

foreign trade. To achieve, sustain, and improve a company's or an industry's position in international trade, the approach must be on a wholly integrated basis, integrated in terms of exports, private investment, licensing, subcontracting, etc., and also integrated in terms of the world, whether the countries are developed, or at some intermediate stage in industrial development. No industrial organization or governmental program in the face of this irrefutable fact of life can attempt to segment or splinter the total foreign trade effort. As we shall develop, this is precisely the central blunder of conception implicit in the administration's approach to balance-of-payments correction particularly as reflected in the foreign investment controls announced on January 1, 1968.

*Perverse effect on exports.*—Subject to later, more detailed, treatment, let me emphasize at this point the seriousness of the perverse or counterproductive character of the foreign investment controls and to some degree the proposed restrictions on travel. In brief the problem breaks down as follows:

1. There will be an immediate adverse effect on exports from the United States flowing from the direct investment controls. This effect will enlarge at the intermediate stage and grow very seriously in the longer run. It is documented by Government studies that there is a very direct relationship between private investment abroad and exports, it being estimated that approximately 25 to 30 percent of exports from the United States are tied to foreign affiliates of U.S. companies. Also when you affect the growth, viability, and flexibility of those foreign affiliate operations there will be an immediate adverse effect on exports from the United States, and as just indicated that adverse effect will grow in intensity.

2. Certain elements of the *structure* of the control program also will affect exports adversely, particularly rules governing open account transactions covering merchandise transfers.

3. As to all foreign countries affected by the controls program, it seems probable that reduction in inflows of capital from the United States, limitations on the growth of U.S. affiliates abroad, and restrictions on the flexibility of their management will in turn affect the economic growth of the host countries and in turn their importing capability. It is our judgment that this impact will be present to some degree in all foreign countries affected by the program but of course will be intensified in certain countries experiencing economic difficulties such as England and Canada.

4. The controls on foreign investment will disrupt in a general way the effective integration of individual companies' programs involving foreign trade. The energy, the time, and the money which will have to be expended to adjust or react to these controls, the adverse effects that they will have on the interacting elements of a company's foreign trade program—all of these things—undoubtedly will cut into the export performance of U.S. companies, their earnings, their job-creating potential in the United States, and their international competitive strength.

5. We have been discussing the boomerang effects of the controls program largely in terms of investment controls. To some