With regard to financial intermediation as a factor in our deficit, the idea is a very useful addition to the discussion of this subject. But it is not the whole story, and if it were our liquidity problems as world banker would not cease to be important.

As a final remark, I would like to point out that, in a sense, it is not U.S. foreign investment that is necessary to get the confidence of the foreigner. What he has confidence in is American entrepreneurship. Perhaps our efforts in this period should be directed to encourage the export of entrepreneurship, while being obliged to discourage the export of capital.

Senator PROXMIRE. Would it be possible, Mr. Chairman, for me to ask questions now, before Mr. Mundell comments on Mr. Despres' comments?

Chairman REUSS. Yes. I think Mr. Blough can only stay 15 more minutes. Perhaps it would be well for all the members to do this.

Senator PROXMIRE. Did you and other members of the panel receive this very excellent, and what I think is one of the finest, brief and concise summaries that I have seen a member of the committee issue? Chairman Reuss sent out this release dated Sunday, August 28, 1966. (See p. 3.)

Mr. BLOUGH. Yes; I have that.

Senator PROXMIRE. The third item in subsection B asks:

"What action would they recommend in order to enable the United States to meet this (deficit) target?" Now it seems as if our deficit is going to exceed the target for some time. The imports, as you know, are substantially up, and exports didn't change very much in the second quarter, and this seems to be one of the most significant developments.

Let me ask first, Mr. Blough, referring to subsections (i) through (x), do you see any particular actions there which you believe would be most sensible or any which you would be particularly oppoesd to?

Mr. BLOUGH. Yes. No. (i), "action by continental countries to restrict U.S. private investment". I would hope they wouldn't; but I wish they would stop complaining about our private investment when they don't, because they are certainly in a position to restrict our investment if they really desire to do so.

Senator PROXMIRE. You would hope that they would not, however, on No. (i)?

Mr. BLOUGH. I would rather they would not.

Senator PROXMIRE. Even though our deficit does exceed the target.

Mr. BLOUGH. I am afraid that in restricting our private investment, they may restrict the wrong things so far as both they and we are concerned. If they would restrict the right things, perhaps that would be all right. I think on our side we might be in a better position to judge this from the point of view of its effect on us.

Senator PROXMIRE. Right.

Mr. BLOUGH. But I certainly think that, rather than complain about excessive private investment, they have open to them this type of action.

On (ii); I think we probably have tied about all the foreign aid we can, and I consider the amounts involved there relatively small.

Sentor PROXMIRE. The question, then, isn't tying more aid but reducing the aid that is untied.