be met out of current earnings abroad. Thus, there will be additional pressure for this reason on borrowing outside the United States.

6. Further, one should not overlook the costs of borrowing—either in the form of increased interest charges to the parent corporation or in the form of reduced earnings of the foreign affiliates. At a time when the administration is addressing itself so persistently and strongly to the inflation problem and at a time when the administration is very much concerned about exports and the effect of costs increases on the ability of companies to increase their export position, the additional costs which will be involved in borrowing abroad are wholly inconsistent with either of these considerations.

Only in the light of these limitations and influences can one examine realistically the degree to which foreign capital markets will sustain—and foreign affiliates or their parents will have the capability and the flexibility to borrow to sustain—increased borowing by U.S. affiliates for necessary expansion or new investment in order to maintain a sound position in international trade.

To sum up, the ability and freedom to borrow abroad in order to compensate for the restrictions imposed by mandatory investment controls is limited. Moreover, it will be especially limited for the small-and medium-sized company. Further, the impact on the foreign countries may very well be adverse and produce restrictions or resentment and the impact on the total costs of the American worldwide operation could very well be substantial.

It should be said in conclusion with respect to the so-called borrowing alternative that these limitations on borrowing coupled with the severe restrictions of the direct investment program create an even more serious factor. American business just can't maintain its position in international trade in a total sense if a dynamic approach to foreign direct investment is thwarted. This point, of course, is relevant throughout our statement, but it is emphasized here in the context that borrowing is not the panacea which some in Government and other circles may believe to be the case.

Adverse effect on exports.—In the context of the structure of controls, and at the risk of repetition, may we emphasize again the perverse effects on exports. The overriding point is that there is a definite relationship between investment abroad and exports with the two rising together. Studies made by the Department of Commerce have documented this fact strikingly. ("U.S. Exports to Foreign Affiliates," *Survey of Current Business*, December 1965.) Reduced foreign investments cannot fail to affect exports unfavorably both in terms of sales to U.S.-owned affiliates and in terms of reducing foreign exchange availablity to foreign countries. Moreover, at least one element of the control program, specifically that provision of the regulation which is interpreted to mean that increases in open account balances between a U.S. parent and its foreign affiliate represent capital investment, will tend seriously to curtail exports. Indeed, it could tend to place a ceiling on exports to schedule C countries where there is a moratorium on capital outflows.

As we have indicated previously, and as the free trade philosophy of this country reflects, exports are limited by the ability of foreign coun-