

of conception implicit in the administration's approach to balance of payments is a failure to recognize that foreign trade is a wholly integrated effort.

It includes exports, investment abroad, subcontracting, licensing, and all other similar arrangements. It cannot be splintered by business in approaching foreign trade challenges nor can it be splintered by a Government program either in the form of a control or an incentive. And yet that is precisely what the balance-of-payments program thus far revealed does.

We emphasize next in the statement that particularly the direct-investment controls, but also to some degree the proposed restrictions on travel, would have perverse effects on exports, and hence our balance of payments. Let us run quickly through the rationalization of that conclusion.

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, the estimate being, according to Government figures, 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 affiliates there will be an immediate adverse effect on exports from the United States and, as just indicated, that adverse effect will grow in intensity.

Second, certain elements of the structure of the control program also will affect exports adversely, particularly rules governing open-account transactions covering merchandise transfers, because as those accounts build up and increase it is the thrust of the control program that the extent of that buildup is a capital investment and therefore subject to restriction, creating a direct and adverse effect on exports of such items as components.

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, bear in mind, their importing capability.

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, undoubtedly will cut into the export performance of U.S. companies.

Finally, we have been discussing thus far 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