c. Harm most those U.S. direct investors who responded most effectively to the Government's entreaties under the voluntary balance of payments program.

d. Provide no incentives for individual efforts to improve the balance of payments.

e. Raise the near certainty of foreign reprisals.

f. Impose a crushing burden of administration on government and business alike.

4. In the light of conclusions summarized above, the institute recommends that:

a. Congress not approve administration proposals for restrictions on travel.

b. Congress call upon the administration to either:

(1) Abandon promptly the mandatory system of controls on foreign direct investment and return to the pre-existing voluntary balance-of-payments program, or

(2) Rethink and restructure the mandatory system so as to make it equitable in principle and workable in practice.

c. Congress insist upon further substantial reductions in nonessential Government spending, not only as a precondition to action on the surtax proposal, but as a means of correcting our balance-of-payments program over the longer term by improving our international competitive position.

d. Congress call for immediate consideration and prompt implementation of measures to expand U.S. exports.

e. Congress inquire into tax aspects of the direct investment program and other tax actions which might be taken to assist the balance of payments. Such an inquiry should consider affirmative measures designed to overcome the adverse effects of enforced repatriation of earnings, to induce the repatriation of foreign earnings not subject to the controls program and to encourage the increase of U.S. exports.

Introduction

It is a privilege for the Machinery and Allied Products Institute and its affiliate, the Council for Technological Advancement, to present their views on the administration's balance-of-payments program in connection with hearings on the 1968 Economic Report. These organizations are national in character and represent the capital goods and allied product industries. Their stake in foreign trade is extraordinary. Machinery exports are the largest single category of manufactured exports from the United States; in 1966 capital goods exports reached a level of $8.83 billion. Moreover, these industries have a very substantial interest in private investment abroad, in licensing, subcontracting, and other arrangements necessary to maintain a strong position in world trade.

Based on the experience of these industries and in reference to certain of the issues which will be discussed in our presentation, we should like to emphasize at this point that no private organization and no governmental program, whether the latter is drawn in the form of a control or an incentive, can afford to ignore one central fact about