TELEGRAM

Foreign Service of the United States of America

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SUBJ: BALANCE OF PAYMENTS FOR THE SECOND QUARTER OF 1968
SECRETARY FOWLER'S STATEMENT

SUMMARY

SECRETARY FOWLER SAID THE UNITED STATES IS CLEARLY MAKING VERY SUBSTANTIAL PKRGRESS TOWARDS ACHIEVING EQUILIBRIUM IN ITS INTERNATIONAL BALANCE OF PAYMENTS. PRELIMINARY FIGURES ON THE SECOND QUARTER OF 1968 DEFICIT WERE RELEASED ON AUGUST 16 IN REGULAR QUARTERLY DEPARTMENT OF COMMERCE PRESS RELEASE ON SUBJECT. THEY SHOW ONLY A SMALL DEFICIT OF $156 MILLION SEASONALLY ADJUSTED ON LIQUIDITY BASIS COMPARED WITH $663 MILLION DEFICIT RECORDED IN THE FIRST QUARTER. THE BALANCE ON OFFICIAL RESERVES TRANSACTIONS BASIS SHOWED LARGE SURPLUS OF $1,456 MILLION SEASONALLY ADJUSTED COMPARED WITH FIRST QUARTER DEFICIT OF $530 MILLION.

BACKGROUND

RESERVE ASSETS INCREASED BY $137 MILLION IN THE SECOND QUARTER AS RESULT OF $426 MILLION IMPROVEMENT IN THE IMF GOLD TRANCHE POSITION, PARTLY OFFSET BY $267 MILLION DECREASE IN HOLDINGS OF CONVERTIBLE CURRENCIES AND $22 MILLION DECLINE IN U.S. GOLD STOCK.

LIQUID LIABILITIES TO FOREIGN RESIDENTS INCREASED ABOUT $290 MILLION AFTER SEASONAL ADJUSTMENT. HOWEVER, LIABILITIES TO ACCOUNTS OF FOREIGN PRIVATE ORGANIZATIONS AND PERSONS ROSE $2.4 BILLION WHILE THOSE TO FOREIGN OFFICIAL ACCOUNTS DECLINED BY ABOUT $2.1 BILLION. THESE SHIFTS OF LIQUID FUNDS DO NOT AFFECT THE BALANCE MEASURED ON LIQUIDITY BASIS BUT IMPROVE THE BALANCE MEASURED ON THE OFFICIAL RESERVE TRANSACTIONS BASIS. SPECIAL TRANSACTIONS, REPRESENTING INVESTMENT IN LONG-TERM SECURITIES BY FOREIGN OFFICIAL HOLDERS, ARE RUNNING SOMEWHAT LOWER IN 1968 THAN THEY WERE IN A COMPARABLE PERIOD IN 1967; THEY DO NOT AFFECT THE OFFICIAL RESERVE TRANSACTIONS BALANCE IN ANY WAY, ALTHOUGH THEY DO INFLUENCE THE BALANCE ON LIQUIDITY BASIS.

THE SEASONALLY ADJUSTED TRADE SURPLUS DECLINED TO ABOUT $15

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MILLION IN THE SECOND QUARTER FROM ABOUT $90 MILLION IN THE FIRST, AS EXPORTS ROSE BY ABOUT $400 MILLION AND IMPORTS BY $475 MILLION. IN HIS PRESS RELEASE, TREASURY SECRETARY FOWLER STATED THAT RESTORATION OF A HEALTHY TRADE SURPLUS IS FUNDAMENTAL TO A BALANCED LONG-TERM SOLUTION OF OUR PAYMENTS PICTURE. SEVERAL MEASURES ARE ALREADY LAUNCHED AND UNDERWAY TO REVERSE THE TREND OF OUR TRADE BALANCE. THE MOST IMPORTANT OF THESE IS THE TAX SURCHARGE AND EXPENDITURE CUT LEGISLATION WHICH CONGRESS PASSED ONLY AT THE END OF JUNE. SETTLEMENT OF THE COPPER AND STEEL BARGAINING DISPUTES WOULD ALSO HELP RESTORE THE TRADE SURPLUS.

THE SECRETARY ALSO EMPHASIZED THAT THE PRESIDENT'S NEW YEAR'S DAY ACTION PROGRAM IS PRODUCING RESULTS. HOWEVER, THERE CAN BE NO LET UP IN ALL OUR EFFORTS TO PRESS FORWARD AND CARRY OUT ALL ELEMENTS OF THAT PROGRAM. AS YET, THERE HAS BEEN NO SUCCESSFUL PROGRAM MOUNTED TO DEAL WITH THE GROWING TRAVEL DEFICIT AND THE SECRETARY STRESSED THE IMPORTANCE OF THE AMENDMENTS HE PROPOSED TO H.R. 16241 ON AUGUST 1 (WHICH WOULD CREATE A SPECIAL FUND TO FINANCE THE PROMOTION OF TRAVEL TO THE U.S. THUS HELPING TO CARRY OUT THE FAR-REACHING RECOMMENDATIONS SUBMITTED TO THE PRESIDENT BY THE TRAVEL TASK FORCE).

THE CAPITAL INFLOW DUE TO PORTFOLIO PURCHASES BY FOREIGN INVESTORS IN THE SECOND QUARTER WAS THE HIGHEST IN HISTORY FOR ANY SINGLE QUARTER, WHICH, HE S
R, WAS EVIDENCE OF THE UNDERLYING
CONTINUED CONFIDENCE OF INVESTORS THROUGHOUT THE WORLD IN THE STRENGTH AND DYNAMIC QUALITY OF THE U.S. ECONOMY. THE INFLUENCE OF FEDERAL DIRECT INVESTMENT AND THE VOLUNTARY FEDERAL RESERVE PROGRAMS WAS ANOTHER IMPORTANT FACTOR IN THIS IMPROVEMENT IN THE CAPITAL FLOWS. RUSK
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