

ficial contributions of such a tax incentive to our balance of payments would continue in the future regardless of when or how the foreign direct investment program is ended.

Abolition of area "schedules".—As you are aware, the foreign direct investment program divides the world into three "schedules" of countries. In brief, schedule A consists of lesser developed countries; schedule B of Japan, the British Commonwealth of Nations (except Canada), and the oil-producing nations of the Near East; and schedule C consists of Western Europe plus South Africa. Each "schedule" is treated differently in terms of investment allowables and repatriation requirements with the least stringent applying to schedule A and the most stringent applying to schedule C. One must infer that the principal reason for this discrimination results from a mixture of inconsistent motives—that is to say, an attempt to engraft upon what is essentially a system of compulsion respecting private investment abroad a national policy objective of encouraging private investment in lesser developed nations. Quite aside from the illogicality of attempting to achieve an affirmative objective by a negative approach, our pragmatic view of the matter is that the "schedular" approach has resulted in little if any increased investment in lesser developed nations, nor is it likely to. The fact is that a foreign investment may spring from any of a variety of motivations and the mere fact that one is not permitted to invest in the relatively low-risk countries in schedule C is not by itself a reason for diverting such an investment to the relatively high-risk countries in schedule A.

From an even more practical standpoint, the division of the globe into three schedules has trebled the administrative difficulties and burden of compliance with the controls program, has greatly reduced management flexibility as to total foreign operations, and, so far as we can see, there has been no commensurate benefits in terms of increased investment in lesser developed countries.

We suggest that the schedular approach be abandoned and that for purposes of any continuation of the foreign direct investment program the globe be treated globally. If it continues to be our national policy to encourage private investment in less developed nations, then such an objective can be more fruitfully served by qualifying such investors for an investment tax credit, suggested already and long considered both in the Congress and in the executive branch. We acknowledge that the Office of Foreign Direct Investments has already relaxed in some degree the rigidity of the original schedular approach by sanctioning limited "upstream" transfers of capital. Although a welcome step in the right direction, it is too limited a step, an aspirin approach to an organic problem that demands surgery.

Finally, let us emphasize that abandonment of the schedular approach—just as in the case of our recommendation for abolishing or reducing the repatriation requirement—should not be permitted to serve as an excuse for reducing investment allowables. At the least, global allowables should consist of appropriately weighted averages of preexisting schedular allowables.

Open accounts and increased exports

Present OFDI regulations define as a net transfer of capital to affiliated foreign nationals, " * * * increases (or decreases) in the debt obligations (including trade credits, loans, or advances, whether or not