

*First*, the Government should not lose sight of the obvious connection between inflation at home and the balance of payments deficit. The excess demand created at home by expansionary fiscal and monetary policies has encouraged a substantial increase in imports, which has reduced the foreign trade surplus of the private sector from about \$3 billion in 1960 to \$700 million in 1966. Only the Middle East crisis prevented a continuation of this deterioration in 1967. The over-all foreign trade surplus has been maintained entirely by an increase in exports financed by tied-in loans and grants of the federal government.

In view of this development, it is more important than ever that we restore and maintain domestic price stability. The most effective step in this direction would be a substantial cut in government non-defense expenditures. These expenditures have increased at an annual rate of almost 13% since mid-1965 when the war in Vietnam was escalated. As a result, the federal deficit has risen to unprecedented levels, which has contributed substantially to inflation and the deterioration in our international payments position.

*Second*, government spending and lending abroad have increased significantly in the last few years and is a big factor in the payments deficit. While the Vietnam war may prevent a reduction of foreign military expenditures in that area, other overseas government spending should be subjected to continuous review in order to reduce it to a minimum consistent with our national security.

Furthermore, government loans and grants tied to U.S. exports, which the government justifies on grounds that they are not a drain on the balance of payments, should also be thoroughly re-examined since the indirect effects of much of this aid may tend to increase the deficit. Low-cost government loans, for example, may encourage foreign countries to enlarge the public sector of their economies to the detriment of American and other private companies. This could restrict the return which private companies make to the U.S. balance of payments.

*Third*, U.S. Government efforts should be accelerated to reduce existing quantitative and tax barriers to expansion of U.S. trade abroad. This would be consistent with our foreign trade policy of the last 30 years and held to promote a higher level of exports on a sound basis. The direct controls on investment adopted by the U.S. Government will make this task difficult, as is already evident from the reaction they have provoked in foreign countries. This is an additional reason why these controls should be dropped.

Particular attention should be given to the trade-restrictive effects of state trading enterprises and other nonconventional types of quantitative controls. State trading enterprises pre-empt sizable markets in which private companies are either forbidden to operate or are at a competitive disadvantage because of the strong government support these enterprises receive.

We feel that action along the fronts just discussed will go a long way in reducing the balance of payments deficit. Furthermore, these proposals deal with the underlying causes of the deficit problem, not just its symptoms. The repression of these symptoms—as the mandatory restrictions on investments attempt to do—is not the answer. Direct controls are an expedient bound to provoke countermeasures abroad that will drive the world down the road to protectionism.

It is our hope, therefore, that the direct controls on investments overseas will be rescinded, or, at the very least, substantially eased. We should not lose sight in our present difficulties of a fundamental fact: that freedom of capital movements is necessary to the promotion of international trade and of the economic growth and political stability of the free world.

Respectfully submitted.

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#### STATEMENT OF AIR TRANSPORT ASSOCIATION OF AMERICA

The Air Transport Association of America is a voluntary trade and service organization whose membership is comprised of virtually all the scheduled airlines of the United States which engage in air transportation pursuant to certificates of public convenience and necessity issued by the Civil Aeronautics Board. In addition to their domestic in territorial services, these airlines carry the flag of U.S. air commerce to every corner of the world.

The oil import legislation before this committee as typified by HR 10690 would have a direct and critical impact upon the airline industry. Whether inad-