any effect on direct investment (excluding funds raised abroad) of American capital in other countries. In 1964, direct investment was not quite equal to the total payments deficit (on the liquidity basis). In 1965 and during the first three quarters of 1966 (annual rate), the total payments deficit was less than half as large as in 1964, but direct investment had increased, so that in both years it was more than 2½ times as large as the deficit. The pertinent figures are as follows:

[Dollars in millions]

	Direct investment of U.S. capital in other countries (net capital outflow)	Balance-of-payments deficits (liquidity basis)	Ratio of direct investment to deficit
1964	$2,416	$2,798	0.86
1965	3,371	1,337	2.52
1966 [1]	3,151	1,213	2.60

[1] Average for 1st 3 quarters on a seasonally adjusted annual rate basis.

In other words, had direct investment been reduced by as little as two-fifths in 1965 and 1966—which would have brought it less than one-fifth below the 1964 level—the payments deficit would have been wiped out in each of those years. Such a reduction could have been accomplished without damage to the developing countries since only about one-fifth of all U.S. direct investment goes to such countries—in 1965 the proportion was 21.3 percent.

Other industrial countries protect their international payments positions by various forms of controls over capital exports. The IUD and the UAW have long advocated similar controls over U.S. capital exports to developed countries. Direct controls, with appropriate discretion vested in the controlling agency, would afford an opportunity to consider each proposed investment in the light of the national interest.

Another approach has recently been suggested by a member of the Board of Governors of the Federal Reserve System, Sherman Maisel. He proposed that the principle of the interest equalization tax, enacted to restrain other forms of capital outflow, be adapted to apply to direct investment of American capital in developed countries. According to press reports, Mr. Maisel posed a question very much like that which has long been on the minds of many in the IUD and the UAW. He asked: ". . . are lower incomes, unemployment, and excess capacity justifiable in order to avoid direct fiscal methods of adjusting the balance of payments?"

Whether the proper answer is fiscal methods or direct controls, it should be apparent that an answer must be found and put into effect promptly. The interests of the nation as a whole must be assured priority over the narrow, selfish and irresponsible pursuit of profits by the small number of large corporations engaged in overseas operations. *We urge that this Committee examine the alternatives and recommend action to curb direct investment in developed countries by American corporations so as to eliminate the pressures toward a restrictive economic policy which arise out of the payments deficit.*

GUIDEPOSTS

The IUD and the UAW unreservedly support sound, equitable, courageous and vigorous action to achieve price stability. But we refuse to permit a balance of payments deficit created essentially by croporate investment policies in pursuit of maximum profits to panic us into accepting an inequitable wage policy that results in enriching those same corporations at the expense of their workers. That is why we oppose the guideposts and call for their replacement by a comprehensive incomes policy that bears equitably upon all forms of income—property income as well as employment income, managerial and professional income as well as workers' income.