

One thing every business and bank has to take into consideration, and I presume also governments, is defaults.

Based on the history of financial relationships with Europe after World War I and World War II, and between those wars our relationship with Japan, and to a lesser extent the record of voluntary or involuntary defaults in Central and South America, wouldn't that enter into any relative satisfaction about lending long and borrowing short?

Mr. KINDLEBERGER. Sir, I tried to discuss this explicitly in my testimony and said that you have to worry about the character of the assets and the confidence in holding the liabilities. I expressed some concern, which I really feel, that Americans are tumbling over themselves rather like sheep to invest in Europe because it is very fashionable.

Profits have been declining for 4 years in Europe, and I see no reason, when profits have been declining for 4 years, for more and more companies to keep on adding to their investment over there. They are not going to make out on all of these investments.

I cited two cases, Machines Bull which GE bought with serious losses in the last 3 years and I cited Rootes, where Chrysler is trying to buy more of Rootes even though Rootes has lost money in the last couple of years.

I am concerned about the character of these assets, but on the whole I think we have done very well. The assets are splendid assets but we are moving into a situation where if we keep this up and keep on investing funds in long-term situations in Europe, it is not at all clear that we are not going to pick up a lot of lemons.

Senator SYMINGTON. You stimulate me to ask whether you think we have arrived at a point now where we should curtail, if not arrest, our long-term lendings abroad?

Mr. KINDLEBERGER. No, sir. If you believe in a private market economy as I do, you simply suggest to the market that maybe it is going too far, but I think it would be a terrible mistake for the United States to try to substitute its governmental judgment for the judgment of these investors.

Nonetheless, I call attention to Secretary Fowler's speech of December 1965, in which he said profits were declining. It didn't get much notice, but that is about as far as you can go.

Senator SYMINGTON. I was just asking what you felt we should do.

Mr. KINDLEBERGER. I speak my mind, sir.

Senator SYMINGTON. I certainly wouldn't want the Government get too far into such controls.

Mr. ROOSA, would you comment?

Mr. ROOSA. On the question of risks of default, I think this is very important in several ways. It is going to be a factor to consider if and when we try to do something in a multilateral way toward developing a new type of reserve asset, to work alongside the dollar. It is something we have to protect against.

It's clearly important in still another sense. That is, I think in retrospect now, it would be wise to chisel in stone one maxim for the Congress, since the executive branch never observes it. That is that no money is ever given as a grant. That it is always a loan, even if it is with no interest and with no specific maturity date, because there