

What is likely to occur—even in the face of the control program—is that we may have some savings on capital account, we may have some savings on the tourist account, but we may see our exports run at a much slower rate than imports. Imports would run upward. So our current accounts surplus will shrink from last year's level, and we may very well have higher overseas expenditures by the Government. And the combined effects of these will offset what ever savings we may realize as a result of the controls. This is the unfortunate result of attempting to compartmentalize the balance-of-payments problem.

Representative MOORHEAD. Mr. Hart, let us see if I can put your statement into simpler language that I can understand. Our position, as I see it—the most dangerous one—is what I would call a balance sheet situation, that as banker we are making a profit in our banking operations, but we have been investing long term and borrowing short time to do it, so that we have a possibly dangerous liquidity situation. Is that right?

Mr. HART. Well, one could put it in terms of the two partners in international financial relationships—the surplus versus the deficit country. One way of looking at the cumulative movement over recent years is that it reflects what is the matter with the capital market in Europe. The Europeans have been expanding their capital investment on a huge scale. They have been saving enough to finance it. But the European saver prefers to move into a creditor position. The European companies are not selling equities on a vast scale to their own people. Notice, we do not get a huge wave of people establishing investment trusts—either here or in Europe—to operate in the stocks of European companies. This is partly a testimonial to the alleged superiority of American management. It is partly a testimonial to the fact that American companies give the investor information which tells them where he is, and the position of the minority stockholder in the American company is much better protected than the minority position of the European company. The consequence is that U.S. firms become owners of equities in Europe, and Europeans become creditors toward the United States. The European draft toward creditorship is scored as a balance-of-payments deficit, and has pushed us cumulatively over the years into this unworkable world banker position.

To say this is all our fault because we are exporting capital is crazy. De Gaulle fumes about the movement of American capital, and a tendency of U.S. firms to take over French concerns. He should be worried over what is the matter with the French economy, that, though they are saving and investing enough, they cannot manage to make financial machinery to do their job, but get foreigners to supply the equity capital which is necessary for the expansion of the French economy.

The European governments really have an obligation to themselves, by their own standards, to create a situation as to capital flows, where their own new capital will finance their own enterprises, and they won't need our capital. The defects of the European capital market have really been at the root of the difficulty. It is not the commodity and service situation. It is not even Government oversea expenditure. It is the fact that the European capital market has not been doing its job. This is very hard to remedy from the U.S. side. And makeshift