

1. Permit, within established limits, investments in foreign affiliates in the form of shipments of American equipment without charge to investment allowables. These transactions, it should be noted, would have no net effect on the balance of payments.

2. Authorize use of this privilege by permitting foreign direct investors elective use of either of two standards—one a fixed minimum available to all such investors and the other an incentive variable. One practical starting point in developing such standards is suggested by existing U.S. Department of Commerce statistics from which one may calculate percentage relationships between exports of capital equipment for investment use and exports to affiliates as well as exports of capital equipment for investment use to total exports. The most recent Commerce figures are for the year 1964 as given in the *Survey of Current Business* for December 1965. Using these figures as a point of departure, consideration might be given to the following:

(a) The ratio of exports of capital equipment for investment use (\$345 million) to total exports to foreign affiliates (\$6,290 million) is 5.5 percent.¹ We suggest that 5.5 percent of the average of total exports to foreign affiliates by a direct investor during the 1965–66 base period be taken as the *minimum* figure for shipment of capital equipment for investment use without charge to allowables. We believe the figure is well on the low side, since in many cases reporting firms may not have included equipment purchases from other U.S. companies in their reporting of shipments for investment use.

While it is true that similar Commerce data is being compiled for 1965 and 1966 by the Office of Business Economics, those years may not be as typical as 1964 because of the impact of the voluntary program.

It should be emphasized that we consider this 5.5-percent standard—or some similar figure—to be a minimum available to any foreign direct investor without charge to investment allowables. Beyond this, we think such investors should be permitted to export greater amounts of capital equipment for investment use where, by increasing exports, they have made a more-than-offsetting favorable contribution to the balance of payments. Let us turn now to that further proposal.

(b) Our suggestion for an incentive variable standard, permitting shipment of capital equipment for investment use without charge to investment allowables, also has its source in those Commerce statistics cited above. Inasmuch as exports by U.S. firms to their foreign affiliates in 1964 were 25 percent of total exports, we suggest that consideration be given to permitting foreign direct investors—as an option in lieu of the minimum standard—to export capital equipment for investment use without charge to allowables up to 1.4 percent (or one-fourth of the 5.5-percent figure indicated above as a minimum) of total exports to affiliated and nonaffiliated companies in the preceding year. We think it is important to offer foreign direct investors subject to the present

¹ These data are, of course, based on shipments to foreign firms owned 25 percent or more by U.S. companies while the FDIP applies to firms owned 10 percent or more by U.S. companies. It does not appear that this disparity would seriously affect the relevance of the statistics for this purpose.