

ally for the fact that we have discouraged investment literally since 1962, not since 1965, but since 1962, with the Revenue Act of 1962, which displayed, at least, an aura of disapproval by the Government of foreign investment not only for balance-of-payments reasons, but, because of tax reasons, tax inequities and so on.

We are, therefore, I think, now beginning to pay fairly seriously for our follies in the way in which we looked at foreign investment outflows.

There is another aspect which I wish to close on, and that is that our handling of the investment controls, including the portfolio on direct investment, particularly now, indicates to European and other countries that we are willing to slap them very hard for the purpose of showing them that they are in fact dependent on the United States. It is, in my view, almost a spite action, an action which says to them, "If you do not really understand how important we are, we will show you by pulling the props out from under you." That, to me, is an irresponsible action for a country as strong as we are.

Not only that, but that and the various devaluations we have gone through, the control schemes, feed even more the growing desire in the United States for a type of economic isolation, for a type of withdrawal from economic responsibilities which I see growing in magnitude, and which I regret greatly, since they may turn us back toward the thirties.

That is all, Mr. Chairman. Thank you very much.

(The prepared statement of Professor Behrman follows:)

PREPARED STATEMENT OF J. N. BEHRMAN

U.S. DIRECT INVESTMENT RESTRAINTS, 1965-68

1967 was a year of contradictions for U.S. international financial policy, and early 1968 has seen an intensification of the basic conflict between the principles of a free society and controls which are appropriate only with a wartime economy. These controls have not been justified as necessitated by war financing but as required by the economic forces. The Government has, moreover, insisted that the controls are temporary, without indicating the temporary causes which may later be altered or offset. Without an identification of the temporary factors justifying departure from free economic institutions, it is difficult to assess the ability to generate measures to terminate the controls.

A further contradiction arose in the successful negotiation of the Kennedy Round, liberalizing trade, while controls were imposed on capital flows. There is no clear justification for interference in these aspects of international payments rather than or exclusive of interference in the area of trade. One fears that the only justifications for differential policies on trade and investment is that of administrative nicety—that is, it is easier to turn on and off controls over capital than controls over goods.

These comments are directed at the present control policies which are carrying the U.S. not towards but away from those "broad economic objectives that all nations hold—such as high employment, sustained worldwide economic growth, a high degree of freedom of international trade and capital movements, and an adequate flow of capital to the less developed nations." (*Econ. Report*, p. 165.) The *Economic Report* asserts that "there was no choice but to move, in part, in ways that are restrictive and thus not fully compatible with the long-run aims of expansion and efficiency in the world economy." (p. 166.) This is the washing of hands by the deficit country in the face of an asserted lack of responsibility on the part of the surplus countries. The Report cites the OECD Report on the Adjustment Process which calls on the surplus countries to assume a special responsibility to maintain their pace of economic growth. But the OECD does not impose upon the surplus countries the responsibility for deficits in international