

eign investment. When one considers the enormous contributions which direct investments abroad have made to our international balance of payments, it seems evident to us that any remaining trace of such an attitude within Government should be extirpated at once.

The adoption of foreign direct investment controls

The foreign direct investment program was triggered, of course, by our continuing balance-of-payments deficits. And they in turn resulted from a too-long-continued failure to face up to the root causes of our problem, to curtail Government spending abroad, from the foreign exchange costs of the Vietnamese war, and from a failure to promote American exports more vigorously. Above all, these deficits are traceable in large part to excessive domestic spending which encouraged inflation and at once induced imports and made our exports less competitive.

Confronted as it was a year ago with a situation where a weakening loss of gold had become a destructive hemorrhage, the present administration undertook crisis surgical measures of a "temporary" nature. The balance-of-payments program as proposed by the President called for a substantial tax on foreign travel, a reduction in Government spending abroad, a vigorous promotion of foreign travel in the United States, a governmental program to expand U.S. exports, encouragement of foreign investment in the United States, an attempt to eliminate nontariff foreign barriers to American exports, controls on foreign lending, and direct controls on foreign investment. Except for very small beginnings toward the enlargement of U.S. exports and preliminary negotiations for the removal of nontariff barriers to our foreign trade, and some increase in foreign investment in the United States, the program has produced significant results only as it controlled directly the outflow of capital in the form of direct foreign investments and loans to foreign citizens. In short, those elements of the balance-of-payments equation which had in the past made the greatest positive contributions to our balance of payments were made to bear the brunt of the present administration's achievements.

We agree, of course, with your statement of October 3 that "This controls program is a palliative * * *"; but, palliative or not, the fundamental circumstances which have led to our present balance-of-payments situation have been altered little if at all in the year which has intervened since adoption of the controls program. Indeed, those who argue for the program's continuance cite three conclusions in support of this necessity. One is that American industry, prohibited from investing normally from its domestic funds, has continued its foreign investment program by borrowing abroad, and that, if controls were removed, American borrowers would refinance this foreign debt from U.S. sources and thus precipitate a greater balance-of-payments crisis than we have ever faced in the past. In addition, it is argued that restoration of normal liquidity among foreign subsidiaries and the resumption of a higher rate of foreign investment, both of which could be expected to follow cessation of controls, would impose new and unacceptable stresses on our balance of payments. Without arguing these conclusions here it seems appropriate to observe that nothing illustrates more conclusively the truism that controls beget controls.

We hope, of course, that, consistent with your personal commitment to the greatest possible freedom in business affairs, it may be possible