

Capital movements and earnings on investments

From 1951 to 1955 the inflow of earnings on U.S. investments abroad, together with the inflow of new foreign capital, exceeded the outflow of new U.S. foreign investment and payments of earnings on existing foreign investments in the United States by as much as \$1 billion a year. In 1956, 1957, and 1958, however, the net outflow of dollars on account of new investment and earnings on existing investment exceeded the inflow by as much as \$1.5 billion a year. In 1959 there was a net inflow of \$185 million, but in 1960 there was again a net outflow amounting to \$1.3 billion, of which over \$800 million was short-term capital.

The largest part of the earnings received from U.S. investments abroad have been earnings on direct private investment. Such investment has been increasing in recent years, partly because of the formation of the European Common Market and the European Free Trade Association, which have provided inducements for U.S. capital to establish production facilities within those free trade areas.

It is still too early to know whether the United States is entering a new phase in its international financial position. If there is to be a substantial and persistent increase in the net movement of U.S. capital abroad it is to be expected that eventually there will be a changed relationship between merchandise exports and imports, with the latter expanding, relative to the former, as earnings on foreign investments come to exceed the outflow of new capital.

Areas in which action has been proposed

Some of the remedies that have been proposed to decrease the deficit in the balance of payments would involve major changes in foreign policy. Since the balance of payments deficit is a technical phenomenon, and subordinate to foreign policy, it would be shortsighted to allow important features of the latter to be sacrificed merely for the sake of eliminating the former. The same reasoning applies to restrictions against merchandise imports and the subsidization of exports in view of the expressed liberal foreign trade policy of the United States.

Devaluation of the dollar, in terms of gold, would be evidence of a major departure from the policy of maintaining the dollar as an important international reserve currency and could lead to harmful competitive devaluation.

Certainly, the facts regarding the international payments and receipts of the United States do not suggest the need for such major departures from existing foreign policy objectives.

Among proposals that have been made that, for the most part, seem consistent with existing U.S. foreign policy objectives, are the following:

That payments "in kind" be substituted, wherever possible, for unilateral transfers, particularly for nonmilitary foreign aid and for the support of the U.S. Military Establishment abroad.

That the Western European countries assume a larger proportion of the cost of foreign aid to underdeveloped countries and of the cost of the common defense of the free world.

With respect to gold and the international payments system:

1. That assurance be given to other countries that the United States will continue to sell gold to foreigners at \$35