

Finally, to enable companies to plan ahead and to insure that investment projects with important future balance of payments potential are not discouraged, the Office of Foreign Direct Investments evolved its incremental earnings formula, under which additional direct investment in future years is authorized on the basis of future incremental earnings.

6. The Federal Reserve Voluntary Foreign Credit Restraint Program Should be Maintained with Present Ceilings on Foreign Lending from the United States, but in the Coming Year Attention Should be Given to Possible Modifications to Encourage Further the Promotion and Financing of Exports by the Commercial Banking System.

The Federal Reserve program has required a great deal of United States financial institutions and they have responded well. Since 1964, United States commercial banks have not increased the volume of United States credits to foreign borrowers, even though the foreign banking business has grown substantially in all other respects. In their international operation, United States banks have had to meet the demands of clients for foreign loans within their voluntary ceilings and through the extensive use of resources in foreign branches.

The prospects for 1969 do not permit any basic change in the need for restraint on foreign lending of United States banks and other United States financial institutions. Accordingly, the existing voluntary ceilings for foreign lending by these institutions should be continued for 1969.

During the coming year, attention should be given to the effect of the program on increasing United States receipts as well as on reducing United States capital outflows. Since 1964, annual exports from the United States have increased by about 32 percent. Financing to support the growth in exports has become available as banks have changed the composition of their portfolios of foreign credits in response to the voluntary program and to a lesser extent by the use of funds in foreign branches and by the expansion of the Export-Import Bank's direct lending. The Federal Reserve Board intends, in the light of developments in the United States and abroad, to review its Voluntary Foreign Credit Restraint program early in 1969 in order to determine whether additional flexibility for financing United States exports might usefully be provided in the program's guidelines.

7. The Interest Equalization Tax, which Expires July 31, 1969, Should be Extended with the Existing Authority to Vary the Rate from 1½ Percent Down to Zero, Depending on Circumstances.

The size and efficiency of the American capital market necessitated the Interest Equalization Tax in 1963. This tax has served to facilitate