investors during the pendency of the controls system. Some means will have to be found of dealing with this lingering side effect of the controls but it is better now we think to face and deal forthrightly with this unavoidable problem than to employ it as an excuse for a continuance of the program.

Not only do we believe the new administration should announce promptly a program for the phaseout of foreign direct investment controls, we also think it should designate a senior Cabinet officer to preside over the system's dissolution and with authority to take such steps as are necessary to accomplish its scheduled interment.

Incentives.—Given the distasteful character of the foreign direct investment program, Mr. Fiero and his very able staff, in our judgment, have administered the program evenhandedly and well to date. As with any controls program, however, it depends upon compulsion for the achievement of its objectives. Citizens accustomed to freedom do not take kindly to compulsion. Moreover, we are inclined to believe that the investment controls program's necessary—and thus far total—reliance upon compulsion may have resulted in its making a less favorable contribution to our balance of payments than could have been possible. What we have in mind are incentives appealing to the self-interest of direct investors subject to the program and which could, in our judgment, contribute materially to improvements in the balance of payments beyond those arbitrarily achieved by the program's restrictions.

It is unarguable that an enlargement of our export trade balance is badly needed if we are to close the balance-of-payments gap with or without controls on foreign direct investment. So long as the controls are continued, why not employ them as a lever to advance the equally important national objective of export expansion. Toward this end, we recommend that foreign direct investors subject to the controls program be permitted to increase investment allowables to which they are otherwise entitled by a fixed percentage of the amount by which their current exports exceed the average of their exports in 1965–66. We lack sufficient information to suggest what that percentage ought to be but, within whatever limits are acceptable to the general program, we have no doubt that the more generous the percentage the more favorable the reaction. Similarly, if it is decided not to abolish but rather simply to reduce the present mandatory repatriation requirement, then consideration should be given to incentives in the form of increased investment allowables to encourage repatriation beyond that still required.

Similarly, the administration, if it decides to continue the foreign direct investment program, should undertake a thoroughgoing study of the taxation of foreign earnings. This subject, to be sure, deserves study on its own and thus in a larger sense is only peripherally related to the foreign direct investment program. If, however, as Prof. Dan Throop Smith has recently suggested, there are sound reasons of national policy for considering the taxation of foreign earnings at a lesser rate than that applicable to domestic earnings, then a study of this problem becomes a matter of urgency. Reduced taxes on foreign earnings would clearly be a great incentive for the prompt repatriation of such earnings. Consideration should also be given to a tax incentive to encourage exports. Obviously, all such measures would conduce to the benefit of our international balance of payments. Moreover, the bene-