

investment abroad. It has had the intended effect of reducing capital outflows from this country by increasing the use of funds borrowed overseas for direct investment by United States affiliated enterprises.

Our base for future earnings continues to increase and the present balance of payments costs are maintained within tolerable limits. The private sector has for the most part understood this. The best way to keep the program temporary is to press ahead vigorously on all features of the balance of payments front.

There is little disagreement that this program should be temporary and terminated as soon as possible. It is the view of your Cabinet Committee that it is not possible to terminate the program in 1969 without running a grave risk that our progress toward balance of payments equilibrium would be reversed and a heavy deficit become a likely prospect. As stated earlier in the principles governing the formulation of the 1969 program, until the nation has a durable surplus or the assurance of long-term equilibrium, it would be unwise to abandon some of the temporary and less desirable measures that it has been forced to employ.

This has a special relevance to the Foreign Direct Investment Program as the following observations underscore:

First, overseas investments by American business (excluding Canada, which is exempt from the direct investment program) are projected to increase again in 1969, with plant and equipment expenditures reaching close to \$8 billion—up from an estimated \$7.5 billion this year, and up from \$4.6 billion in 1964, the last year before the introduction of the voluntary program.

Second, in order to hold the balance of payments impact of such investment in 1968 to the \$2.6 billion you targeted last January, it may be necessary for United States companies and their foreign affiliates to utilize between \$2 and \$2.5 billion of the proceeds of foreign borrowing in addition to foreign borrowing for day-to-day working capital requirements. To meet the new target for foreign direct investment of \$2.9 billion in 1969, we project it may be necessary for business to utilize another \$2–2.5 billion in foreign borrowing next year.

Third, growing restraint upon capital flows from the United States since the start of the voluntary program in February 1965 has resulted in a substantial, and to some extent abnormal level of foreign debt by United States companies and their foreign affiliates, as compared to what it might otherwise have been without the foreign direct investment programs. We do not have any precise way to measure its size, but it could approach \$5 billion by the end of this year.

Fourth, during the past four years, in cooperation with the capital programs, many United States companies have decreased their overseas liquidity through the reduction of inter-company accounts and