

Everything you have done and everything I read in your testimony is positive, forthright, forward-looking, and yet, these several things that have been done vis-a-vis the balance of payments have been completely contrary to that whole philosophy.

I hope we will put the emphasis on the positive side rather than restrictive measures which are just contrary to everything we believe in. There is not anyone in this Government smart enough to outwit the American businessman and the American public if they do not believe in what you are trying to do, and they are going to try to get around your restrictions.

Sorry to have talked so long, but I am deeply concerned about this situation.

Mr. ROTH. Certainly no one, including the administration, would want to see more than a temporary control of direct investment. It is interesting, I think, that even before the voluntary program was in effect, it has encouraged the creation of a Euro-dollar market, a European capital market. I think this has been a good thing. I think this should be encouraged.

You know, you hear about the problems of imports in this country, but when you are in Europe you hear the opposite thing; namely, the problem of competing with American industry, which has the availability of capital resources and much better management skills and higher technology. You see the reverse and that American industry can compete.

Senator PERCY. That is right. There is not any question about it. But the one thing I am really concerned about is how long we can continue to sustain this tremendous inflationary pressure at home. Efficiency can overcome a lot. But whether it can overcome \$20 billion to \$30 billion in inflationary pressure, with the kind of deficit the administration now proposes and the resultant wage increases that are going to keep coming well above productivity increases, remains to be seen. Inflation is already putting pressures on American prices abroad.

I do not know whether American technology can work fast enough to overcome that.

Mr. ROTH. This is why the Europeans were so concerned about the tax increase. And, really, this is the basic thing, keeping prices and costs, as you said, stable here, and then having some expansion in the surplus countries. This would have a most immediate effect on trade. I think you are absolutely right.

Senator PERCY. I thank you very much, Mr. Chairman, for your generous time, and, Ambassador Roth, once again, my great commendation to you for your great service to this country.

Mr. ROTH. Thank you.

Representative CURTIS. Thank you, Senator.

I have a couple of questions. In your reference to the Europeans' concern over our having a tax increase, you mean they are concerned with the size of the deficit. The Europeans I have talked to are more concerned about seeing us cut our expenditures. I know it is the proper thing for an administration official to put the emphasis on the tax increase, but it is really the deficit that is creating these inflationary forces.