

Our concern would be somewhat relieved if the current program were really a temporary measure designed to buy time while we "get our house in order" or until there is a lessening of Vietnam war requirements. However, even should we attribute most of our current difficulties entirely to the Vietnam war, there is as yet no clear indication that this war will be any less of a drain on our resources in the foreseeable future. More important, the balance-of-payments problem long preceded the Vietnam war, and there is no solid evidence to indicate that it will not outlast it. We have entered the 11th year of deficits which have been considered unacceptably large, and a solution is not yet in sight. Such a history, together with the new program, provides ample evidence that the Government has not taken sufficient advantage of the time purchased by earlier programs.

Hasty Action; Widesweeping Coverage

Of further concern to us is the apparent haste with which the current program was drawn up and its broad coverage. It is particularly difficult to understand, with respect to controls over sectors which do not appear to have been under any undue pressure, why more time was not taken to consider their positive contribution in the light of all the facts. At the very least, greater deliberation in the drafting of additional controls would have avoided many of the administrative problems which have already arisen.

The current program, which was undertaken in response to a huge fourth quarter deficit of \$7.3 billion (at seasonally adjusted annual rates), was drawn up so hurriedly that not even preliminary figures were publicly available for the fourth quarter at the time of its announcement. Indeed, preliminary data were not made publicly available until February 15 or 1½ months following the initiation of the program.

While the preliminary data fail to identify movements in certain sectors, including the direct investment sector, they do show that an important part of the fourth-quarter deficit resulted from a nonrecurring type transaction, namely the liquidation by the British Government of some \$500 million of U.S. securities in order to defend the exchange value of the British pound. Another important factor was a \$720 million decline in our non-military merchandise trade surplus reflecting a sharp rise in imports and a small decline in exports.

These two items account for some two-thirds of the total deficit. While other major adverse movements have not yet been identified, there is no reason to suppose that capital outflows into direct private investment (that is, investment in brick and mortar as opposed to portfolio investments and the buildup of other dollar assets abroad) contributed to the large adverse movement in the fourth quarter. On the contrary, one would expect direct investment, unlike other types of private capital, to be generally insensitive to currency devaluations. Accordingly, it is particularly unfortunate that the administration applied hastily devised controls to the direct investment sector. Indeed, there is still no indication that stringent direct investment controls were called for at all. Developments in this sector were very favorable in the first three quarters of last year, as described below.