

Secondly, borrowing abroad at high interest rates will diminish the earnings available for repatriation. In the long run this is counter-productive in our balance of payments.

Thirdly, there may be retaliation and forced restructuring of the financial and control organization of U.S. subsidiaries, which will diminish the availability of earnings to be repatriated in the future.

There are other serious shortcomings in the mandatory regulations issued by the Department of Commerce. We have made specific recommendations for their improvement and we hope they will be accepted. I must say in all candor that I do not know of a businessman who thinks this is the right way to rectify the balance-of-payments deficit. But as a patriotic duty in a time of crisis, business firms are generally complying now as they did under the voluntary system.

I must also say that the Department of Commerce officials are working hard and diligently to apply the rules fairly. We believe their workload will be alleviated if they accept our recommendations.

Another measure proposed by the President to bring back money is to curtail the lending by bank and nonbank financial institutions. By this device they hope to save \$500 million in 1968. This can be achieved for this one year.

Thus, the U.S. private capital account is likely to yield the \$1.5 billion favorable contribution this year. In 1969 and future years, the adverse effects of this approach to the problem will gradually reduce earnings in other classifications in our balance of payments: Exports, interest, and dividend income, and through possible reductions in the equity positions in foreign subsidiaries or loss of competitive vigor by U.S. subsidiaries abroad.

I am on record before this committee and other committees of Congress that discouragement of direct, productive investments abroad is harmful to our longrun balance-of-payments interests. Income on investments has been one of the strongest growing items in our international receipts, far surpassing direct dollar outflow for new investments.

There is a view in the Government that programs of the Government such as foreign aid and military expenditures are irreducible; therefore, the private sector must be sacrificed. One might agree to this view as a national necessity, but what worries me is how we are going to maintain these programs over the long pull if we undercut our earning power in the private sector.

This is not a question of selfish business interests against the national interest. It goes to the very heart of the ability of the United States to maintain its power position in the world.

To turn now to the trade account, the President's program calls for an improvement in the trade account in 1968 by \$500 million. This is a modest enough objective, considering that our total export trade is over \$30 billion. Modest though the target is, it will not be easy to achieve because it requires a reversal of recent trends.

Let's take 1964, which was a good year. The commercial trade surplus in that year was touted to be \$6.7 billion, but was actually \$3.9 billion after deducting \$2.8 billion of aid-financed exports, and yet in 1965 we had to renew the interest equalization tax and put voluntary restraints on private investments and had to take other actions because the balance-of-payments situation in 1964 was one of the worst in spite of this tremendous trade surplus.