

productive. Another part can be explained by some decline in the rate of return on European investments generally during the last few years. Of course, the increase in U.S. investments would have been reduced in the face of the above investment restrictions, thereby reducing the extent of the decline in the rate of return. Hence, we simply assumed that the rate of return was 13 percent throughout. The volume of earnings so computed less the volume of computed remittances was added to beginning-of-year book value to estimate book value at the beginning of the following year.

5. A relationship between U.S. exports and U.S. investments in Europe (excluding the United Kingdom) and the value of these investments at the beginning of the year in question was "guesstimated" on the basis of data published by the U.S. Department of Commerce covering the years 1962, 1963, and 1964. Department of Commerce data show estimated total exports to U.S. affiliates in Europe (including the United Kingdom which is not shown separately) in those 3 years. (Sample data were expanded to estimated totals by the Commerce Department.) We deducted from the estimated totals one-half of the value of exports other than exports of capital equipment and parts, components, and materials for further processing or assembly in the case of exports to affiliates other than trading affiliates, and we deducted two-thirds of exports other than capital equipment and parts, components, and materials for further processing or assembly in the case of exports to trading affiliates.

The deductions were made on the basis that they would have taken place even if said foreign affiliates had not been established. This admittedly involved guesswork. However, we feel that the deductions were more than adequate. The local incorporation of U.S. affiliates to promote greater local identification and greater acceptance of the company and its products, and the creation of a permanent interest on the part of the company in European markets unquestionably have been important elements in the export volume enjoyed by those companies. Further, such local acceptance no doubt helped to promote the sale of U.S. manufactured goods through channels additional to those included in the Commerce survey.

We then computed the ratio of the residual export values in each year (1962, 1963, and 1964) to the value of total U.S. investments in Europe at the beginning of the year in question and averaged the three ratios. Estimated exports derived on this basis were \$860 million, \$880 million, and \$1,103 million in 1962, 1963, and 1964, respectively, and the computed ratios were 11.1, 9.9, and 10.7 percent, respectively, for an average of 10.6 percent (rounded to 10.5 percent). On the basis that the ratio for total Europe was reasonably representative of that for Europe excluding the United Kingdom we applied it to beginning-of-year investments in Europe excluding the United Kingdom for each year included in our review to estimate the volume of exports generated by such investments over this period which would not have taken place in their absence.

6. Finally, we computed the ratio of fees and royalties from U.S. investments in Europe (excluding the United Kingdom) to the beginning-of-year value of such investments for each year from 1960 through 1966. Such data are not readily available for the years prior to 1960. The ratio was 2.8 and 2.9 percent in 1960 and 1961, respectively, and ranged from 3.2 to 3.4 percent thereafter. We used a figure of 3 percent which we applied to the estimated book value data to get estimated royalties and fees.

Estimated Effects on U.S. International Reserve Position From Instituting New Controls at Year-End 1958

It was assumed in the discussion of the U.S. international reserve position (pages 9-10) that 36 percent of the increase in foreign dollar holdings resulting from the cumulative deficit between year-end 1958 and the end of September 1967 was converted into gold with the remainder held in the form of dollars and short-term dollar claims. This assumption was derived in the following manner:

The cumulative deficit from the end of 1958 through the third quarter of 1967 (\$22.2 billion) has been accompanied by increased short-term liabilities and reduced gold holdings of a comparable magnitude over this period (i.e., an increase of \$13.4 billion in short-term liabilities and a decline of \$7.6 billion in gold holdings for a total adverse movement in our reserve position on this account of \$21.0 billion). On the basis that the relative change in dollar liabilities versus gold holdings over the period reflects the propensity of foreigners to hold dollar claims in lieu of presenting such claims for gold, it follows that 36 percent of this cumulative deficit was converted into gold with the remainder being held largely in the form of short-term dollar claims.