The question that must be considered, therefore, is how long mandatory restrictions can be maintained without reducing the balance-of-payments benefits of direct overseas investments. In brief, it is a matter of the payback period of such investments in balance-of-payments terms.

According to a study of The Chase Manhattan Bank based on a survey of 29 major U.S. petroleum companies, the average dollar that leaves this country in the form of new petroleum investments is returned within three years and that thereafter the balance of payments continues to benefit from increased inflows. This is a relatively short payback. It takes account of the many investment-related receipts such as exports of capital equipment and management services to foreign affiliates that, in addition to remitted income, benefit the U.S. balance of payments. It does not include the indirect gains to the balance of payments of new foreign petroleum investment, such as expenditures for U.S. exports by foreign recipients of oil funds, which are not feasible to calculate. The payback period would be even shorter than three years if these expenditures could be taken into account.

The conclusion that can be drawn from the Chase Manhattan study is that restricting direct investments abroad for even a short period of time will not materially help, but rather weaken the balance of payments. Restrictions on such investments have been in effect for almost three years under the voluntary program. During this period, foreign investment opportunities in petroleum have had to be foregone which now would have begun to yield net benefits to the U.S. balance of payments.

OTHER EFFECTS OF INVESTMENT RESTRICTIONS

While the balance of payments is our major problem at the present, a continuation of investment restrictions may also have serious undesirable consequences in other areas that cannot be overlooked.

1. A limitation on foreign investment opportunities could adversely affect the position of American industry abroad. Under the voluntary program to restrict investments, American companies have had to rely increasingly on foreign borrowings. The sharp tightening of mandatory restrictions will force still further reliance on foreign capital markets. But it seems clear that these restrictions will result in a cutback of the foreign investment programs of a number of companies. The result will be a weakening of the competitive position of American firms overseas by a postponement of programs to modernize and expand as facilities required to supply the free world's petroleum requirements either may not be installed, or may be provided by foreign competitors. As a result it will be extremely difficult, for example, for the oil industry to provide the facilities and products necessary to comply with the tighter air pollution requirements being increasingly imposed in many areas.

2. U.S. Government officials have long recognized the need for a high level of U.S. foreign investments to assist in the economic development of the less developed nations. Despite the investment increase scheduled for these countries under the mandatory program, the over-all restrictions in developed areas are likely to limit the benefits of such investments. In many industries, such as petroleum, investment made in producing areas is dependent upon investments made in refining and marketing in the developed areas, where most of the world's oil is consumed. By discouraging investments in the highly industrialized countries, investments in the less developed nations are bound to suffer.

CONCLUSIONS AND ALTERNATIVES

It is obvious that the balance of payments deficit cannot continue at the rate of recent years. Action must be taken to correct this situation and to restore international confidence in the dollar. The problem of the deficit, however, is not one that will yield to easy and expedient solutions. The approach adopted by the U.S. Government in placing the heaviest burden on American direct investments abroad, particularly those of American oil companies, is not a lasting cure for the balance of payments. These controls do not deal with the fundamental causes of the deficit, as many foreign analysts have already been quick to point out. Before irreparable harm is done to the U.S. balance of payments, the mandatory investment restrictions should be immediately eased and rapidly phased out. Other methods to improve the balance of payments should be considered.