The original documents are located in Box D20, folder "New York State Bankers Association Convention, Spring Lake, NJ, June 25, 1966" of the Ford Congressional Papers: Press Secretary and Speech File at the Gerald R. Ford Presidential Library.

(RE: BALANCE OF PAYMENTS)

Jim Aspon

SPEECH BEFORE NEW YORK BANKERS ASSN. CONVENTION--JUNE 25, 1966

GENTLEMEN:

Gov. of Virgin Isles
Bur. of Int. Rev.

I AM VERY PLEASED TO BE HERE WITH YOU TODAY. I WILL BE SPEAKING TO YOU ON A SPECIAL TOPIC BECAUSE THIS IS, AS I UNDERSTAND IT, A SO-CALLED SPECIAL INTEREST GROUP. I HASTEN TO ADD, HOWEVER, YOUR RECORD AS AN ORGANIZATION AND AS INDIVIDUALS CLEARLY INDICATES A BROADER INTEREST IN THE WELFARE OF OUR NATION. I COMMEND YOUR CONCERN FOR AND DEDICATION TO THE FUTURE OF AMERICA.

UNLIKE MY GOOD FRIENDS, THE DEMOCRATS, I HAVE NEVER FOUND THE TERM, SPECIAL INTEREST GROUP, ESPECIALLY USEFUL EXCEPT IN A STORY I LIKE TO TELL.

AS YOU KNOW, THE PHRASE, SPECIAL INTEREST GROUP, DOES

GET TOSSED AROUND A LOT IN WASHINGTON.

FOR INSTANCE, THE OTHER DAY, A COLLEAGUE OF MINE JUMPED UP DURING A HOT DEBATE WITH A DEMOCRAT AND YELLED: "WHAT ABOUT THE POWERFUL INTEREST THAT CONTROLS YOU?" AND THE DEMOCRAT REPLIED: "YOU LEAVE MY WIFE OUT OF THIS!"

WHETHER WE LEAVE THE WOMEN OUT OF IT OR NOT, THIS COUNTRY IS IN DEEP TROUBLE. AND ONE OF THE MOST SERIOUS TROUBLE SPOTS IS THE CONTINUING FAILURE OF THE ADMINISTRATION TO ACHIEVE A BALANCE IN OUR INTERNATIONAL PAYMENTS SITUATION.

THIS, I THINK, TRACES DIRECTLY TO THE JOHNSON ADMINISTRATION'S HABIT OF ADOPTING POLICIES ON THE BASIS OF A PROMISE AND A PRAYER INSTEAD OF LASTING RESULTS.

IN ITS APPROACH TO THE BALANCE OF PAYMENTS PROBLEM, THE

JOHNSON ADMINISTRATION HAS PERFORMED LIKE A LITTLE BOY WHO BANDAGES UP ONE INJURED FINGER ONLY TO BANG THE ONE NEXT TO IT WITH A HAMMER.

OUR BALANCE OF PAYMENTS PROBLEM CURRENTLY SEEMS AS FAR AWAY FROM SOLUTION AS EVER, DESPITE AN OCCASIONAL OPTIMISTIC FORECAST BY THE ADMINISTRATION AND IMPROVED PERFORMANCE IN 1965.

THE IMPROVEMENT LAST YEAR RESULTED BECAUSE THE BANKING COMMUNITY RESPONDED SO WHOLE-HEARTEDLY TO THE ADMINISTRATION'S REQUEST FOR A LIMIT ON YOUR FOREIGN LENDING. THE RESULT, AS YOU KNOW, WAS A SMALL INFLOW OF FUNDS FOR THE YEAR 1965. THIS MADE IT POSSIBLE FOR THE UNITED STATES TO SHOW THE SMALLEST OVERALL DEFICIT--$1.3 BILLION--IN EIGHT YEARS.

BUT THIS WAS ONLY A STOP-GAP MEASURE AT BEST. AND OUR CUTBACKS IN FOREIGN INVESTMENT, WHILE TEMPORARILY EASING OUR BALANCE OF PAYMENTS PROBLEM, WILL HURT US IN YEARS TO COME. SO THIS FORMULA IS NOT THE ANSWER.

A FEW WEEKS AGO, DURING HEARINGS BEFORE THE HOUSE BANKING AND CURRENCY COMMITTEE, FIVE MEMBERS OF THE FEDERAL RESERVE BOARD WERE ASKED TO COMMENT ON THE REPUBLICAN PREDICTION OF A $2.5 BILLION DEFICIT IN OUR 1966 BALANCE OF PAYMENTS. NOBODY TOOK SERIOUS ISSUE WITH THAT ESTIMATE.

I WAS VERY MUCH SURPRISED, BECAUSE LESS THAN FIVE MONTHS AGO THE ADMINISTRATION WAS PREDICTING A DEFICIT ONE-TENTH THAT SIZE.

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LAST DECEMBER THE FEDERAL RESERVE BOARD TIGHTENED UP ON

DOMESTIC CREDIT WITH A HIKE IN THE REDISCOUNT RATE AND THE RATE ON TIME DEPOSITS. YET THE BALANCE OF PAYMENTS SITUATION CONTINUES TO WORSEN.

THIS MEANS THE THEORY THAT TIGHT MONEY ALONE PRODUCES BENEFICIAL SHIFTS IN PAYMENT BALANCES JUST DOESN'T HOLD UP.

IT TURNS OUT THAT OTHER FACTORS HAVE MORE THAN CANCELLED OUT THE BALANCE OF PAYMENTS BENEFITS THAT MIGHT HAVE RESULTED FROM LAST DECEMBER'S CREDIT TIGHTENING.

FOR ONE THING, INTEREST RATES IN EUROPE HAVE CONTINUED TO CLIMB, AND THIS HAS NEARLY ELIMINATED THE IMPACT OF THE FEDERAL RESERVE BOARD ACTION.

TO CURB INFLATION, AUTHORITIES ON THE CONTINENT HAVE LEANED HEAVILY ON MONETARY RESTRAINTS AS EVIDENCED IN THE

DUTCH AND GERMAN DISCOUNT RATE INCREASES LAST MONTH. STRINGENT CONTROLS ON COMMERCIAL BANK CREDIT TO THE PRIVATE SECTOR OF THE ECONOMY ARE THE RULE EVERYWHERE IN EUROPE.

AT THE SAME TIME, EXCEPT IN FRANCE AND GERMANY, GOVERNMENT SPENDING HAS ADDED MATERIALLY TO INFLATIONARY STRESSES AND STRAINS ON ALREADY OVERBURDENED ECONOMIES THROUGHOUT EUROPE.

HERE IN AMERICA WE ALSO HAVE BEEN PLAGUED BY INFLATION-- AND PRICE BOOSTS HAVE MADE U.S. EXPORTS LESS ATTRACTIVE WHILE AMERICAN DEMAND FOR FOREIGN IMPORTS HAS CONTINUED HIGH.

THE RESULT HAS BEEN A DRAMATIC AND DANGEROUS DROP IN OUR TRADE BALANCE--EXPORTS AS AGAINST IMPORTS.

WHILE OUR OVERALL BALANCE OF PAYMENTS DEFICIT IN 1965 WAS $1.3 BILLION--LESS THAN HALF THE $2.8 BILLION DEFICIT

IN 1964--OUR TRADE BALANCE SURPLUS DECLINED FROM $6.7 BILLION IN 1964 TO $4.8 BILLION IN 1965.

FIRST QUARTER FIGURES FOR THIS YEAR INDICATE THAT OUR TRADE BALANCE SURPLUS IN 1966 WILL FALL BELOW $4 BILLION. THIS IS BECAUSE OUR IMPORTS HAVE BEEN RISING RAPIDLY WHILE OUR EXPORTS ARE JUST BARELY HOLDING AT LAST YEAR'S LEVEL.

HAD WE MAINTAINED OUR TRADE BALANCE AT ITS 1964 LEVEL, WE WOULD HAVE HAD AN OVERALL BALANCE OF PAYMENTS SURPLUS LAST YEAR AND CLOSE TO A BALANCE THIS YEAR.

SAGGING EXPORTS AND RISING IMPORTS LIE AT THE HEART OF OUR BALANCE OF PAYMENTS PROBLEM.

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THERE ARE OTHER FACTORS, OF COURSE--TRAVEL ABROAD BY AN INCREASING NUMBER OF AMERICANS, SPENDING ON THE VIETNAM WAR,

THE OUTFLOW OF FOREIGN AID DOLLARS.

BUT I REPEAT WHAT I SAID EARLIER--SAGGING EXPORTS AND RISING IMPORTS ARE THE CORE OF OUR BALANCE OF PAYMENTS PROBLEM. AND IT IS DOMESTIC INFLATION GENERATED BY JOHNSON ADMINISTRATION POLICIES WHICH HAS PUT OUR TRADE BALANCE ON A SKI SLIDE.

OUR PRICES MUST BE STABLE AND COMPETITIVE IF AMERICAN BUSINESS IS TO RECOVER ITS FORMER POSITION IN THE WORLD EXPORT MARKET.

THE ADMINISTRATION SHOULD BE PROVIDING <u>LEADERSHIP</u> IN THE FORMULATING OF DOMESTIC ECONOMIC POLICIES IF OUR BALANCE OF PAYMENTS PROBLEM IS TO BE SOLVED. WE ARE NOT GETTING LEADERSHIP. INSTEAD WE ARE GETTING EMERGENCY, FINGER-IN-THE-DIKE DESPERATION MOVES.

THIS IS NOT THE KIND OF PROBLEM WHICH CAN AWAIT A CONSENSUS. IT IS NOT THE KIND OF PROBLEM WHICH CAN BE SOLVED WITH LUCK AND THE OLD POLITICAL FORMULA OF MAKING THE FEWEST PEOPLE ANGRY.

THE ADMINISTRATION SHOULD NOT BE RELYING UPON LOPSIDED MONETARY POLICY--MONETARY POLICY WHICH IN THE CASE OF LAST DECEMBER'S "FED" ACTION PROBABLY CAME TOO LATE.

OF COURSE, MONETARY STRINGENCY IS ONE METHOD OF CURBING A BOOM THAT IS GETTING OUT OF HAND. BUT WE MUST HAVE A FLEXIBLE, BALANCED AND, ABOVE ALL, A COORDINATED MONETARY AND FISCAL POLICY.

WHAT DO WE HAVE IN PLACE OF SUCH A SOLUTION? WE HAVE AN ADMINISTRATION WHICH DID VIRTUALLY NOTHING TO SLOW A BOOM

THAT WAS GETTING OUT OF HAND AND THEN CRITICIZED THE FEDERAL RESERVE BOARD FOR ACTING ON ITS OWN.

AND WE HAVE AN ADMINISTRATION WHICH HAS FAILED TO USE THE FEDERAL BUDGET IN A CONSISTENT MANNER AS AN INSTRUMENT OF ECONOMIC STABILIZATION.

THIS IS THE UNDERLYING CAUSE OF STEADILY RISING PRICES AND WAGES AT HOME, AND THE FAILURE OF AMERICAN-MADE PRODUCTS TO COMPETE STRONGLY ENOUGH IN THE WORLD MARKET. HENCE, IT IS THE UNDERLYING CAUSE OF OUR WORSENED BALANCE OF PAYMENTS SITUATION AND OUR CONTINUED HIGH GOLD OUTFLOW.

THE FEDERAL BUDGET NORMALLY SHOULD BE BALANCED. THERE ARE EXCEPTIONS TO THIS POLICY, OF COURSE--TIMES OF MAJOR MILITARY CONFLICT OR SERIOUS UNEMPLOYMENT. BUT, OVER THE

LONG HAUL, WE SHOULD ACHIEVE A RELATIVE BALANCE. WE SHOULD ACHIEVE A SURPLUS IN BOOM TIMES AND EMPLOY FISCAL POLICY AS A TOOL TO REVERSE SERIOUS ECONOMIC DOWNTURNS. UNFORTUNATELY. THE JOHNSON ADMINISTRATION SHOWS NO CONCERN FOR BALANCING THE FEDERAL BUDGET OR ACHIEVING A SURPLUS AT ANY TIME.

IF THE PRESENT ADMINISTRATION HAD NOT YIELDED TO DEMANDS BY SOME THAT GREAT SOCIETY PROGRAMS BE EXPANDED BY BILLIONS OF DOLLARS DESPITE OUR COSTLY INVOLVEMENT IN VIETNAM, PRICE STABILITY WOULD BE MORE THAN JUST A MEMORY AND WE WOULD HAVE AN IMPROVED BALANCE OF PAYMENTS SITUATION. WE WOULD NOT SEE NON-ESSENTIAL GOVERNMENT SPENDING PUSHING UP THE PRICE OF AMERICAN PRODUCTS, WITH A CONSEQUENT UNFAVORABLE IMPACT ON OUR TRADE BALANCE SURPLUS.

THIS ADMINISTRATION CANNOT DO A GOOD JOB OF HANDLING

OUR BALANCE OF PAYMENTS PROBLEM BECAUSE ITS BASIC APPROACH TO ECONOMICS HAS DEVELOPED THE DISEASE OF POLITICS-ITIS.

NOW THAT THE NEW ECONOMICS ESPOUSED BY JOHN MAYNARD KEYNES HAS PRODUCED A DANGEROUSLY INFLATED BOOM, THE ADMINISTRATION IS RELUCTANT TO APPLY THE OTHER HALF OF HIS ADVICE. ADMINISTRATION OFFICIALS HAVE TURNED THEIR FACES AWAY FROM THE KEYNES PRIMER, WHICH WARNS AGAINST THE DEBASING OF A COUNTRY'S CURRENCY AND ADVISES QUICK REMEDIAL ACTION TO COOL OFF AN OVERHEATED ECONOMY. IT'S OBVIOUS THAT THE WHITE HOUSE USES THE NEW ECONOMICS WHEN IT IS EXPEDIENT TO DO SO AND REJECTS IT WHEN IT PROVES POLITICALLY PAINFUL.

IT IS FOR POLICITCAL REASONS THAT THE ADMINISTRATION HAS REFUSED TO APPLY THE RESTRAINTS NEEDED TO MAINTAIN

PRICE STABILITY AND TO CURB EXCESSES IN THE ECONOMY. CHIEF AMONG THE RESTRAINTS FOUND WANTING IS RESTRAINT IN NON-ESSENTIAL FEDERAL SPENDING.

MANY PEOPLE TEND TO DISCOUNT MUCH OF WHAT A PROFESSIONAL POLITICIAN SAYS, SO LET ME CALL YOUR ATTENTION TO A RECENT POLL OF UNIVERSITY AND BUSINESS ECONOMISTS BY THE CHASE MANHATTAN BANK.

A MAJORITY OF THE 340 UNIVERSITY ECONOMISTS AND THE 220 BUSINESS ECONOMISTS WHO REPLIED TO THE QUESTIONNAIRE DECLARED THAT INFLATION WAS THE MOST PRESSING ECONOMIC PROBLEM FACING THIS NATION TODAY.

THESE ECONOMISTS RECOMMENDED A BROAD-BASED ATTACK ON INFLATION, INCLUDING CUTBACKS IN GOVERNMENT SPENDING,

TIGHTENING OF MONEY AND AN INCREASE IN TAXES. THE BUSINESS ECONOMISTS PUT MORE EMPHASIS ON CUTS IN GOVERNMENT SPENDING, AND THE UNIVERSITY ECONOMISTS LEANED MORE TOWARD A TAX INCREASE.

SINCE ~~THE~~ PRESIDENT JOHNSON ~~ADMINISTRATION~~ HAS REFUSED TO REVISE HIS ~~ITS~~ FISCAL 1967 BUDGET DOWNWARD AND THE OVERWHELMING DEMOCRATIC MAJORITIES IN CONGRESS ARE ADDING ROUGHLY $3 BILLION TO HIS SPENDING REQUESTS, A TAX INCREASE MAY PROVE INEVITABLE.

Budget — Johnson
Congress
Defense
Speed-up

INDICATIONS ARE THE PRESIDENT IS STALLING ANY REQUEST FOR A TAX INCREASE UNTIL AFTER THE NOVEMBER ELECTION.

HE ALSO APPEARS TO HAVE ABANDONED THE 3.2 PER CENT WAGE-PRICE GUIDEPOSTS, AT LEAST AS FAR AS WAGES ARE CONCERNED.

IN THAT CONNECTION, I MIGHT NOTE THAT 60 PER CENT OF THE BUSINESS ECONOMISTS RESPONDING TO THE CHASE MANHATTAN POLL OPPOSED THE GUIDEPOSTS AS A TECHNIQUE FOR RESTRAINING PRICES, AND HALF OF THE UNIVERSITY ECONOMISTS WERE AGAINST THEM.

THE INFLATION WE NOW ARE FACED WITH HAD A RELATIVELY SLOW START BECAUSE THE EISENHOWER ADMINISTRATION SUCCEEDED IN BURYING WHAT MIGHT BE CALLED INFLATIONARY PSYCHOLOGY. BUT NOW INFLATION IS HERE AS A RESULT OF JOHNSON ADMINISTRATION POLICIES.

PRICES MUST BE STABILIZED, PARTICULARLY IF WE ARE TO AVOID A SHARP RISE IN WAGE INCREASE DEMANDS, WAGE-PUSH INFLATION, AND A CONTINUED WORSENING OF OUR BALANCE OF PAYMENTS SITUATION.

FORMER TREASURY SECRETARY C. DOUGLAS DILLON, WHOSE OPINIONS CERTAINLY DESERVE CONSIDERATION, TOLD CONGRESS JUST A FEW DAYS AGO THAT "FIVE OR SIX BILLION DOLLARS OF FISCAL ACTION" WAS NECESSARY TO HALT INFLATION.

MR. DILLON SAID FEDERAL SPENDING SHOULD BE REDUCED BELOW THE LEVEL OF THE PRESIDENT'S BUDGET BUT THAT HE DESPAIRED OF THIS HAPPENING. HE RECOMMENDED A "MODEST, ACROSS-THE-BOARD INCREASE IN TAXES," AND SAID IT HAS BEEN "CLEARLY CALLED FOR IN THE PAST FEW MONTHS."

AS I HAVE DONE EARLIER IN THIS TALK, MR. DILLON NOTED THAT OUR TRADE BALANCE HAS BEEN WORSENING AND SO HAS OUR OVERALL BALANCE OF PAYMENTS SITUATION.

THIS NATION DESPERATELY NEEDS AN ADMINISTRATION WHICH WILL KEEP PRICES STABLE AND COMPETITIVE IF WE ARE TO HAVE

AN ECONOMY SUFFICIENTLY VIGOROUS AND EFFICIENT TO RESTORE OUR TRADE SURPLUS TO ITS FORMER LEVELS.

WITH SUCH AN ADMINISTRATION, AMERICAN BUSINESSMEN WOULD RECAPTURE THEIR OLD POSITION IN DOMESTIC AND FOREIGN MARKETS AND WE COULD STOP WORRYING ABOUT OUR BALANCE OF PAYMENTS POSITION AND OUTFLOW OF GOLD.

WITH SUCH AN ADMINISTRATION, WE COULD CONTINUE TO INVEST IN OTHER COUNTRIES, AND OTHER COUNTRIES IN THE FULL FLUSH OF CONFIDENCE IN THE AMERICAN DOLLAR AND AMERICAN BUSINESS WOULD INVEST HERE.

THIS THEN WOULD BE A TRULY HEALTHY ECONOMY. THE PRESIDENT, BE HE DEMOCRAT OR REPUBLICAN, HAS THE RESPONSIBILITY TO PROMOTE THAT KIND OF AN ECONOMY.

BUT AS THE SWING SET WOULD SAY, THAT'S <u>NOT</u> WHAT'S HAPPENING.

WE SHOULD BE WORKING HARDER AND MORE EFFECTIVELY THAN WE ARE TO REMOVE SPECIAL RESTRICTIONS ON SALE OF AMERICAN GOODS ABROAD WHEREVER THOSE RESTRICTIONS EXIST. WE SHOULD BE EXPLORING ALL POSSIBLE MEANS OF ENCOURAGING AMERICAN EXPORTS WITHIN THE LIMITS OF THE OVERALL NATIONAL INTEREST.

WE SHOULD BE GETTING OUR FRIENDS IN EUROPE TO PAY THEIR FAIR SHARE OF THE COST OF DEFENDING THE FREE WORLD AND OF DEALING WITH THE EXPLOSIVE FORCES NOW ERUPTING IN THE DEVELOPING NATIONS OF THE WORLD.

BUT, AGAIN, THAT'S <u>NOT</u> WHAT'S HAPPENING.

TODAY THE UNITED STATES STANDS VIRTUALLY ALONE IN

VIETNAM--CAUGHT UP IN A WAR WHICH IS COSTING US MORE THAN A BILLION DOLLARS A MONTH.

WHERE CAREFUL FISCAL PLANNING IN A NATION TROUBLED BY DOMESTIC INFLATION AND CONTINUING GOLD OUTFLOW IS CRITICALLY IMPORTANT, THE JOHNSON ADMINISTRATION HAS REPEATEDLY UNDER-ESTIMATED THE COST OF THE VIETNAM WAR AND PERHAPS DELIBERATELY SO.

THE PRESIDENT'S BUDGET SUBMITTED TO THE CONGRESS IN 1965 UNDERFUNDED THE WAR BY SOME $15 BILLION FOR THIS FISCAL YEAR. IN THE NEXT FISCAL YEAR, THAT WHICH BEGINS JULY 1, THE WAR AGAIN WILL BE UNDERFUNDED IN A SUBSTANTIAL AMOUNT.

THE JOHNSON ADMINISTRATION'S ENTIRE FISCAL RECORD IS LONG ON PROMISES AND SHORT ON PERFORMANCE--ON THE DOMESTIC SCENE AND IN FOREIGN AFFAIRS.

THIS ADMINISTRATION HAS OVER-PROMISED AND UNDER-PERFORMED, OVER-ATTEMPTED AND UNDER-SUCCEEDED, UNDER-ESTIMATED AND OVER-EXCUSED THROUGHOUT ALL ITS DAYS IN OFFICE.

THIS IS PARTICULARLY PERILOUS IN THESE CRUCIAL TIMES-- A TIME OF SHOWDOWN IN THE CEASELESS STRUGGLE BETWEEN THE COMMUNIST AND FREE WORLDS, A SHOWDOWN IN WHAT THE COMMUNIST CHINESE CYNICALLY CALL A WAR OF LIBERATION.

NOW IS THE TIME TO SHOW THE REST OF THE WORLD THAT THE CAPITALISTIC SYSTEM IS THE BEST SYSTEM EVER DEVISED TO FURTHER THE GOALS AND DREAMS OF MAN.

NOW IS THE TIME TO RE-ENLIST OUR FRIENDS IN EUROPE IN THAT CRUSADE.

I FIRMLY BELIEVE THAT WITH PROPER LEADERSHIP IN THE

WHITE HOUSE, INSPIRING LEADERSHIP, WE COULD WIN THE OTHER NATIONS OF THE FREE WORLD TO OUR BANNER IN A PROGRESS MARCH THAT WOULD CONFOUND OUR ENEMIES, FURTHER BLESS AMERICA AND ENHANCE ALL OF MANKIND.

---THANK YOU---

--END--

CONGRESSMAN
GERALD R. FORD
HOUSE REPUBLICAN LEADER

NEWS RELEASE

FOR RELEASE IN SATURDAY P.M.'s
JUNE 25, 1966

SPEECH EXCERPTS--NEW YORK STATE BANKERS ASSOCIATION CONVENTION AT SPRING LAKE, N.J.

This country is in deep trouble. And one of the most serious trouble spots is the continuing failure of the Administration to achieve a balance in our international payments situation.

This, I think, traces directly to the Johnson Administration's habit of adopting policies on the basis of a promise and a prayer instead of lasting remedies.

In its approach to the balance of payments problem, the Johnson Administration has performed like a little boy who bandages up one injured finger only to bang the one next to it with a hammer.

Our balance of payments problem currently seems as far away from solution as ever, despite an occasional optimistic forecast by the Administration and an improved performance in 1965.

A few weeks ago, during hearings before the House Banking and Currency Committee, five members of the Federal Reserve Board were asked to comment on the Republican prediction of a $2.5 billion deficit in our 1966 balance of payments. Nobody took serious issue with that estimate.

I was very much surprised, because less than five months ago the Administration was predicting a deficit one-tenth that size.

Last December the Federal Reserve Board tightened up on domestic credit with a hike in the rediscount rate and the rate on time deposits. Yet the balance of payments situation continues to worsen.

This means the theory that tight money alone produces beneficial shifts in payment balances just doesn't hold up.

It turns out that other factors have more than cancelled out the balance of payments benefits that might have resulted from last December's credit tightening.

* * *

We have been plagued by inflation--and price boosts have made U.S. exports less attractive while American demand for foreign imports has continued high.

The result has been a dramatic and dangerous drop in our trade balance--exports as against imports.

While our overall balance of payments deficit in 1965 was $1.3 billion--less than half the $2.8 billion deficit in 1964--our trade balance surplus declined from $6.7 billion in 1964 to $4.8 billion in 1965.

(MORE)

SPEECH EXCERPTS

First quarter figures for this year indicate that our trade balance surplus in 1966 will fall below $4 billion. This is because our imports have been rising rapidly while our exports are just barely holding at last year's level.

Had we maintained our trade balance at its 1964 level, we would have had an overall balance of payments surplus last year and close to a balance this year.

Sagging exports and rising imports lie at the heart of our balance of payments problem.

* * *

It is domestic inflation generated by Johnson Administration policies which has put our trade balance on a ski slide.

Our prices must be stable and competitive if American business is to recover its former position in the world export market.

We must have a flexible, balanced and, above all, a coordinated monetary and fiscal policy.

What do we have in place of such a solution? We have an Administration which did virtually nothing to slow a boom that was getting out of hand and then criticized the Federal Reserve Board for acting on its own.

We also have an Administration which has failed to use the federal budget in a consistent manner as an instrument of economic stabilization.

This is the underlying cause of steadily rising prices and wages at home, and the failure of American-made products to compete strongly enough in the world market. Hence, it is the underlying cause of our worsened balance of payments situation and our continued high gold outflow.

If the present Administration had not yielded to demands by some that Great Society programs be expanded by billions of dollars despite our costly involvement in Vietnam, price stability would be more than just a memory and we would have an improved balance of payments situation. We would not see non-essential government spending pushing up the price of American products, with a consequent unfavorable impact on our trade balance surplus.

This Administration cannot do a good job of handling our balance of payments problem because its basic approach to economics has developed the disease of politics-itis.

Now that the New Economics espoused by John Maynard Keynes has produced a dangerously inflated boom, the Administration is reluctant to apply the other half of his advice. Administration officials have turned their faces away from the Keynes primer, which warns against the debasing of a country's currency and advises quick action to cool off an overheated economy. It's obvious that the Democrats use the New Economics when it is expedient to do so and reject it when it proves politically painful.

(MORE)

SPEECH EXCERPTS

* * *

The inflation we now are faced with had a relatively slow start because the Eisenhower Administration succeeded in burying what might be called inflationary psychology. But now inflation is here--as a result of Johnson Administration policies.

Prices must be stabilized if we are to avoid a sharp rise in wage increase demands, wage-push inflation, and a continued worsening of our balance of payments situation.

* * *

This nation desperately needs an administration which will keep prices stable and competitive. Only then can we have an economy sufficiently vigorous and efficient to restore our trade surplus to its former levels.

With such an administration, American businessmen would recapture their old position in domestic and foreign markets and we could stop worrying about our balance of payments position and outflow of gold.

With such an administration, we could continue to invest in other countries, and other countries in the full flush of confidence in the American dollar and American business would invest here.

This then could be a truly healthy economy. The President, be he Democrat or Republican, has the responsibility to promote that kind of an economy.

But as the swing set would say, that's <u>not</u> what's happening.

The Johnson Administration's entire fiscal record is long on promises and short on performance--on the domestic scene and in foreign affairs.

This Administration has over-promised and under-performed, over-attempted and under-succeeded, under-estimated and over-excused throughout all its days in office.

This is particularly perilous in these crucial times--a time of showdown in the ceaseless struggle between the Communist and Free worlds, a showdown in what the Communist Chinese cynically call a war of liberation.

Now is the time to show the rest of the world that the capitalistic system is the best system ever devised to further the goals and dreams of man.

Now is the time to re-enlist our friends in Europe in that crusade.

I firmly believe that with proper leadership in the White House, inspiring leadership, we could win the other nations of the Free World to our banner in a progress march that would confound our enemies, further bless America, and enhance all of mankind.

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Ford

SPEECH BEFORE NEW YORK BANKERS ASSOCIATION CONVENTION
AT SPRING LAKE ON SATURDAY, JUNE 25, 1966
BY HOUSE MINORITY LEADER GERALD R. FORD

Gentlemen:

I am very pleased to be here with you today. I will be speaking to you on a special topic because this is, as I understand it, a so-called special interest group. I hasten to add, however, your record as an organization and as individuals clearly indicates a broader interest in the welfare of our nation. I commend your concern for and dedication to the future of America.

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Whether we leave the women out of it or not, this country is in deep trouble. And one of the most serious trouble spots is the continuing failure of the Administration to achieve a balance in our international payments situation.

This, I think, traces directly to the Johnson Administration's habit of adopting policies on the basis of a promise and a prayer instead of lasting results.

In its approach to the balance of payments problem, the Johnson Administration has performed like a little boy who bandages up one injured finger only to bang the one next to it with a hammer.

Our balance of payments problem currently seems as far away from solution as ever, despite an occasional optimistic forecast by the Administration and improved performance in 1965.

The improvement last year resulted because the banking community responded so whole-heartedly to the Administration's request for a limit on your foreign lending. The result, as you know, was a small inflow of funds for the year 1965. This made it possible for the United States to show the smallest overall deficit--$1.3 billion--in eight years.

But this was only a stop-gap measure at best. And our cutbacks in foreign investment, while temporarily easing our balance of payments problem, will hurt us in years to come. So this formula is not the answer.

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This means the theory that tight money alone produces beneficial shifts in payment balances just doesn't hold up.

It turns out that other factors have more than cancelled out the balance of payments benefits that might have resulted from last December's credit tightening.

For one thing, interest rates in Europe have continued to climb, and this has nearly eliminated the impact of the Federal Reserve Board action.

To curb inflation, authorities on the Continent have leaned heavily on monetary restraints as evidenced in the Dutch and German discount rate increases last month. Stringent controls on commercial bank credit to the private sector of the economy are the rule everywhere in Europe.

At the same time, except in France and Germany, government spending has added materially to inflationary stresses and strains on already overburdened economies throughout Europe.

Here in America we also have been plagued by inflation--and price boosts have made U.S. exports less attractive while American demand for foreign imports has continued high.

The result has been a dramatic and dangerous drop in our trade balance--exports as against imports.

While our overall balance of payments deficit in 1965 was $1.3 billion--less than half the $2.8 billion deficit in 1964--our trade balance surplus declined from $6.7 billion in 1964 to $4.8 billion in 1965.

First quarter figures for this year indicate that our trade balance surplus in 1966 will fall below $4 billion. This is because our imports have been rising rapidly while our exports are just barely holding at last year's level.

Had we maintained our trade balance at its 1964 level, we would have had an overall balance of payments surplus last year and close to a balance this year.

Sagging exports and rising imports lie at the heart of our balance of payments problem.

There are other factors, of course--travel abroad by an increasing number of Americans, spending on the Vietnam War, the outflow of foreign aid dollars.

But I repeat what I said earlier--sagging exports and rising imports are the core of our balance of payments problem. And it is domestic inflation generated by Johnson Administration policies which has put our trade balance on a ski slide.

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Our prices must be stable and competitive if American business is to recover its former position in the world export market.

The Administration should be providing leadership in the formulating of domestic economic policies if our balance of payments problem is to be solved. We are not getting leadership. Instead we are getting emergency, finger-in-the-dike desperation moves.

This is not the kind of problem which can await a consensus. It is not the kind of problem which can be solved with luck and the old political formula of making the fewest people angry.

The Administration should not be relying upon lopsided monetary policy--monetary policy which in the case of last December's "Fed" action probably came too late.

Of course, monetary stringency is one method of curbing a boom that is getting out of hand. But we must have a flexible, balanced and, above all, a coordinated monetary and fiscal policy.

What do we have in place of such a solution? We have an Administration which did virtually nothing to slow a boom that was getting out of hand and then criticized the Federal Reserve Board for acting on its own.

And we have an Administration which has failed to use the federal budget in a consistent manner as an instrument of economic stabilization.

This is the underlying cause of steadily rising prices and wages at home, and the failure of American-made products to compete strongly enough in the world market. Hence, it is the underlying cause of our worsened balance of payments situation and our continued high gold outflow.

The federal budget normally should be balanced. There are exceptions to this policy, of course--times of major military conflict or serious unemployment. But, over the long haul, we should achieve a relative balance. We should achieve a surplus in boom times and employ fiscal policy as a tool to reverse serious economic downturns. Unfortunately, the Johnson Administration shows no concern for balancing the federal budget or achieving a surplus at any time.

If the present Administration had not yielded to demands by some that Great Society programs be expanded by billions of dollars despite our costly involvement in Vietnam, price stability would be more than just a memory and we would have an improved balance of payments situation. We would not see non-essential government spending pushing up the price of American products, with a consequent unfavorable impact on our trade balance surplus.

This Administration cannot do a good job of handling our balance of payments problem because its basic approach to economics has developed the disease of politics-itis.

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Now that the New Economics espoused by John Maynard Keynes has produced a dangerously inflated boom, the Administration is reluctant to apply the other half of his advice. Administration officials have turned their faces away from the Keynes primer, which warns against the debasing of a country's currency and advises quick remedial action to cool off an overheated economy. It's obvious that the White House uses the New Economics when it is expedient to do so and rejects it when it proves politically painful.

It is for political reasons that the Administration has refused to apply the restraints needed to maintain price stability and to curb excesses in the economy. Chief among the restraints found wanting is restraint in non-essential federal spending.

Many people tend to discount much of what a professional politician says, so let me call your attention to a recent poll of university and business economists by the Chase Manhattan Bank.

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These economists recommended a broad-based attack on inflation, including cutbacks in government spending, tightening of money and an increase in taxes. The business economists put more emphasis on cuts in government spending, and the university economists leaned more toward a tax increase.

Since the Johnson Administration has refused to revise its fiscal 1967 budget downward and the overwhelming Democratic majorities in Congress are adding roughly $3 billion to his spending requests, a tax increase may prove inevitable.

Indications are the President is stalling any request for a tax increase until after the November election.

He also appears to have abandoned the 3.2 per cent wage-price guideposts, at least as far as wages are concerned.

In that connection, I might note that 60 per cent of the business economists responding to the Chase Manhattan poll opposed the guideposts as a technique for restraining prices, and half of the university economists were against them.

The inflation we now are faced with had a relatively slow start because the Eisenhower Administration succeeded in burying what might be called inflationary psychology. But now inflation is here as a result of Johnson Administration policies.

Prices must be stabilized, particularly if we are to avoid a sharp rise in wage increase demands, wage-push inflation, and a continued worsening of our balance of payments situation.

Former Treasury Secretary C. Douglas Dillon, whose opinions certainly deserve consideration, told Congress just a few days ago that "five or six billion dollars

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This nation desperately needs an administration which will keep prices stable and competitive if we are to have an economy sufficiently vigorous and efficient to restore our trade surplus to its former levels.

With such an administration, American businessmen would recapture their old position in domestic and foreign markets and we could stop worrying about our balance of payments position and outflow of gold.

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This then would be a truly healthy economy. The President, be he Democrat or Republican, has the responsiblity to promote that kind of an economy.

But as the swing set would say, that's <u>not</u> what's happening.

We should be working harder and more effectively than we are to remove special restrictions on sale of American goods abroad wherever those restrictions exist. We should be exploring all possible means of encouraging American exports within the limits of the overall national interest.

We should be getting our friends in Europe to pay their fair share of the cost of defending the free world and of dealing with the explosive forces now erupting in the developing nations of the world.

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