V. An Intensified Effort for Temporarily Reducing Outflows of Capital from the United States.

Private capital outflows from the United States have played a vital role in the expansion of world trade and investment since World War II. The United States has been a major source of funds for capital-short areas; United States direct investment has helped to spread advanced technology and management skills; and our foreign investment has yielded good returns to the American investor and to the balance of payments of the United States.

In the 1960's, however, the large flows of investment abroad has been a major factor in the deficit of the United States. Although our net private international investment position has risen substantially throughout this decade, we have built up an increasingly high level of liquid liabilities to foreigners while accumulating non-liquid long-term investments overseas. This growing volume of liquid liabilities has been one factor in the instability of the international monetary system in times of stress.

The action measures on foreign investment announced January 1, 1968, struck directly at both shorter and longer-run needs. The new capital restraint programs were designed to strengthen the United States balance of payments in a major way in 1968 through the reduction of capital outflows and increased reflow of earnings from foreign investments. At the same time, the programs emphasized longer-range goals—to give priority to high yielding investments and to expanding American exports; to encourage the growth of European capital markets; and to assure the continuity of a liberal flow of direct investment in the less developed countries and areas traditionally dependent upon United States capital.

Direct Investment

The goal of the 1968 Foreign Direct Investment Program was to reduce the balance of payments deficit on direct investment by $1 billion from the 1967 level. It appears that this mandatory program, administered by the Department of Commerce, will reach this target notwithstanding the exemption given to investment in Canada in March 1968.

Over 3,000 firms have effectively complied with this program. The regulations have not reduced the over-all level of foreign investment by United States companies. In fact, the total will likely set a record