

we are looking at in the overseas investment position of the United States is a position that has, through all of our travail, continued to increase. The improvement, as noted in your paper, Charlie, the improvement in our further overseas investment, even in the last 3 or 4 years, has been greater than the average over the previous 15, so that it is important to distinguish between something that is in its overall implications completely prohibitive and something which has the effect of slowing down. There is no question that the more foreign investment we can have, the more we will in the long run gain through the balance of payments in future earnings, and yet there is no question in the minds of General Motors that if they could double their size each year they would not make a tremendous amount more and sell all over the world. But there are restraints on size for them as there are for the United States. Digestion rates will impose some limits. And that is why it was necessary, through these temporary measures, to impose some check on the outflow, the rate of outflow of foreign investment, taken overall.

In reply to your specific question as to how long will the interest tax have to be continued, I may have to show you how self-serving I can be. It is fair to say, I believe, that if the voluntary program for the banks could have been imposed 1 year sooner, we would have had an actual balance in our overall accounts in 1964 (my last year here). After all, remember we had a current account surplus of \$8 billion in 1964. It was a tremendous outflow of additional bank funds, a great spurt in direct investment, and a continuation of heavy governmental payments abroad that used up that surplus, and left us still with a deficit, although to be sure a deficit smaller than in earlier years.

We have gone through the succession of new events year after year, each accounting for the major character of the new deficit in each year, and so long as these recur, until we have reached the stage where we are able to return to a current account surplus at something like the magnitude of 1964—at least in the magnitudes of \$6 and \$7 billion instead of the present under \$4 billion—we won't be able to free in the full sense the U.S. capital markets from the present interest equalization tax or the other restraints. It is not at all impossible to restore that kind of current account position, but it takes a recognition of the priorities in other policies to do it.

Representative Brock. I think what I am basically concerned with is the fact that it seems to me that the old cliché, we need trade not aid, is pretty applicable in the world today, particularly, with developing nations, and unless we can find ways of increasing the productivity by capital and technological talent, that we are going to continue to have to utilize the route of our neighbors is not in my way of thinking as productive to the people as the development in productivity.

I would like to ask one question. In the area of the domestic economy, when you have—as many have described it this year—a cost-push situation as opposed to a demand-pull, is it not possible, if that is a true situation and let me say I am not sure that it is, I think it is partially true in a way, is it not possible to have an expansion of our money supply without too much change in the interest rates? What I am worried about is the inflow of short-term money that occurred, that I think the professor was talking about last year