

tributor to the balance-of-payments deficit (the merchandise trade and private investment sector together have consistently contributed to the plus side of the payments balance) and in light of the large increase in the payments deficit on Government account last year, the Government should, in our view undertake further intensive efforts to reduce the deficit in its own sector. We so conclude even though we must recognize the necessarily adverse effects of Vietnam developments on the Government sector.

More importantly, in view of the private sector's historic role in reducing the payments deficit incurred in the public sector, the Government should be careful to avoid taking steps which will impair the ability of the private sector to fulfill that role in future years, particularly since the history of the last decade strongly supports the proposition that that role will be at least as essential and probably more so in the future.

A CLOSE LOOK AT DIRECT PRIVATE INVESTMENT ABROAD

In seriously restricting direct private investments abroad and, more specifically, in flatly prohibiting further direct private capital outflows to most of Europe (excluding the United Kingdom and certain less advanced countries) the Government is taking a step which could have most unfortunate effects for the future of this country's international payments position.

Role of U.S. Corporations in Minimizing Payments Deficits

It is ironic that the Government should be taking such drastic action against U.S. corporations at this particular juncture. According to President Johnson's statements and the U.S. Department of Commerce reports on the Government's voluntary program to improve the U.S. balance of payments, American business has cooperated closely and has stayed well within the targets set under that program. Further, corporations made a substantial contribution toward minimizing the balance-of-payments deficit in 1967, as noted earlier, with direct private capital outflows declining significantly and remittances from direct investment abroad continuing their long-term climb. Finally, there is every indication that capital flows to Europe, which have been heavy in recent years but which appear to have declined sharply last year from 1966, will continue at more moderate levels in the future. There is a growing consensus that Europe's future growth rates will be markedly slower than they were prior to the 1966-67 recession. This should be reflected in reduced U.S. corporate investments in that region. The latter is suggested, for example, by recent surveys (e.g., the U.S. Department of Commerce) indicating a reduced rate of expansion in plant and equipment spending by U.S. subsidiaries and affiliates in Europe in 1967 and very little growth in 1968. At the same time, remitted earnings from past investments in Europe could have been expected to continue their rapid increase with a reduction in European capital requirements, particularly as recent investments became seasoned and hence more profitable.

It is true, of course, that U.S. capital outflows to Europe in the first three quarters of 1967 (\$1.5 billion at annual rates) continued to exceed remittances from such investments (\$0.7 billion at annual rates)