

in the payments balance resulting from such restrictions an excuse to continue on the same economic course only to conclude that controls have to be tightened even further at a later time.

It must, of course, be recognized that the Vietnam war is an important factor underlying the present difficulties and, unfortunately, there is no clear indication that the resources directed to this war can or will be reduced significantly in the near term future. However, this is almost beside the point. While the extent of our foreign commitments have no doubt been increased because of Vietnam, they have been heavy throughout the post-World War II period, taking the form of large scale military and economic commitments in extended areas of the world.

It has long been apparent that even the U.S. has limited resources and that realistic public goals must be established with this fact in mind in order to avoid sapping the strength of the private sector in the pursuit of short-term goals to the point where there will ultimately be no alternative to a sharp, involuntary reduction in international commitments to the detriment of the country. We must find a proper balance between our foreign and domestic objectives. If we feel certain sacrifices on the domestic front or cut back on other international objectives. We must, in short, establish a realistic scale of priorities in terms of available resources, and postpone less urgent requirements.

Our major concern is that we will continue to put too great a burden on the private sector in order to carry out publicly established objectives both at home and abroad without regard to the adequacy of our resources. In so doing we may place such a burden on the private sector as to significantly impair its ability to compete commercially and to support important publicly-established objectives in the future.

It is our contention that we are doing precisely that today. We are impairing the future ability of American industry to support important public policy requirements. In accord with this general line of thinking, and the recent course of history, it appears likely in our view that, in lieu of easing controls with a lessening of Vietnam war requirements, the U.S. government may well, on grounds of urgency, take on added international (as well as domestic) obligations and maintain the present controls with unfortunate effects both for industry and the country over the longer term. We are convinced that if these controls are maintained beyond the very near term future the effects will be very serious.

APPENDIX

Estimated Balance-of-Payments Impact From Instituting Controls Over Direct Private Investments In Europe at Year-End 1958

The following is a description of the methods used in estimating the impact on the U.S. balance of payments that would have occurred had the new controls over direct private investments in most of Europe been established at year-end 1958. Results from our computations are shown in the attached tables.

1. The new controls specify the following: New capital outflows from U.S. to direct private investments in most of continental Europe are prohibited. Earnings in excess of 35 percent of average annual investments in 1965-66 (or the percentage of earnings remitted during 1964-66) must be remitted annually from most of continental Europe. The larger figure is controlling.

2. It was assumed that the current program was instituted at year-end 1958 and maintained to the present time. This would have meant (a) that new capital outflows to Europe were prohibited beginning in 1959, and (b) earnings in excess of 35 percent of average annual investments in 1956-57 had to be repatriated or the same percentage of each year's earnings had to be repatriated as was repatriated during 1955-57. The larger figure is controlling. (In our computations it developed that the 35 percent requirement was controlling through 1964 when the percentage of earnings requirement became controlling.)

3. It was assumed that U.S. corporations remitted only the minimum required amount. This amounted to \$191 million annually for the years 1958 through 1964 and \$202 million, \$217 million, and \$230 million in 1965, 1966, and 1967, respectively. The remainder of the earnings from these investments was reinvested.

4. The rate of return in each year was assumed to be 13 percent as measured against book value at the beginning of the year in question. The actual annual rate of return averaged 13.2 percent during 1956-61 and then began to decline, reaching 8.2 percent by 1966; it averaged 10.5 percent during 1962-66. Part of the decline was a result of the large increase in investments during this period which led to an increasing proportion of facilities which were not yet fully