

course you have a minus \$2.3 billion. This in an area where very little can be recommended I guess.

Mr. DANIELIAN. I think we make specific recommendations on that, both as to the European deployment as well as the Far East and I do not think the answer is in selling bonds and insisting they keep our troops at the same time. If they need the troops for defense I think they must do one of two things, either pick up the tab on their local currency costs, or they must at the least purchase equivalent goods and services on current account, not just pile up future debts, so that we can pay for these troops as we go along.

Mr. ULLMAN. Thank you. Then on direct investments we have according to your figures a plus of \$1.8 billion. This is because of repatriation from investment?

Mr. DANIELIAN. Yes.

Mr. ULLMAN. I take it you are opposed to the investment controls of the administration?

Mr. DANIELIAN. Well, certainly we don't like them. We do not believe this is going to serve the country in the long run. Without the income on investment you can imagine what our balance of payments deficit would have been.

Mr. ULLMAN. Yes.

Mr. DANIELIAN. And we just cannot run this country with all its worldwide commitments without income on exports and investment.

Now, on investment income, this is a rather misleading figure actually because experience indicates that about a third of our manufacturing and industrial exports are investment related. About \$6 billion of annual exports go along with the direct investments in Europe and other places, so that our trade account is actually related to our investment activity abroad, so that we estimate about 30 percent of our earning capacity abroad, in fact the equivalent of the government's net expenditures, about \$11 to \$12 billion, is earned by direct investment and investment-associated exports.

Now, you gradually squeeze that out and you are not going to be able to spend \$11 billion on government account, and this is my primary interest, being an economist.

Ten years ago I started this organization because I felt that military power will come to a state of stalemate and that in this area of economic policy the ability of this country to lead the free world is going to be determined and unless we protect our investments abroad and aggressively promote our exports which are related to investments we simply aren't going to be able to keep the troops in Western Europe or to undertake these activities in the farflung reaches of the Pacific.

This is what happened to the British. In spite of the common assumption that Great Britain is in the economic doldrums because they are not competitive in international commodity markets, that is not true. The British private international accounts have been in balance or have even yielded a surplus. The difficulty with the British has been that in World War I and World War II they had to liquidate a great deal of their investments, and of course the dismantling of the colonial system lost them a lot more, and they have increased their government expenditures abroad. Between these two activities, the diminution of income on investment and services and increased