

high in 1968, thus providing a base for growing income from direct investment in future years. This sustained level of overseas activity, however, has been financed to a far greater extent from foreign sources of capital. Indeed, United States firms will have raised this year close to \$2 billion of long-term capital from foreign sources, thereby reducing their transfers of funds from the United States and their reliance on reinvestment of foreign earnings. At the same time, firms will have reduced their liquid balances held abroad and increased their remittances of foreign earnings.

In 1969, there is a clear need to preserve the savings achieved in 1968. Therefore, on November 15, 1968, the Secretary of Commerce announced a continuation of the Foreign Direct Investment Program, with modifications to adjust to the changing pattern of direct investment and the needs of American companies. Importantly, the program will introduce foreign earnings as a criterion for increasing the allowable direct investment of each company. It will also provide additional flexibility for firms with limited or no foreign investment experience; relieve inequities for companies that received investment quotas unusually low in relation to direct investment earnings; remove potential blocks to the growth of exports by American firms to their foreign affiliates; and reduce some unique problems for special industries which became apparent in 1968.

Foreign Lending

The Federal Reserve voluntary program announced on January 1, 1968, set reduced ceilings on loans from United States institutions to foreign borrowers to achieve a net inflow of at least \$500 million during the year. Savings for the balance of payments were to be achieved primarily by reducing outstanding United States bank credits to the developed countries of continental Western Europe.

The foreign credit restraint program has continued to function effectively in 1968. Banks reduced their foreign assets subject to the ceilings by \$469 million in the first quarter and by another \$193 million in the second quarter, compared with a target of \$400 million for the whole year. This early response to the Action Program contributed greatly to the rapid improvement in the United States balance of payments in 1968 and thus to renewed stability and confidence in international financial markets.

For the year as a whole, it is expected that banks will preserve most of the savings of over \$600 million achieved in the first ten months and that they will meet the target for the year. The non-bank financial institutions in the first half also bettered the targeted savings—a reduction of \$100 million of covered foreign assets. As in the case of the Department of Commerce program, these savings were achieved with-