

facilitated increased purchases from the United States. On the other hand, some companies presumably would have been unwilling to borrow abroad, more would have at least reduced their commitments, and companies without established reputations or contacts abroad would simply have been unable to gain access to foreign capital. Indeed, given the limited development of capital markets in Europe and elsewhere, capital would not have been available on anywhere near the scale needed to replace U.S. sources and the borrowing costs would, of course, have been increased, perhaps sharply. Finally, we feel that we have, in any case, been very conservative in our estimates to the point where we have tended to understate the adverse effects that could have resulted from the controls. In short, we do not consider that including the effects of foreign borrowing in our illustration would have significantly modified the conclusions.

We do not wish to unduly labor the point insofar as our specific illustration is concerned. We feel, however, that the thrust of our argument is so important that it was better brought home when stated in specific terms, thereby indicating the dimensions of the problem that could be created if such a program were maintained for longer than a short period of time. On the basis of this illustrative example, and given further growth in U.S. international commitments and the glaring failure of the Government to correct the basic causes of the current problem over the past decade, it would be appropriate to ask how in the light of the new program, the private sector could be expected indefinitely to continue to offset the deficits caused by the public sector.

Adverse Impact on International Competitiveness of U.S. Industry

While the direct balance-of-payments impact of the restrictions is of major importance in considering the significance of the new controls, other factors are of at least equal weight. The inability to invest any capital in European facilities from the United States reduces very greatly the flexibility of response essential for U.S. industry if it is to maintain its competitiveness against foreign industry in both domestic and foreign markets. The inability, for example, to establish new plants abroad in order to serve areas which can no longer be served from U.S.-based facilities because of cost or other considerations enables foreign companies to move at once to preempt that market. Or, to take another example, the inability to enter into a partnership or joint venture with a foreign firm whereunder each partner supplies new capital to the venture, may result in the prospective foreign partner's turning to another foreign company to serve this objective. In this connection, it should be stressed that such a total ban on capital outflows can seriously damage the international position of U.S. companies even if it is of relatively short duration. Timing is a central ingredient in maintaining a company's competitive position, and an opportunity not grasped when it presents itself is often lost forever.

As such lost opportunities accumulate, we will find a greater portion of the imports into this country and of sales into third country markets will be from foreign-owned industry, and the earnings and dividends deriving from such sales will accrue to foreign companies rather than U.S. companies to the detriment of the U.S. payments balance and the strength of U.S. industry. By the same token, we will find that a greater proportion of equipment, components, and parts will