Growing Controls Over Private Sector

This is the crux of the problem in our view. Recent history leads us to question whether the Government really has the will to make and execute the difficult decisions necessary to assure a healthy payments position in the absence of controls. A more likely prospect seems to be a continuation of strict controls on the private sector while the Government attempts some restraints in certain areas within the public sector but continues to increase its overall world commitments.

Certain steps have, of course, been taken from time to time within the government sector but they have been entirely inadequate as is conspicuously demonstrated by recent events. Further, prospects are not good for a matching of commitments with availabilities in the foreseeable future.

The Vietnam war has, of course, resulted in a rapid acceleration in our international commitments. At the same time, there has been no clear evidence that, prior to the new program, any really strong efforts were made to cut back significantly in other public sector areas. We may note, for example, that U.S. Government grants (excluding military) and long-term capital outflows increased from $4.2 billion in 1964 to $4.4 billion in 1966 and to an annual rate of $5.6 billion in the first three quarters of 1967. While much of this was probably Vietnam related, the fact that the size of last year's increase was so large suggests that efforts to undertake cutbacks in other areas probably were minimal. Yet, additional steps could have been taken as evidenced by the fact that several measures have just been initiated. But, relying in part, no doubt, on beneficial effects from the voluntary balance-of-payments program, the Government simply had an inadequate sense of urgency until it felt forced to take further strong measures, and again the major burden of these measures is placed on the private sector.

There is little reason to believe, against this background, that Government intends that the present controls will be lifted in the near future. Insofar as U.S. international commitments are concerned, there is certainly nothing on the horizon to indicate that they will be reduced any time soon. Indeed, the contrary would seem to be indicated in view of the continuing Vietnam conflict, trouble in Korea, and Britain's increasing withdrawal from world commitments which creates strong pressures for a corresponding increase in U.S. commitments. Further, the longer controls on the private direct investment sector remain in effect the more difficult it will be for control-minded Government to rationalize removing them. For the favorable impact of such investments will tend to diminish with time as a result of their reduction, while the potential investment opportunities will accumulate. It follows that the adverse short-run effects of removing the controls will increase over time.

Danger of Restricting Ability of Private Sector To Contribute to Reductions in Payments Deficits

The tragedy of maintaining these controls over an extended period is evident. As our international commitments continue to mount, a major means of supporting them (in the form of currency inflows generated by direct investment activity abroad) is being seriously impaired. This fact, combined with the lack of an adequate sense of