

MAPI has, of course, reviewed this problem on several occasions.¹ However, the extent and the nature of the actions just taken are sufficiently serious that it is desirable to reconsider once again the nature of the problem we are facing. This analysis is confined to the mandatory controls over direct private investment abroad.

MAJOR SHORTCOMINGS OF THE CURRENT PROGRAM

Program Deals With Symptoms Rather Than Causes

Our basic concern about the current program is that it is directed at symptoms rather than the causes of the problem. This is not new. It is the history of the government's approach toward the recurring U.S. balance-of-payments difficulties.

The assumption appears to be that we are dealing with a temporary phenomenon which presumably calls for short-term restrictive measures. (Indeed, the current program, as in the case of earlier programs, was announced as a temporary one.) But history shows us that this is not the case. The U.S. balance of payments was first recognized as a serious problem following the huge balance-of-payments deficit incurred in 1958. More than a decade has passed and we are still seeking ways to correct it. More than once we have been led to believe that the restoration of a healthy payments position was imminent, but that hope never has been realized.

The problem has been attributed to various causes from one period to another. At one time a declining trade surplus was fingered as the major difficulty. At another time rising capital outflows were assigned the blame. Most recently, of course, our difficulties have been attributed to the Vietnam war. The persistence of the deficit, however, makes it clear that we have been suffering from a basic imbalance—i.e., our international commitments consistently have exceeded our current resources. We have, in a very real sense, been continually drawing on our capital without, in the interim, taking steps to match our commitments to our current availabilities.

Given the fact that we are confronting more than just a short-term problem calling for temporary emergency measures, it should be clear that palliatives are insufficient, and that our basic economic policies must be responsible and realistic. In this connection, it is regrettable, for example, that at a time when unemployment remains relatively low and we have suffered a particularly rapid increase in costs and prices we are simultaneously experiencing a domestic budget deficit of huge proportions which only can have further damaging effects in terms of the international competitiveness of the U.S. economy.

Our concern would be somewhat relieved if the current program were really a temporary measure designed to buy time while we "get our house in order" or until there is a lessening of Vietnam war requirements. However, even should we attribute most of our current difficulties entirely to the Vietnam war, there is as yet no clear indication that this war will be any less of a drain on our resources in the foreseeable future. More important, the balance-of-payments problem long preceded the Vietnam war, and there is no solid evidence to indicate that it will not outlast it. We have entered the eleventh year of deficits which have been considered unacceptably large, and a solution is not yet in sight. Such a history, together with the new program, provides ample evidence that the government has not taken sufficient advantage of the time purchased by earlier programs.

Hasty Action; Widesweeping Coverage

Of further concern to us is the apparent haste with which the current program was drawn up and its broad coverage. It is particularly difficult to understand, with respect to controls over sectors which do not appear to have been under any undue pressure, why more time was not taken to consider their positive contribution in the light of all the facts. At the very least, greater deliberation in the drafting of additional controls would have avoided many of the administrative problems which have already arisen.

The current program, which was undertaken in response to a huge fourth quarter deficit of \$7.3 billion (at seasonally adjusted annual rates), was drawn up so hurriedly that not even preliminary figures were publicly available for the fourth quarter at the time of its announcement. Indeed, preliminary data were not made publicly available until February 15 or one and one-half months following the initiation of the program.

¹ See, for example, *U.S. Manufacturing Investments Abroad and the Government Program for Balance of Payments Improvement*, Machinery Institute, 1965.