

Private international transactions, including capital movements and tourism, have consistently earned a surplus for the United States. This has been true, more specifically, in foreign investment and income. Unfortunately, these surpluses have not been sufficient to satisfy the Government's mounting needs for the transfer or acquisition of resources abroad.

The shortfall up to 1966 has been between \$2.9 and \$3.9 billion, if one excludes special transactions, such as prepayments of debts and shifting liabilities from less than 1 year to more than 12 months notes.

If one disallows similar temporary statistical reallocation of items, the 1967 picture was much worse than generally known.

The United States has been financing the shortfall in its earnings by selling gold, over \$11 billion since December 1957, and increasing our current liabilities; in other words, borrowing short abroad, by over \$17 billion.

As a result of the increased current liabilities, which at the moment are estimated at about \$32½ billion, the United States has lost to a considerable degree its freedom of action and we are now subject to the wishes of our creditors, from the elimination of the gold reserve requirements to control of private investments.

For fear of retaliation, there is very little that we are likely to do that our creditors oppose, because essentially their willingness to hold dollars (to lend us resources) finances much of the foreign exchange costs of our military deployment abroad.

The President's balance-of-payments program announced on January 1, 1968, proposes an improvement of \$3 billion a year divided as follows: Direct investment, \$1 billion; bank and nonbank credit curtailment, \$500 million; increased export surplus, \$500 million; tourism, \$500 million; and Government expenditures, \$500 million; for a total of \$3 billion.

This is for 1968. It is significant that the private sector is expected to yield five-sixths of the saving and Government expenditure one-sixth.

Can this be achieved?

Let's first look at private investment. We have studied the opportunities of savings in this area. In schedule B and C countries—I am assuming the committee is aware of the classifications—there are, between outflows and earnings that may be repatriated, more than enough resources to save \$1 billion in 1968.

In fact, a strict application of the mandatory regulations to direct investors might save as much as \$1½ billion, plus whatever must be brought back in liquid assets.

There is, therefore, room for leniency and relaxation in the enforcement of these regulations.

Whether the control of private investments is the right way to solve this problem is another question. There are three negative factors which may come into play.

First, it is an accepted premise that about 25 percent of private capital outflows reported by the Department of Commerce are not in the form of money, but in goods and services. Would these continue in the absence of investments?

Unless exceptions are made in the case of investments in kind, both present and future exports may be adversely affected.