

TABLE VII.—U.S. DIRECT FOREIGN INVESTMENT OUTFLOWS AND RELATED RECEIPTS, 1945-67

[In millions of dollars]

	Direct foreign investment outflows	Repatriated income	Royalties and fees	Net balance
1945.....	100	426	(1)	326
1946.....	230	589	(1)	359
1947.....	749	809	(1)	60
1948.....	721	1,964	(1)	443
1949.....	660	1,112	(1)	452
1950.....	621	1,294	126	799
1951.....	508	1,492	130	1,114
1952.....	852	1,419	130	697
1953.....	735	1,442	128	835
1954.....	667	1,725	136	1,194
1955.....	823	1,912	158	1,247
1956.....	1,951	2,171	229	449
1957.....	2,442	2,249	238	45
1958.....	1,181	2,121	245	1,185
1959.....	1,372	2,228	349	1,205
1960.....	1,674	2,355	403	1,084
1961.....	1,599	2,768	463	1,632
1962.....	1,654	3,044	580	1,970
1963.....	1,976	3,129	660	1,813
1964.....	2,435	3,674	756	1,995
1965.....	3,418	3,963	924	1,469
1966.....	3,543	4,045	1,045	1,547
1967 ²	3,026	4,445	1,126	2,545

¹ Not available.² 4th quarter 1967 data are preliminary.

Source: U.S. Department of Commerce Survey of Current Business various issues; and Balance of Payments Statistical Supplement rev. ed., Washington: U.S. Government Printing Office.

While the Administration has apparently accepted that direct foreign investment is beneficial, the belief that the deficit was of short-term nature and that an expanded trade surplus would make possible the removal of controls were used as justification for restricting investments abroad. As has been shown above, the trade surplus is not going to eliminate the deficit and the controls are not short term. The controls themselves have now become mandatory. The rationale that controls on direct foreign investment are acceptable because they are short term is not valid. And in the long run there are clearly grave dangers. These dangers would appear to be of three types outlined below.

(1) The competitive position of existing foreign affiliates can be quickly eroded if expansion, modernization, and product and marketing developments do not keep pace with competition and market demands;

(2) Direct foreign investment controls spur efforts to finance abroad which in turn drive up foreign interest rates, a factor which could retard the speed of economic growth abroad thus having a negative effect on U.S. exports:

(3) With approximately 25% of U.S. exports going to or through the foreign affiliate of U.S. firms according to Department of Commerce estimates, the balance of payments gains of reducing direct foreign investment are clearly in some degree offset by resulting losses in exports to those direct foreign investment enterprises.

This country is in critical need of a balance of payment policy (we must not confuse a program with policy) broadly and imaginatively conceived. As such it would embrace trade policy which, in turn, would stress far more than heretofore matters in addition to tariffs. As indicated earlier, while solution of the deficit cannot be anticipated from the merchandise trade account, an improvement in that area must be an integral part of the overall balance of payments policy. And quotas and other trade restrictive devices are surely not the avenue to follow.

The positive trade related elements of such a policy would include the following:

(1) *Taxation.* The United States should take maximum advantage of the application of the philosophy of border tax adjustments to our existing tax structure. I agree that our entire tax system should not be overthrown for balance of payments or export stimulation reasons. But we should seek maximum trade and payments benefits from existing indirect taxes and cannot ignore ways in