one, must be on capital account. It obviously cannot work immediately on trade account.

I am allowing a full year to reach the height of the full benefits on the trade account.

I agree the United States has to absorb, will absorb, initially probably close to one-fourth, maybe a little less than a fourth, of the adverse impact.

I think that much more of it will fall against the Europeans, both the Common Market and the EFTA countries. Some of it will fall against Japan.

I do not think that the competition of the United Kingdom with the United States is anywhere near as great as the competition of the United Kingdom with Germany, Belgium, Netherlands, Sweden.

They are a much bigger trading group. The direct effect will be much bigger.

I do not think, for example, that our imports from the United Kingdom are going to rise very much at our balance-of-payments expense.

As to Scotch whiskey, there is not going to be very much increase in imports because (*a*) the British are not going to reduce the dollar price much, and, (*b*) in any case, three-fourths of the dollar price probably consists of the Internal Revenue stamp.

Second, we will buy more British cars, but I think the displacement of Chevrolets and Fords by these British cars will be much less than the displacement of the same-sized European imports.

I would be very glad to see the British gain a big export advantage in the United States at the expense of the Common Market countries, especially the big surplus countries there, and this is what I think will really happen.

But, of course, I agree with Sir Roy that in the first instance both in direct and in third-party competition—third-market competition mainly—our balance of payments must deteriorate, but it will be a small fraction of the total. The greater part must fall on the Europeans.

Senator PROXMIRE. Thank you very much.

Chairman REUSS. Before we leave this fascinating——

Sir ROY HARROD. On that point, just to finish it off—I could not possibly compete with Mr. Bernstein's estimate of these elasticities in these areas—there will be some deterioration in the U.S. balance of payments, which is bad for our objectives, is it not, because it strenthens those who say this "scheme" must not be brought into effect until the U.S. balance improves.

Now, it may be that the United Kingdom balance will improve, but I think these people have their eyes more on this country.

Senator PROXMIRE. Of course, it is so frustrating, Dr. Harrod, because you cannot improve the British balance of trade on your assumptions without adversely affecting the American balance of trade which, in turn, adversely affects the American balance of payments.

We have such a steady surplus in our balance of trade, still about $5 billion, I notice in the latest statistics we have here that it seems to me somehow, sometime, we are going to have to pay that price, and in view of the urgency of the situation in Britain, it would seem