

But, this last result is highly unlikely because U.S. businesses are basically reluctant to invest abroad unless they are losing the market or stand in grave threat thereof; or, unless a company has not entered the market as yet and fears never to be able to enter through exports. In such cases, the substitution of local production for exports merely holds a market and gains some return when export earnings would have fallen to zero or never arisen. We can feel fairly certain that exports are not completely substituted by foreign investment by the fact that exports in the areas of high investment activity have not declined. They have not risen as fast as foreign production, but some categories have risen faster than the average of all industrial export. In the main, it is the technically advanced sectors which supply both exports and investment. Thus, in the aggregate, what is occurring is either an expansion of market opportunities by investment, raising the level of former exports through the establishment of selling affiliates or manufacturing and selling units, or widening the types of goods sold by the company as a result of extensive promotion of the company name and line. One cannot know from existing data whether the situation could have been more favorable with less investment and more export promotion. But, given the freedom of companies to decide which is the more profitable route, it seems highly unlikely that they would take the investment route if the export channel were effectively open on an intermediate or long-term basis.

As noted above, these conclusions from the aggregate data—and we shall have much better data from the current census on foreign investment—can be contradicted on either the optimistic or pessimistic side by reference to specific cases. The other cases in the accompanying table show that the payback period for an acquisition might well be $2\frac{1}{2}$ years also but that of an expansion (which involves frequently no U.S. funds at all) provides a payback immediately. And, of course, a prior investment is necessary to reap the gains of an expansion of outlays on facilities.

The case in which exports were significant but expected to decline provides more complexities but still can be estimated to pay back the outlays as well as the loss of exports within a period of $4\frac{1}{2}$ years from start-up of operations and $5\frac{1}{2}$ years from the first outflow of capital, assuming a 2-year construction period. The conclusion rests heavily on several assumed relationships, and any alteration of these can produce quite different results. It is necessary to keep one's estimates relevant to business practice and expectations, however, if policies are to be made on the expectations of gaining returns for the payments deficit.

Restraint of investment in the case concerning a loss of exports provides a significant gain for the payments deficit over 3 or 5 years. But, prevention of the others will damage U.S. payments within 3 years. And, if one may assume that exports are often generated by expectations of the market of a continuous supply, the payback may have actually been achieved *before* start-up of foreign production—even if earnings are not gained for some years.

Another aspect which is quite hypothetical but significant is that concerning the indirect impacts of economic growth resulting from foreign investment on export and import patterns and volumes and on interest rates and thereby again on growth rates and trade and investment flows. The outflow of capital from the U.S. will tend to slow down its own growth through a reduction in capital supply (and demand for capital goods), raising the interest rate; this in turn reduces import demand and improves the balance of payments. The converse occurs abroad; in addition, the differentials in interest rates tends to draw short-term capital to the U.S. and out of Europe and other countries—unless offset by monetary policy. These secondary and tertiary impacts are not quantifiable but must be considered in determining the effects of capital restraints.

Given the admission that some countries need the inflow of U.S. capital and the fact that even European countries have come to depend in part on repeated infusions, despite the heavy local borrowing by foreign enterprises, there is something of a "spite action" in the capital controls. It is almost as though the U.S. were saying—"We'll show you how dependent you are on us and then you'll recognize how much you need to hold dollars, even if you don't want to." This is hardly the way for the most powerful country in the world to behave; it is petty rather than responsible. It demonstrates an eagerness to toss off the burdens of leadership, which is precisely one of the causes for lack of confidence on the dollar, for that leadership requires monetary and fiscal rectitude on our part as well as maintenance of a strong economy.