Europe view our continued fiscal inaction as highly irresponsible on our part and are likely, in the absence of early action, to circumscribe quite strictly the amount of cooperation we may expect from them in reducing the U.S. payments deficit further.

The CED is also concerned about the direction our policies have taken as a result of the most recent measures. We should not deceive ourselves into think that there is anything "better" about restricting international capital movements rather than restricting international trade or travel. Restrictions on either cause the world to forgo economic benefits which would result from voluntary decisions made in response to free market forces. Moreover, current and proposed restrictions on capital movements, trade, and travel will undo much of the progress that we have made in the last quarter century toward greater freedom for international trade and investment.

Summary

In summary, the CED believes that a prudent course of action at the moment is (1) a program of substantial fiscal restraint on the part of the Federal Government—the immediate enactment of the proposed surcharge and a reduction of expenditures to yield a modest surplus in the high-employment budget on national income and product account, (2) prompt consideration by the administration and Congress of the potential usefulness of the value-added tax along the lines suggested by the CED in 1966, and (3) preparations for a move in the direction of eliminating direct controls, specialized taxes, and direct Government influence in the functioning of business which have been imposed to offset the influences of inflation in the domestic economy and on the balance of payments.