to dismantle this system of controls promptly and fully. It will not be easy, not only because underlying balance-of-payments problems remain unsolved but because the controls themselves have so distorted the normal activities of international capital markets as to create new and very difficult problems which must also be solved before the system of controls can be altogether abandoned. Despite these problems, we hope the effort will be made because we are convinced that to delay this could only further postpone the too-long-delayed attack upon fundamental problems and would tend simply to magnify the distortions which controls have already created. To discontinue controls at once would be a bold step—one requiring courage, imagination, and the utmost cooperation of U.S. industry and the banking fraternity. If your administration can bring itself to make the effort, you can be assured of industry's cooperation, as evidenced by its magnificient response to the voluntary balance-of-payments program, even though in the latter case those who responded most generously suffered most greviously when the voluntary program was changed to a mandatory system of controls.

If, on the other hand, you and your advisers consider the present situation to be such as to require continuation of the controls program for a further limited period, we hope that you will accompany your decision to extend it with a firm resolution, publicly announced, to phase out the program on an orderly basis and one wholly coordinated with such other administration moves as may be adopted to deal with the whole of the larger problem. Moreover, if it is your decision to continue the controls program for a further period, we hope that it may be substantially revised to minimize its ill effects and to provide a proper transition to its oblivion.

Recommendations for change in the foreign direct investment controls program

Although we oppose completely the present system of Government controls over direct foreign investment—as previously suggested—we acknowledge the possibility of its continuation for some period of time in the future. In acknowledging this possibility, one cannot resist repeating the observation that the creators and administrators of this system—who in deploring the necessity of its adoption emphasized its temporary nature—now argue for its indefinite extension on grounds that its operation has created conditions which make its immediate abolition impossible as a practical matter. The fact is that only 1 year of foreign direct investment controls has taken us far down the road toward permanence. If the new administration does not move promptly and decisively to fulfill its pledge of abolishing controls over foreign direct investment "at the earliest possible time," then we believe that the distortions in international capital flows which those controls have already produced will be so intensified and multiplied that—because of fear and continually enlarging danger—we may become permanently addicted to this regulatory tranquilizer.

Assuming, without admitting, that the present system of controls cannot be abolished forthwith, let us consider some practical steps that can be taken administratively to minimize the adverse effects of the present system and to lay a foundation for the cessation of controls at the earliest possible time. Some suggestions to this end follow.