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Opening Statement of Vice President Humphrey
Breakfast Conference of Insurance Investor Executives
Metropolitan Club
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I think I should mention at the outset that the problems of our foreign and domestic economic objectives are different today than they were during the Thirties. At that time our problem was unemployment. The Full Employment Act of 1946 with its goals of maximum employment, production and purchase power introduced a new economic era. World-wide shortage of dollars during the immediate postwar years meant that balance of payments was no constraint and we proceeded to rebuild Europe's war-torn industry and provide for its political stability. Today, we recognize that for full employment we must have rapid economic growth but this must be accompanied by price stability. This has added a complexity to our domestic economic goals and we now have a major additional foreign goal, which is to achieve a sustained balance of payments equilibrium. Of course, beyond this our foreign economic goals include the need to provide for long-run growth in international trade and payments and to work with others for a more productive international economy.

We have come a long way toward achieving our domestic economic goals. Our Gross National Product, a most comprehensive measure of national output, has increased nearly $120 billion since 1961. This, of course, is in real terms. The actual dollar figure ~~shows us~~, according to the latest figures, indicate that it is running at $649 billion a year.

Towards our goal of full employment we have also made substantial gains. Unemployment is down from 6.9 percent in February of 1961 to 4.7 percent last March. The Administration recognizes that much is yet to be done towards achieving this goal, but achieve it we will.

Perhaps our greatest success on the domestic economic front has been in the field of price stability. Here, the wholesale price index in February of 1961 was 101.0. Four years later it is virtually unchanged at 101.2. Productivity gains ~~in~~ and the Administration's wage price guideposts will continue this record, which is unmatched by any other major economic power.

Our immediate goal of balance of payments equilibrium has not yet been achieved. The potential is here, however. Price stability and economic growth from the domestic economic front are tools to strengthen our international competitive position.

This is indicated by our massive trade surplus of $6.6 billion last year. There has been a continued increase in earnings from our ~~significant~~ investments abroad. In fact, net ~~investment~~ income last year from these sources was $3.9 billion, net. The key fact here ~~to this factor, however,~~ is that we must not go too far too fast. ~~as~~ The large outlays in ~~of~~ the present are required to produce ~~this~~ future income and this has ~~have~~ been one of the most serious drains on our balance of payments.

In addition to increasing our exports, we have cut our net dollar outflow substantially by reducing military expenditures and by tying our foreign aid program to purchases of U.S. goods and services. All of these have actually improved our situation by $3.6 billion and if it were not for our private capital outflows and tourist expenditures we would not have a balance of payments deficit. This outflow of U.S. private capital, both long and short-term, reached a level of $6.4 billion in 1964 and our tourist deficit rose to $1.6 billion. Thus, the disturbing deficit of $3.1 billion for last year. President Johnson has responded with a program that has been received very well both at home and abroad. I am sure you are familiar with it but, as you know, its essence is voluntary restraint upon the part of the business and banking community. Preliminary data will not be available until sometime within the next month. The experts of both Commerce and Treasury, however, indicate there will be a ~~distinct~~ improvement in the position and that this improvement is largely attributable to the President's new program.

Another problem which I should bring up is one that you have been reading about in the newspapers. That is, the problem of record keeping. This whole problem is so complex that even the proper definition and measurement of the balance of payments deficit is to some extent an open question. Report of special study by outside group of business and academic experts headed by E. M. Bernstein will be released shortly. As now defined, we measure our deficit much more stringently than any other country, counting (as deficit items) not only any outflow of gold and decrease in our foreign exchange and IMF position, but also what the Department of Commerce terms the increase in "liquid liabilities" to foreign holders -- private and official. This is a problem that we will have to examine carefully in the months ahead. But however we measure our deficit, ~~starting~~

we have one, and have had it too long. This year our gold losses will be large again and they must be checked if we are to maintain confidence in the dollar, as we must.

I want to emphasize one fundamental point in the Administration's resolve to eliminate the deficit. We are firm in our determination to maintain the external convertibility of the dollar into gold at $35 an ounce. It is this price that anchors the entire international financial system.

Last week, Prime Minister Wilson was in this country. He discussed frankly the need to resolve the United Kingdom's balance of payments deficit. This problem is infinitely more serious than ours. We were encouraged, however, by the Prime Minister's frank recognition that the problem must be solved and his explanation of the stern budgetary measures taken by his country. This budget was well received by the experts here and abroad and sterling has, in fact, strengthened. Their country has just undergone a rather severe test which it seems to be passing. This was possible only through the massive cooperation of the world's central banks.

The Prime Minister also noted the need to work toward improvement in the international monetary field so that an expanding volume of world trade would not be hampered by any inadequacies in international liquidity. The United States, of course, agrees with this general position and is participating in a major study now under way on this subject by representatives of the major industrial and trading nations of the world. While no position has been taken as yet as to the precise means to achieve this objective, I hope that continuing discussions will lead to positive results. Early this summer, as you may have seen in the press, the Chancellor of the Exchequer, Mr. Callaghan, is coming over to the United States to exchange views on this subject with the Secretary of the Treasury Fowler. I expect there will be other conversations with financial officials of other nations on this subject also.

Specifically on the topic of your meetings in Washington, I believe there is no fundamental conflict between our domestic and foreign economic objectives,; both depend for their achievement upon a sound dollar backed by a rapidly expanding, productive economy. In this connection, the following observations should be made:

-- The use of fiscal policy to spur the economy has been demonstrated by 1964's tax reduction and the stimulus to incentives it has offered.

-- The excise tax reduction and close control of expenditures this year will carry us closer to our goal of a balanced budget in a balanced economy.

-- Monetary policy has kept credit available and key long-term interest rates, important for business investment and residential construction, relatively stable.

-- An increase in short-term interest rates has been encouraged, amounting, on the average, to 1-1/2 percent above ~~over a little more~~ since the recession lows of four years ago. This has kept our money market rates in the reasonable alignment with rates in foreign money markets that is required in a world of convertible currencies.

-- The full burden of achieving adjustment in our balance of payments could not realistically be placed upon monetary policy. We have, however, through the more active use of fiscal policy left monetary policy free to move quickly if the need should arise. As President Johnson pointed out in his Economic Report earlier this year, monetary policy must be prepared to move quickly if excessive demand should threaten inflation, or if an outflow of liquid funds should unexpectedly worsen our balance of payments.

In closing, let me say the Administration pledges the continuation of sound monetary and fiscal policies, designed to preserve the value of the dollar at home and abroad. Working within that stable framework and calling upon the initiative of all our citizens, our economy will go on to even greater productive accomplishments.