tries to import. Both the direct foreign investment controls and the proposed tourism programs will reduce the capacity of foreign countries to buy from the United States. In conclusion on this point, it is our judgment that merely cleaning up technical points in the regulation cannot correct the inequitable conflict between a desire on the part of this country to increase its exports and net trade balance and the actions taken to restrict foreign direct investment and the proposals regarding tourist expenditures. We are obliged to observe that the administration ought to read its own pronouncements about the need for maintaining free flow of trade, about the interrelationship between various elements of trade, and about the fact that we cannot isolate the United States from the rest of the world and maintain our position in world trade and improve our balance of payments.

Other shortcomings.—There is a wide range of other deficiencies or fallacies in the structure of the controls program. They can be summarized as follows:

A. The foreign direct investment program clearly raises the possibility of foreign reprisals by countries disaffected or disadvantaged by one or more elements of the program. An example is provided by the requirement of repatriation of earnings. Foreign countries wishing to react against the U.S. interests could adopt any one or a combination of approaches. There could be an embargo or partial embargo placed on repatriation to the United States of an affiliated foreign national's earnings or a possible increase in taxes on such items as management fees and earned royalties, and, of course, a possible restriction on investments in the United States by foreign nationals. Clearly, forced and enlarged repatriation of earnings to the United States is disadvantageous to the host countries. We can't believe that foreign countries will not react by some means.

B. There will undoubtedly be special unfavorable impacts on some foreign countries. The Canadian problem which has already been recognized in a special statement by the Treasury Department is a perfect example.[1] Belgium may be another; England certainly another. It is not necessary to elaborate on the fact that England is already in serious trouble. The controls on investment and possible restrictions on tourist expenditures are certain to hurt England further. In addition, the general reduction in our capital flows abroad and the proposed restrictions on tourist expenditures will reduce foreign countries' ability to import from the United States.

Finally, it will be very difficult for this country to respond in an entirely even-handed manner to meritorious arguments ad-

[1] Treasury Department release, Jan. 21, 1968:

"There have been reports that, during the past week or two, some Canadian subsidiaries of U.S. corporations have been transferring abnormally large amounts of funds from Canada to the United States and that these transfers have resulted in some pressure on the Canadian dollar in the exchange market.

"The new U.S. balance-of-payments program does not call for and is not intended to have the effect of causing abnormal transfers of earnings or withdrawals of capital by U.S. companies having investments in Canada. Moreover, the U.S. Government has already made it clear, and now repeats, that Canadian subsidiaries of U.S. corporations are expected to act as good corporate citizens of Canada. The new U.S. balance-of-payments program covering private capital flows and the Canadian exemption from the interest equalization tax provide scope for continued large flows of capital to Canada."