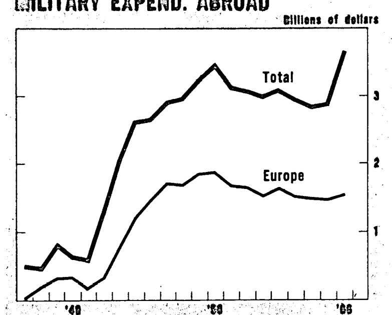
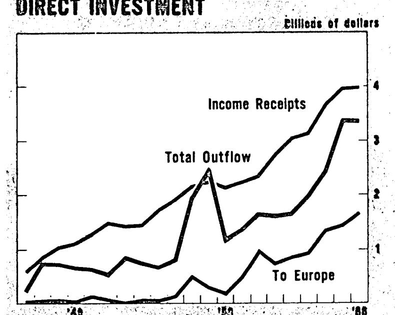
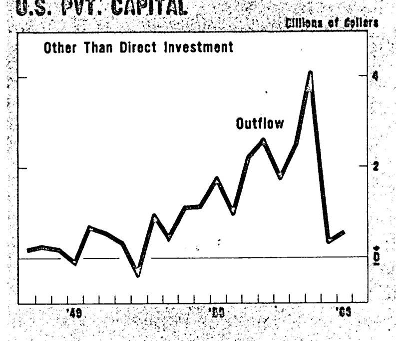
MILITARY EXPEND. ABROAD



DIRECT INVESTMENT



U.S. PVT. CAPITAL



Although foreign economic aid is larger now than it was in the mid-1950's, it is a smaller proportion of GNP—about one-half of 1 per cent. Most aid is now tied to U.S. exports. In some cases this aid-tying avoids a burden on our balance of payments, but in others the tied-aid exports replace sales that might have been made for cash.

U.S. military expenditures abroad reached a peak in 1958 of about \$3.5 billion. Since then, expenditures in Europe, and also in Canada, have declined. But those in other areas have risen abruptly since 1964 because of Vietnam, and the total for all areas reached a new high last year. Sales of military equipment (not shown here) have helped to offset expenditures, and net military spending abroad remained somewhat lower last year than in 1958.

While military expenditures were gradually declining from 1958 to 1964, corporate direct investment abroad was increasing rapidly. Before 1958, direct investments were mainly in Canada and in the petroleum industry elsewhere. These bulged during the Suez crisis of 1956–57. Since 1958, flows to manufacturing affiliates in Europe have also been strongly on the rise. Last year, growth in the total outflow for direct investment was checked in response to the Commerce Department's voluntary program.

Income receipts from past investments have also had a strong upward trend and have exceeded outflows of new capital. But in recent years this excess has shrunk.

Net outflows of U.S. private capital other than direct investment have had a strong growth trend since the early 1950's. These flows were cut back sharply in 1965 and remained low last year under the influence of the interest equalization tax (IET), the voluntary credit restraint programs, and the tightness in U.S. financial markets. The IET