15.2	14.9	16.5	16.0	16.1	16.1
Civilian aircraft and parts	(3.4)	(3.1)	(3.3)	(3.3)	(4.0)	(3.3)
Machinery	(11.6)	(11.6)	(12.9)	(12.5)	(12.4)	(12.5)
Automotive vehicles and parts	4.5	4.4	4.8	5.0	5.1	4.9
To Canada	(3.2)	(3.2)	(3.6)	(3.9)	(4.0)	(3.9)
To other	(1.2)	(1.2)	(1.2)	(1.1)	(1.1)	(1.1)
Consumer goods	2.7	2.9	3.3	3.3	3.3	3.3
All other	3.2	2.9	2.8	3.0	3.1	2.7
Total	45.0	43.4	48.2	46.9	47.6	47.3
Agricultural commodities	8.0	7.6	9.1	8.5	8.7	9.1
Nonagricultural commodities	36.9	35.8	39.2	38.4	38.9	38.2

U.S. General Imports
by End-Use Commodity Categories
(Seasonally adjusted; annual rates)
billions of dollars

	1971		1972			
	1st Half	2nd Half	1st Qtr.	2nd.*/ Qtr.	May	June
Foods, feeds, and beverages	6.5	6.3	7.3	6.8	6.9	7.0
Industrial supplies and materials	16.6	17.3	18.9	19.2	19.2	19.9
Fuels and lubricants	(3.3)	(4.1)	(4.3)	(4.6)	(4.5)	(4.6)
Iron and steel	(2.9)	(2.8)	(2.7)	(2.7)	(2.9)	(2.9)
Captial goods excl. automotive	4.1	4.1	5.3	5.4	5.2	5.7
Automotive vehicles and parts	7.5	8.4	8.9	9.4	9.5	8.5
From Canada	(4.4)	(4.7)	(5.0)	(5.5)	(4.9)	(5.3)
From other	(3.1)	(3.7)	(3.9)	(4.1)	(4.6)	(3.4)
Consumer goods	8.7	8.4	11.5	11.0	10.4	11.3
Nondurable goods	(3.3)	(3.3)	(4.2)	(3.8)	(3.6)	(4.0)
Durable goods	(4.8)	(4.6)	(6.5)	(6.4)	(6.0)	(6.5)
Unmanufactured goods	(0.6)	(0.5)	(0.7)	(0.7)	(0.7)	(0.8)
All other	1.6	1.5	1.8	1.7	1.7	1.6
Total	45.1	46.0	53.7	53.7	53.6	53.9

Note: (1) Details may not add to totals because the commodity sections were independently adjusted for seasonal variations.

(2) Totals will not correspond to the Census basis totals in Table 1 because Department of Defense Military Grant-Aid shipments are included in exports of domestic and foreign merchandise in Table 2.

*/ Preliminary = sum of three months.

Table 3

Imports as Per Cent of GNP

(billions of current dollars)

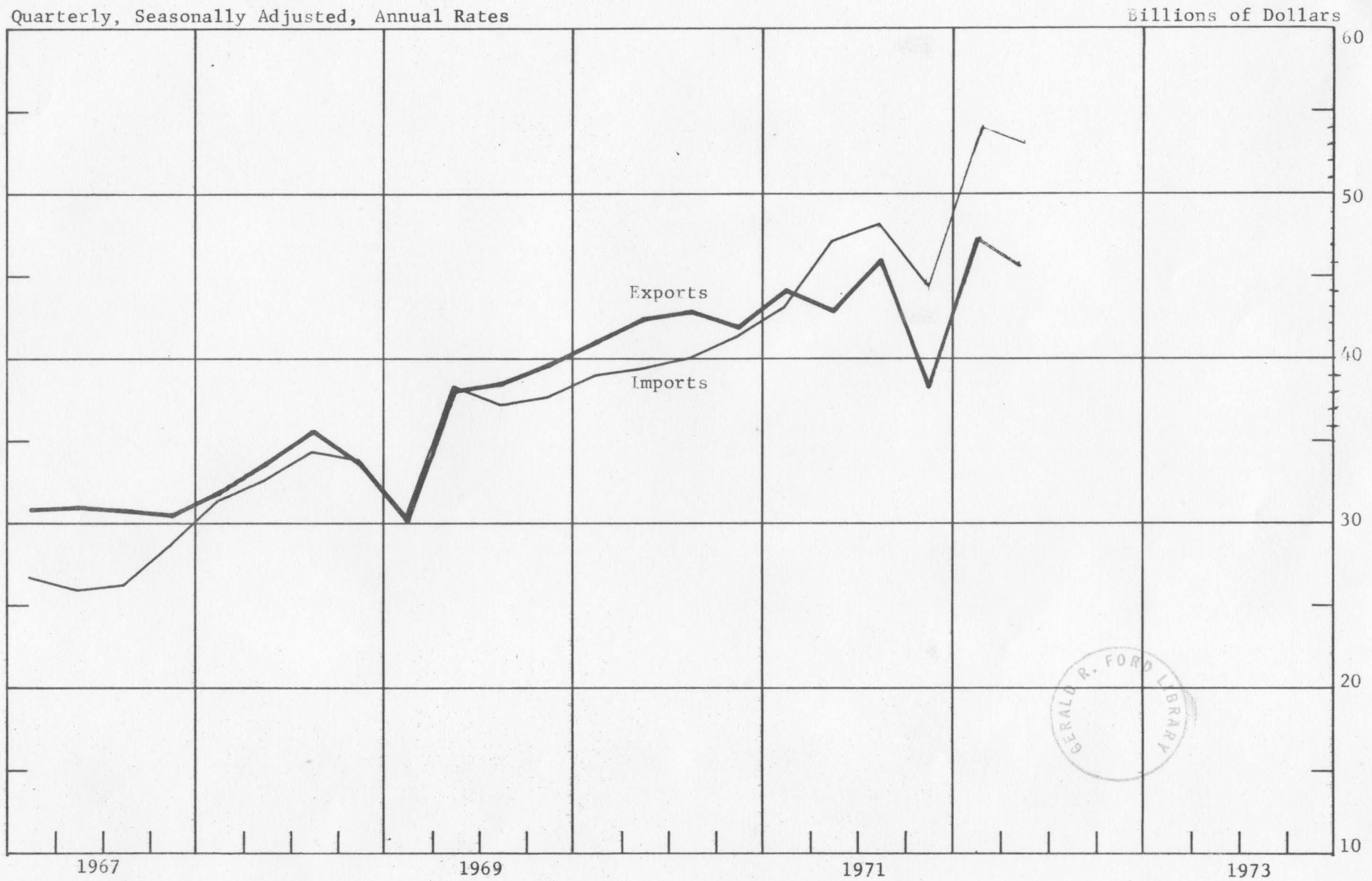
Annual	GNP	Imports[1/]	Percent
1961	520.1	14.52	2.79
1962	560.3	16.22	2.89
1963	590.5	17.01	2.88
1964	632.4	18.65	2.95
1965	684.9	21.50	3.14
1966	749.9	25.46	3.40
1967	793.9	26.82	3.38
1968	864.2	32.96	3.81
1969	930.3r	35.80	3.85
1970	976.4r	39.80	4.08r
1971	1,050.4r	45.46	4.33r
Half Years at Annual Rates, Seasonally Adjusted			
1968			
1H	845.7	31.91r	3.77
2H	882.7	34.02	3.85
1969			
1H	915.3r	34.29r	3.75
2H	945.3r	37.30r	3.95r
1970			
1H	964.9r	39.12	4.05r
2H	988.0r	40.48	4.10r
1971			
1H	1,033.2r	44.90	4.35r
2H	1,067.5r	46.02	4.31r
1972			
IHp	1,124.1	53.74	4.78
Quarterly at Annual Rates, Seasonally Adjusted			
1967			
I	774.4	26.64	3.44
II	784.5	25.86	3.30
III	800.9	26.17	3.27
IV	815.9	28.61r	3.51
1968			
I	834.0	31.28	3.75
II	857.4	32.54r	3.80r
III	875.2	34.27r	3.92
IV	890.2	33.76r	3.79
1969			
I	907.0r	30.30r	3.34r
II	923.5r	38.27r	4.14r
III	941.7r	37.08r	3.94r
IV	948.9r	37.52r	3.95r
1970			
I	958.0r	38.92	4.06r
II	971.7r	39.32	4.05r
III	986.3r	39.87	4.04r
IV	989.7r	41.08	4.15r
1971			
I	1,023.4r	42.91	4.19r
II	1,043.0r	46.89	4.50r
III	1,056.9r	47.80	4.52r
IV	1,078.1r	44.23	4.10r
1972			
I	1,109.1r	53.93	4.86r
IIp	1,139.0	53.55	4.70

1/ Balance of payments basis.

r = Revised.

p = Preliminary.

U.S. MERCHANDISE TRADE
Balance of Payments Basis



U.S. MERCHANDISE TRADE
Balance of Payments Basis
1-2-1 Moving Averages