

Administration's balance-of-payments program in hearings before the Committee on Ways and Means of the House of Representatives. These organizations are national in character and represent the capital goods and allied product industries. Their stake in foreign trade is extraordinary. Machinery exports are the largest single category of manufactured exports from the United States; in 1966 capital goods exports reached a level of \$8.83 billion. Moreover, these industries have a very substantial interest in private investment abroad, in licensing, subcontracting, and other arrangements necessary to maintain a strong position in world trade.

Based on the experience of these industries and in reference to certain of the issues which will be discussed in our presentation, we should like to emphasize at this point that no private organization and no governmental program, whether the latter is drawn in the form of a control or an incentive, can afford to ignore one central fact about foreign trade. To achieve, sustain, and improve a company's or an industry's position in international trade, the approach must be on a wholly integrated basis, integrated in terms of exports, private investment, licensing, subcontracting, etc., and also integrated in terms of the world, whether the countries are developed, or at some intermediate stage in industrial development. No industrial organization or governmental program in the face of this irrefutable fact of life can attempt to segment or splinter the total foreign trade effort. As we shall develop, this is precisely the central blunder of conception implicit in the Administration's approach to balance-of-payments correction particularly as reflected in the foreign investment controls announced on January 1, 1968.

Perverse effect on exports.—Subject to later, more detailed, treatment, let me emphasize at this point the seriousness of the perverse or counterproductive character of the foreign investment controls and to some degree the proposed restrictions on travel. In brief the problem breaks down as follows:

1. There will be an immediate adverse effect on exports from the United States flowing from the direct investment controls. This effect will enlarge at the intermediate stage and grow very seriously in the longer run. It is documented by government studies that there is a very direct relationship between private investment abroad and exports, it being estimated that approximately 25 to 30 percent of exports from the United States are tied to foreign affiliates of U.S. companies. Also when you affect the growth, viability, and flexibility of those foreign affiliate operations there will be an immediate adverse effect on exports from the United States and as just indicated that adverse effect will grow in intensity.

2. Certain elements of the *structure* of the control program also will affect exports adversely, particularly rules governing open account transactions covering merchandise transfers.

3. As to all foreign countries affected by the controls program, it seems probable that reduction in inflows of capital from the United States, limitations on the growth of U.S. affiliates abroad, and restrictions on the flexibility of their management will in turn affect the economic growth of the host countries and in turn their importing capability. It is our judgment that this impact will be present to some degree in all foreign countries affected by the program but of course will be intensified in certain countries experiencing economic difficulties such as England and Canada.

4. The controls on foreign investment will disrupt in a general way the effective integration of individual companies' programs involving foreign trade. The energy, the time, and the money which will have to be expended to adjust or react to these controls, the adverse effects that they will have on the interacting elements of a company's foreign trade program—all of these things—undoubtedly will cut into the export performance of U.S. companies, their earnings, their job-creating potential in the United States, and their international competitive strength.

5. We have been discussing the boomerang effects of the controls program largely in terms of investment controls. To some degree at least, perhaps to a significant degree, there will be boomerang effects created by the controls on tourist expenditures. There can be no question but that these restrictions, if they work, will have an effect on the economies of foreign countries. There can be no question that these restrictions, if they work, will affect the capability of those countries to buy U.S. exports even if they are in a trade surplus position.

In general, the policy makers, with reference to the direct investment controls and to some degree at least also as to the controls on tourist expenditures, have