Reinstitution of voluntary system.—We repeat that the situation calls for a fundamental change in policy accompanied by boldness in its execution. No small step will do the trick. It seems to us possible to achieve most of this objective without subjecting the United States to those dangers so vividly described in recent months by those who favor continued controls.

For 2 years American foreign direct investors met every goal established for them under the Government's voluntary system of controls. It was not a desirable system, of course, but it had the virtue of preserving to industry a degree of flexibility in managing its incredibly diverse affairs that can never be attained under a compulsory system. At the least, the possibility of substituting some new system of voluntary controls for the present mandatory system should be fully and sympathetically considered. We have no doubt that U.S. business would respond as patriotically as it did in the past.

If this cannot be done, then we urge that the new administration consider such changes in the mandatory system of controls as are outlined below.

Repatriation.—The primary objective of the present investment controls system is to improve our balance-of-payments position by reducing capital outflows from the United States. As a concomitant measure, the system provides for repatriation of foreign earnings under rules which vary in accordance with the division of the globe into three "scheduled" groups of countries.

We recommend that present repatriation requirements be abolished in their totality or, if this is deemed too radical a step to take at once, that they be reduced substantially and abolished altogether as soon as possible.

As presently administered, the system of controls permits U.S. direct investors to borrow in foreign countries for purposes of capital investment abroad and to guarantee such foreign borrowings by affiliated foreign nationals without such investments being chargeable to controls-ordained "investment allowables." However, such authority is subject to the proviso that as to such indebtedness incurred after January 1, 1968, the foreign direct investor shall have certified to the Secretary of Commerce that it will not make any transfers of capital in connection with repayment of the borrowings within 7 years, or if such transfers are made, they will be within investment allowables.

For reasons which it is unnecessary to recount here, industry has, since initiation of the voluntary program in 1965, borrowed an estimated $5 billion for such purposes, largely in the capital markets of Western Europe. Further, the Department of Commerce expects that it may be necessary for American business to borrow an additional $2 billion or $2.5 billion in 1969. The existence of this debt "overhang" is now cited by those who argue for continuance of investment controls as a principal reason for the inevitability for such continuation.

We are told that, if the system were abandoned at once, American industry would, as quickly as possible, refinance this indebtedness in the United States at lower interest rates and that we might thus confront an altogether unacceptable balance-of-payments deficit as a result. This may well be true but the potentialities of this controls-created condition are even worse than their present effects—bad as they are. The reason is a simple one. The program requires the very substantial repatriation of foreign earnings, amounting in the case of Western