We have asked the companies to look carefully at investment proposals and to eliminate marginal projects, but we have not suggested the cancellation of projects vital to the competitive strength of U.S. business abroad. This year we have tightened our direct investment target somewhat, although in most cases the suggested level of outflows plus reinvested earnings in developed countries remains at or near the level occurring last year. The implication is that the growth in capital expenditures by foreign affiliates in developed countries should be financed abroad. This is not, in my mind, an unreasonable expectation. American businesses are adaptable. However, for individual companies it may require some sacrifices, especially if it should prove more difficult to raise needed funds in the European capital markets.

In view of the outlook for continued high levels of military expenditures abroad and a possible halt or even reversal of some of last year's capital inflows, there is a need for offsetting increases in contributions in other areas to proceed at an even more rapid rate in 1967. We hope that the reporting companies will be able to increase their overall net contributions on major selected transactions by $2 billion this year compared to an annual average increase of $1.3 billion in 1965 and 1966. The increase in contributions must come largely from expanding exports and increases in U.S. income from foreign investments. At the same time, these improvements on current account would be safeguarded from offsetting increases in capital outflows through the application of the direct investment target.

We are ever mindful of the fact that the voluntary program is by no means a permanent solution. It has helped to improve the balance of payments and had some favorable side effects, such as the accelerated development of the European capital market. But it was not designed as an element of a basic adjustment process. In current circumstances, however, faced with the special costs of the Vietnam situation, we found it reasonable to ask for an extension of the voluntary program. The American businessman has responded and will continue to respond to the interests of the Nation.

Kennedy Round

The substantial reductions in trade restrictions sought by the United States in the Kennedy round should contribute importantly to expanded international trade. These negotiations which formally opened in 1963 must be concluded in the very near future as the President's authority to negotiate reductions in U.S. duties expires with the Trade Expansion Act on June 30, 1967.

Issues that are both thorny and difficult of settlement remain to be resolved in the Kennedy round.

In the industrial area we need a consensus between ourselves and our negotiating partners as to what can be accomplished in the important sectors of chemicals, steel, pulp and paper, aluminum, and textiles, as well as in the important machinery sector.

The field of agriculture has its uncertainties, too. The EEC is being asked for liberalized access for its imports of agricultural products. One hopeful area for agricultural progress is in the area of grains where discussions aimed at a multilateral agreement are progressing.