military commitments abroad as essential, it would be irresponsible to oppose any or all measures to halt and reverse this decline in our payments position. The question is whether these particular measures are sound. When viewed within the context of the Government's approach over the past decade toward this country's chronic balance-of-payments problem, the current program has, in our opinion, serious implications for the future. Certain elements are in our judgment particularly regrettable and could, in the retrospect of the early 1970's, prove to have been tragically wrong.

MAPI has, of course, reviewed this problem on several occasions.[1] However, the extent and the nature of the actions just taken are sufficiently serious that it is desirable to reconsider once again the nature of the problem we are facing. This analysis is confined to the mandatory controls over direct private investment abroad.

MAJOR SHORTCOMINGS OF THE CURRENT PROGRAM

Program Deals With Symptoms Rather Than Causes

Our basic concern about the current program is that it is directed at symptoms rather than the causes of the problem. This is not new. It is the history of the Government's approach toward the recurring U.S. balance-of-payments difficulties.

The assumption appears to be that we are dealing with a temporary phenomenon which presumably calls for short-term restrictive measures. (Indeed, the current program, as in the case of earlier programs, was announced as a temporary one.) But history shows us that this is not the case. The U.S. balance of payments was first recognized as a serious problem following the huge balance-of-payments deficit incurred in 1958. More than a decade has passed and we are still seeking ways to correct it. More than once we have been led to believe that the restoration of a healthy payments position was imminent, but that hope never has been realized.

The problem has been attributed to various causes from one period to another. At one time a declining trade surplus was fingered as the major difficulty. At another time rising capital outflows were assigned the blame. Most recently, of course, our difficulties have been attributed to the Vietnam war. The persistence of the deficit, however, makes it clear that we have been suffering from a basic imbalance—that is, our international commitments consistently have exceeded our current resources. We have, in a very real sense, been continually drawing on our capital without, in the interim, taking steps to match our commitments to our current availabilities.

Given the fact that we are confronting more than just a short-term problem calling for temporary emergency measures, it should be clear that palliatives are insufficient, and that our basic economic policies must be responsible and realistic. In this connection, it is regrettable, for example, that at a time when unemployment remains relatively low and we have suffered a particularly rapid increase in costs and prices we are simultaneously experiencing a domestic budget deficit of huge proportions which only can have further damaging effects in terms of the international competitiveness of the U.S. economy.

---

[1] See, for example, *U.S. Manufacturing Investments Abroad and the Government Program for Balance of Payments Improvement,* Machinery Institute, 1965.