

be interrupted, restricted, or canceled because of the new controls are of such significance to foreign governments that they will receive attention at the diplomatic level. The international politics will vary from country to country and from complaint to complaint as they develop among our friends abroad. It is absolutely naive to proceed on the assumption that our friends abroad will do nothing while being adversely affected by the controls program.

The relationship between U.S. direct investors abroad and the host country, both in the short and long term, is a very important factor in the ability of a company or an industry to operate flexibly and with dynamism in the foreign area. Sometimes clearances or government approvals abroad are necessary in order to establish the proper kind of relationship. When these procedures are interrupted or hobbled by withdrawal action of the U.S. government affecting our U.S. direct investors, the impact will not stop with the short run. The relationship between the U.S. company or industry and the foreign host country may be interrupted or set back for a great many years to come. This, of course, is implicit in the whole process of international trade including direct investment abroad which cannot be operated on an "off again-on again" basis.

C. So restrictive are the foreign direct investment regulations that they permit no credit to the direct investors' current investment quota for such inflows of capital as purchases by foreign affiliates of American equipment, receipts of royalties or management fees and receipts representing an increase in export sales. Each of these items makes a positive contribution to our international balance of payments and should, in our judgment, authorize at least a partially offsetting liberalization of the current investment quota. Indeed, if this program is to be continued in effect, this kind of safety valve could go far to mitigate the very harmful long-range effects of the mandatory program by providing an incentive for enlarged current contributions to our balance of payments which in turn would make possible current investments not otherwise authorized and which would yield returns in the future.

D. Now let us turn to a central problem with regard to the direct investment controls program; namely, its administrability, both from the standpoint of government and industry. Before proceeding with our criticisms, we should like to make it clear that the Institute is very much aware of the tremendous administrative burden placed suddenly—almost overnight—on the Department of Commerce. The personnel involved in this program are making a valiant try in administering what we consider to be a non-administrable program and a program which is thoroughly fallacious in conception. They have been particularly zealous to try to assist in urgent situations where, as President Johnson indicated, firm commitments were involved and almost immediate answers were required in the form of special authorizations. But we are obliged to conclude that no matter how conscientious or industrious the administrative organization within government is, it cannot possibly make this new creature of government work either in the public interest or in the private interest. The almost incredible variety of businesses and business situations to which this program must be applied makes it virtually impossible to come up with a single program fairly applicable to all. And it is our firm conviction that the program as originally announced cannot be patched up. It needs to be dismantled and reevaluated on a 100-percent basis.

It is by now obvious that issuance of a general authorization—for action not otherwise permitted under the regulations—is an excruciating experience for the Department of Commerce—made so probably for the very same reasons described above in respect to the difficulty in establishing a single broad program. As a result we have had to go the special exemption, case-by-case route and we shall probably have to continue on that basis under the present program.

The reporting burden on business will be immense. For example, there is the necessity of converting to accounting reports responsive to accounting principles generally accepted in the U.S., the products of accounting systems responsive to foreign rules of accounting, the delays involved in the collection of information necessary to complete reports from all affiliated foreign nationals and the magnification of that latter problem in the case of those affiliated foreign nationals in which the U.S. direct investor has only a minority interest.