

rope and it is even more true in areas like Latin America and the Orient. Foreign capital markets obviously already serve domestic customers and as their requirements increase so the load on the capital market from domestic institutions and companies grows. The United States as a result of the pressures of the Voluntary Balance of Payments Program has added very substantially to the burden on foreign capital markets. While the Euro-dollar market is still available to larger companies at rates not greatly above those of the U.S., it is not yet clear what the effect of increased borrowings by U.S. firms will be on the cost and availability of these funds. With respect to borrowings in national currencies, we understand that there is already speculation that some countries may be compelled to ration credit in the near future in ways that would adversely affect the access of U.S. companies to local capital markets.

2. Beyond these limitations in terms of size, flexibility, and similar factors, we understand that certain foreign countries have specific restrictions by law, regulation, or practice against borrowing for certain specific purposes; for example, borrowing to pay dividends may be limited or prohibited.

3. As previously indicated, many companies have already borrowed heavily abroad in response to the voluntary program. The servicing of these obligations will place a substantial burden on foreign affiliates' financial structure and to some degree the parent company, and might in turn require further borrowing when other factors are taken into consideration including the points below.

4. The repatriation requirement of the mandatory control program places an effective limit on all types of foreign borrowing in many cases. Clearly, payments of principal under foreign borrowing agreements are not accounting deductions prior to the calculation of earnings so that the foreign creditor and the U.S.—under the mandatory program—will be “competing” for the same dollars. The effect is to partially close the escape hatch presumably provided by foreign borrowing.

5. Because of the manner in which the repatriation requirement affects many, many companies subject to the mandatory controls program, the repatriation requirement plus debt service cannot be met out of current earnings abroad. Thus, there will be additional pressure for this reason on borrowing outside the United States.

6. Further, one should not overlook the costs of borrowing—either in the form of increased interest charges to the parent corporation or in the form of reduced earnings of the foreign affiliates. At a time when the Administration is addressing itself so persistently and strongly to the inflation problem and at a time when the Administration is very much concerned about exports and the effect of costs increases on the ability of companies to increase their export position, the additional costs which will be involved in borrowing abroad are wholly inconsistent with either of these considerations.

Only in the light of these limitations and influences can one examine realistically the degree to which foreign capital markets will sustain—and foreign affiliates or their parents will have the capability and the flexibility to borrow to sustain—increased borrowing by U.S. affiliates for necessary expansion or new investment in order to maintain a sound position in international trade.

To sum up, the ability and freedom to borrow abroad in order to compensate for the restrictions imposed by mandatory investment controls is limited. Moreover, it will be especially limited for the small and medium-sized company. Further, the impact on the foreign countries may very well be adverse and produce restrictions or resentment and the impact on the total costs of the American worldwide operation could very well be substantial.

It should be said in conclusion with respect to the so-called borrowing alternative that these limitations on borrowing coupled with the severe restrictions of the direct investment program create an even more serious factor. American business just can't maintain its position in international trade in a total sense if a dynamic approach to foreign direct investment is thwarted. This point of course is relevant throughout our statement, but it is emphasized here in the context that borrowing is not the panacea which some in government and other circles may believe to be the case.

*Adverse effect on exports.*—In the context of the structure of controls, and at the risk of repetition, may we emphasize again the perverse effects on exports.