

62 ECONOMIC POLICIES TOWARD LESS DEVELOPED COUNTRIES

use and for world markets in the developing countries should affect our balance-of-payments position adversely. Developing countries will continue to spend the proceeds of their exports, or the foreign exchange savings realized from import substitution, for other imports from the developed countries. There remains, however, the question of the impact of the outflow of U.S. private capital itself upon our balance of payments. First of all, it should be said that U.S. dividend and other income receipts from foreign investments to all foreign areas have exceeded our net direct private capital outflow during every year except 1957 over the period 1950-60; and in the aggregate, total receipts have exceeded net direct investment outflow over the period 1950-60 by \$8.5 billion. Moreover, the relationship between capital exports and investment income has been even more favorable in the case of the less developed countries largely because of the relatively high returns on U.S. petroleum investments abroad. It is true, of course, that U.S. purchases of the products of U.S. firms operating in the less developed countries have been substantial, but again, this is because such a large proportion of these investments are in the extractive industries and produce commodities of which the United States is a net importer. In fact, U.S. production of petroleum and other minerals abroad, which we do not produce in sufficient quantities to supply our own needs, actually improves our balance-of-payments position by improving our terms of trade since, without U.S. production abroad, import costs would be higher. Moreover, the United States reaps the benefits in the form of income receipts and sales of equipment and materials from U.S. operation of these productive facilities.

Table 3 shows the relationship between U.S. net receipts of income and direct capital outflow to the less developed countries for the years 1957, 1958, 1959, and 1960. It will be observed that total U.S. income receipts⁸ exceed by a substantial margin net capital outflow to U.S. enterprises in these countries. However, U.S. direct capital outflow to Latin American manufacturing enterprises has tended to exceed income receipts from these enterprises. The earnings of these enterprises have exceeded the outflow of net capital from the United States but a substantial portion of these earnings are reinvested abroad.

Thus far at least the United States imports relatively small amounts of manufactures from developing countries; in addition, U.S. exports of commodities to these manufacturing enterprises abroad are frequently equal to, or in excess of, the actual capital outflow. It can, of course, be argued that sales of manufactured products in the less developed countries, which totaled over \$2.7 billion in 1957⁹ (of which nearly \$2.6 billion were local sales), displaced a considerable volume of U.S. exports. Although it is impossible to determine the extent to which production of U.S. firms abroad displaces U.S. or third country exports, it certainly cannot be assumed that in the absence of this production these poor countries would have imported an additional \$2.5 billion or so from the United States. In the first place, substitution of domestic production for imports largely releases for-

⁸ Figures include reinvested branch profits, but not reinvested subsidiary profits. However, the subsidiary form is employed in most manufacturing investment abroad.

⁹ See "U.S. Business Investments in Foreign Countries," U.S. Department of Commerce, 1960, table 22, p. 110.