

We do not wish to unduly labor the point insofar as our specific illustration is concerned. We feel, however, that the thrust of our argument is so important that it was better brought home when stated in specific terms, thereby indicating the dimensions of the problem that could be created if such a program were maintained for longer than a short period of time. On the basis of this illustrative example, and given further growth in U.S. international commitments and the glaring failure of the government to correct the basic causes of the current problem over the past decade, it would be appropriate to ask how in the light of the new program, the private sector could be expected indefinitely to continue to offset the deficits caused by the public sector.

Adverse Impact on International Competitiveness of U.S. Industry

While the direct balance of payments impact of the restrictions is of major importance in considering the significance of the new controls, other factors are of at least equal weight. The inability to invest any capital in European facilities from the U.S. reduces very greatly the flexibility of response essential for U.S. industry if it is to maintain its competitiveness against foreign industry in both domestic and foreign markets. The inability, for example, to establish new plants abroad in order to serve areas which can no longer be served from U.S.-based facilities because of cost or other considerations enables foreign companies to move at once to preempt that market. Or, to take another example, the inability to enter into a partnership or joint venture with a foreign firm whereunder each partner supplies new capital to the venture, may result in the prospective foreign partner's turning to another foreign company to serve this objective. In this connection, it should be stressed that such a total ban on capital outflows can seriously damage the international position of U.S. companies even if it is of relatively short duration. Timing is a central ingredient in maintaining a company's competitive position, and an opportunity not grasped when it presents itself is often lost forever.

As such lost opportunities accumulate, we will find a greater portion of the imports into this country and of sales into third country markets will be from foreign-owned industry, and the earnings and dividends deriving from such sales will accrue to foreign companies rather than U.S. companies to the detriment of the U.S. payments balance and the strength of U.S. industry. By the same token, we will find that a greater proportion of equipment, components, and parts will be purchased from other than U.S. suppliers. The results will be strongly adverse for the U.S. balance-of-payments position and the international competitiveness of American industry.

Further, it is those industries which are not yet established abroad but which are finding foreign operations increasingly necessary in the face of stiffened foreign competition which will be hindered most by these restrictions because more often than not they will have less access to foreign capital markets and, of course, internally generated funds from their foreign operations are minimal. Yet, it is these very companies whose need is greatest for establishing themselves in foreign markets in order to maintain a competitive position both abroad and at home in the face of rapidly increasing foreign competition.

CONCLUSION

In conclusion, we cannot emphasize too strongly two of the basic underlying reasons for our grave concern over these developments; namely (1) the indefinite nature of the controls and (2) the inability or unwillingness of government authorities to take adequate steps to develop a healthy balance-of-payments position within the context of freely competitive markets, and to set realistic public policy objectives consonant with available U.S. resources. Considering the first, one has only to look at the history of controls over the past decade. Once imposed they have normally been maintained. This has been the case, for example, with the interest equalization tax and the voluntary program to improve the balance of payments which were both introduced as "temporary" measures and which have evolved into the rigidly restrictive, mandatory programs which have now been imposed.

As to the question of developing a healthy balance of payments, the government seems incapable of bringing itself to undertake in a vigorous manner the necessary steps to this end. Instead of adequately using the time purchased with the increased restrictions to pursue policies which can increase the international competitiveness of the U.S. economy (or, alternatively, to cut back on our international commitments), the government seems to find temporary improvements