

THE MACHINERY AND ALLIED PRODUCTS INSTITUTE

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THE NEW GOVERNMENT PROGRAM TO IMPROVE THE U.S. BALANCE-OF-PAYMENTS POSITION: A CRITIQUE

SUMMARY

1. Essentially, the administration's program for improvement of our international balance of payments consists of controls—controls on foreign travel, foreign investment, and bank loans. Moreover, a central fallacy in the new program is its failure to recognize that all elements of foreign trade, including direct investment abroad, are parts of an integrated whole and the same is true of the various elements of the balance of payments. The institute regards any program grounded wholly in the "controlist" philosophy as unsound in principle. Such a program would:

- a. Lack incentive and rely on compulsion.
- b. Ignore long-range effects.
- c. Impose intolerable burdens on individuals and businesses.
- d. Provoke foreign reprisals.
- e. Gravely erode personal freedoms.
- f. Probably be unworkable.

2. The institute opposes travel restrictions proposed by the administration because they would:

- a. Fall with unequal effect on citizens of varying means.
- b. Fragment tax treatment of passenger transportation.
- c. Establish a method of taxation that is poorly conceived, highly arbitrary, and nearly impossible to comply with.
- d. Represent an unjustifiable intrusion on a fundamental right.
- e. Call forth foreign countermeasures.
- f. Probably, in the net, fall short of the fiscal goal which they seek to attain.

3. Similarly, we are opposed to the principal feature of the administration's balance-of-payments program—the system of mandatory controls on foreign direct investment. In our judgment, these controls focus on the wrong target, are likely to become permanent in effect, substantially reduce business' ability to compete in international trade, represent an invitation to protectionism, tend to obscure long-standing domestic fiscal disorder which substantially affects our balance-of-payments difficulty, and constitute an extraordinary assertion of Executive authority without congressional approval. The system of mandatory investment controls is so structured as to:

- a. Adversely affect U.S. exports.
- b. Produce widespread inequity by reason of the base periods chosen.