

other interested departments, could develop a more potent incentive in this respect. At the same time that we make this comment, we insist that first things must come first and if the administration feels that the balance-of-payments problem is the central problem, then it ought to treat it as such and not attempt to splinter its effort.

*A realistic look at foreign borrowing.*—A central part of the theory of the foreign direct investment program is the proposition that the program is designed primarily to reduce outflows and increase repatriation of earnings and that foreign direct investment may be carried on at a reasonably high level by recourse to foreign borrowing. This proposition stands up better in theory than it does in reality because of certain very important restrictions on borrowing facilities and on the borrowing freedom and capacity of companies involved:

1. In the first place capital facilities abroad are limited although they are developing. This is true even in sophisticated areas like Western Europe, and it is even more true in areas like Latin America and the Orient. Foreign capital markets obviously already serve domestic customers and as their requirements increase, so the load on the capital market from domestic institutions and companies grows. The United States, as a result of the pressures of the voluntary balance-of-payments program, has added very substantially to the burden on foreign capital markets. While the Eurodollar market is still available to larger companies at rates not greatly above those of the United States, it is not yet clear what the effect of increased borrowings by U.S. firms will be on the cost and availability of these funds. With respect to borrowings in national currencies, we understand that there is already speculation that some countries may be compelled to ration credit in the near future in ways that would adversely affect the access of U.S. companies to local capital markets.

2. Beyond these limitations in terms of size, flexibility, and similar factors, we understand that certain foreign countries have specific restrictions by law, regulation, or practice against borrowing for certain specific purposes; for example, borrowing to pay dividends may be limited or prohibited.

3. As previously indicated, many companies have already borrowed heavily abroad in response to the voluntary program. The servicing of these obligations will place a substantial burden on foreign affiliates' financial structure and to some degree the parent company, and might in turn require further borrowing when other factors are taken into consideration including the points below.

4. The repatriation requirement of the mandatory control program places an effective limit on all types of foreign borrowing in many cases. Clearly, payments of principal under foreign borrowing agreements are not accounting deductions prior to the calculation of earnings so that the foreign creditor and the United States—under the mandatory program—will be competing for the same dollars. The effect is to partially close the escape hatch presumably provided by foreign borrowing.

5. Because of the manner in which the repatriation requirement affects many, many companies subject to the mandatory controls program, the repatriation requirement plus debt service cannot