THE EFFECTS OF UNITED STATES DIRECT PRIVATE FOREIGN INVESTMENTS ON THE UNITED STATES BALANCE OF PAYMENTS

by

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A THESIS

Presented to the Department of Economics
and the Graduate School of the University of Oregon
in partial fulfillment
of the requirements for the degree of
Doctor of Philosophy

June 1961

APPROVED [redacted]

(Adviser for the Thesis)

PREFACE

The candidate first became interested in the effects of foreign investments on the host country during an investigation of the problems of economic development of Latin America conducted by the Institute of International Studies and Overseas Administration at the University of Oregon in the fall of 1959, and to which the candidate was a contributor.[1] This study was finished in early 1960. In the spring and summer of 1960, the candidate participated in a study with Professor Raymond F. Mikesell on the development of world capital markets in the postwar period as they affect the financing of United States trade and foreign investments.[2] Study of these two aspects of foreign investments and the current deficit in the United States balance of payments prompted this study of the effects of foreign investments on the United States balance of payments.

The thesis has been prepared under the technical supervision of the candidate's major instructor, Professor Raymond F. Mikesell,

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[1]U. S., Congress, Senate, Committee on Foreign Relations, Subcommittee on American Republic Affairs, Problems of Latin American Economic Development, 86th Cong., 2d Sess. (Committee Print), Report No. 6, United States-Latin American Relations, prepared by Institute of International Studies and Overseas Administration, University of Oregon, February, 1960.

[2]University of Oregon, Institute of International Studies and Overseas Administration, World Capital Markets, prepared for the Stanford Research Institute, Menlo Park, California, July, 1960 (unpublished, 86 pp.).

who provided valuable guidance and advice in the research and writing of the thesis. Acknowledgment is also made to Professor Donald A. Watson of the School of Business Administration who frequently assisted the candidate with details relating to the financing of foreign enterprises.

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CHAPTER I

INTRODUCTION

The purpose of this study is to analyze how United States direct private foreign investment enterprises affect the United States balance of payments, and to determine the nature and magnitude of this impact for various types of enterprises. Since the United States balance of payments has shown a sizeable deficit for the past ten years and since serious concern has been voiced over this deficit recently, it was considered desirable to investigate the effects of United States foreign enterprises on the United States balance of payments.[1]

This chapter deals with the method of approach of the study, including a description of the variables and relationships analyzed, organization of the study, and a summary of the primary statistical sources used.

Method of Approach

United States direct private foreign investments include enterprises abroad in which United States residents have a sizeable interest. In the latest census of United States foreign enterprises, direct private

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[1]For an expression of concern over the deficit see an address by Per Jacobsen in International News Survey, Vol. XII, No. 64 (September 30, 1960), pp. 509-516.

foreign investments are defined to include United States equity in the following types of enterprises:[1]

1. Foreign corporations of which the voting securities are owned to the extent of 25 per cent or more by persons who are residents of the United States, and analogous interests in partnerships and other organizations.
2. Foreign corporations of which the voting stock is publicly held within the United States to an aggregate extent of 50 per cent or more, but distributed among stockholders so that no one investor, or group of affiliated investors, owns as much as 25 per cent.
3. Sole proprietorship, partnerships or real property--other than property held for the personal use of the owner--held abroad by residents of the United States.
4. Foreign branches of United States corporations.

United States foreign enterprises affect the United States balance of payments in many ways. For purposes of analyzing the relationships involved between the balance of payments and foreign enterprises the following variables must be considered:

A. The methods of financing, including establishment or purchase, and expansion of foreign enterprises.
B. Rate of earnings, and the division between earnings transferred and reinvested.

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[1]Samuel Pizer and Frederick Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, Office of Business Economics, 1960, p. 76.

C. Direct trade effects on the United States balance of payments from United States imports produced by United States foreign enterprises and United States exports sold to United States foreign enterprises.

D. Indirect effects on the United States balance of payments from imports of United States foreign enterprises; and indirect effects on the United States balance of payments resulting from the sales of United States foreign enterprises in host countries and to third countries.

All United States foreign enterprises affect the United States balance of payments in some way, but there is considerable difference in the total effect and in the relative importance of the variables mentioned above. For example, some United States foreign enterprises do not trade with the United States at all, while other United States foreign enterprises may not transfer any earnings for a period of time because all earnings are employed for expansion.

In order to show the effects on the United States balance of payments resulting from the establishment and operation of a number of different types of United States foreign enterprises, simulated cases involving certain common features and certain variations are employed as analytical techniques. It has been postulated that a number of different types of $1 million enterprises are established in a given year and that they operate and expand for a period of fifteen years on the basis of the actual experience of foreign enterprises in the 1950-1959 period. United States receipts and payments produced by earnings, financing and trade by various types of foreign enterprises can all

be applied to this basic model and the effects on the United States balance of payments compared.

The types of foreign enterprises included in the study are petroleum, mining and smelting, manufacturing, and trade. The areas of location of the foreign enterprises are Canada, Latin America, and Europe. In addition, there is a category for all types of foreign enterprises, and one for all areas.

The significance of the variables relating United States foreign enterprises to the United States balance of payments is explained briefly in the following paragraphs:

A. The method of financing the establishment of the foreign enterprise is a significant variable. A United States foreign enterprise may be established almost entirely with United States goods and services, or with almost all foreign goods and services. A United States company may purchase the stock of an existing foreign company and pay for the full amount in dollars. A United States company may also acquire a foreign subsidiary by an exchange of stock of equal value, in which case no foreign exchange payment is involved. Similarly, expanding a foreign enterprise may involve considerable amounts of United States capital, but all or none may be supplied in the form of United States capital goods.

B. Earnings of United States foreign enterprises, after payment of all foreign taxes, are divided into two major categories, namely, earnings transferred and earnings reinvested. The rate of reinvestment of earnings determines in part the growth of the foreign enterprise.

Earnings for some foreign enterprises are relatively high and others are low; this sets certain limits on the amounts transferred and reinvested. Rapid expansion of a foreign enterprise may absorb a large fraction of the earnings and thus leave little to be transferred to the United States. In other cases expansion may be relatively slow, leaving a larger portion of the earnings to be transferred.

C. Many United States foreign enterprises purchase United States goods and services, and other United States foreign enterprises supply the United States with a wide variety of imports. These direct trade effects of United States foreign enterprises vary a great deal for various types of foreign enterprises.

D. Indirect trade effects on the United States balance of payments from trade generated by United States foreign enterprises may consist of effects on the United States terms of trade and effects on United States exports.

United States foreign enterprises may sell raw materials to United States parent companies at lower prices than to other buyers which improves the United States terms of trade.

Sales of manufactured goods of United States foreign enterprises in host countries and in third markets may affect United States exports. But there may be some offsetting effects.

Organization

In Chapter II an analysis has been made of the extent to which changes in financing foreign enterprises can affect the United States

balance of payments. A number of simulated cases have been demonstrated to show these effects.

In Chapter III United States receipts from earnings and United States capital flows have been derived for four types of United States foreign enterprises in various areas for a period of fifteen years, on the basis of the actual experience of United States foreign enterprises in the 1950-1959 period.

In Chapter IV special attention has been paid to the direct net trade effects on the United States balance of payments from the operation of United States foreign enterprises. This chapter also contains a summary of all United States receipts and payments, including earnings, financing and trade effects.

Chapter V deals with the indirect effects on the United States balance of payments from the trade generated by United States foreign enterprises.

Sources of the Data

The basic statistical sources of the study are publications of the United States Department of Commerce, and especially the recent publication, United States Business Investments in Foreign Countries, December, 1960. Other significant sources of the Department of Commerce are Direct Private Foreign Investments of the United States, Census of 1950, 1953; United States Investments in the Latin American Economy, August, 1958; many issues of the Survey of Current Business; Historical Statistics of the United States, Colonial Times to 1957, 1960; Statistical

Abstract of the United States, 1960, and Balance of Payments Statistical Supplement, 1958. Explanations of the data shown in the balance of payments and the problems involved in interpreting the data are discussed in Balance of Payments of the United States, 1949-1951, 1952.

Other most useful statistical sources were International Financial Statistics, hearings held, and studies conducted for committees of the United States Congress. Especially useful were studies and hearings of the Joint Economic Committee, the Senate Foreign Relations Committee, and the House Ways and Means Committee.

CHAPTER II

POSSIBLE EFFECTS ON THE UNITED STATES BALANCE OF PAYMENTS FROM DIFFERENT METHODS OF FINANCING FOREIGN ENTERPRISES

In the post World War II period the financing of foreign enterprises and trade has undergone considerable change. The purpose of this chapter is to show the extent to which changes in the methods of financing a foreign enterprise can affect the United States balance of payments.

In the early postwar period the foreign capital needed for financing United States foreign enterprises had to come entirely from the United States. However, the United States also supplied most of the capital goods which reduced the United States capital outflow correspondingly. Foreign capital markets have made substantial recovery in the postwar period. But, in financing foreign enterprises, considerable use is still made of United States capital resources while foreign capital goods are now widely used. This change affects the United States balance of payments.

The terms of financing trade have become gradually more liberal in the postwar period. A shift from short-term capital to medium-term capital produces a reduction of cash receipts. Similar results follow when capital goods exports are financed by accepting stock in newly established foreign enterprises.

Another method of financing the purchase of a foreign enterprise may not require United States capital. Control over foreign enterprises can be acquired by exchanging equity stock of equal value with a United States company and one or more foreign companies, which does not involve any dollar outlay. The United States balance of payments will be affected by differences between the domestic and foreign companies in such variables as profits transferred and growth rates.

Effects of the Origin of the Capital and Capital Goods

Two basic methods may first be considered in financing the acquisition and operation of a direct foreign investment. If the same direct foreign investment enterprise is financed by these two methods, the United States net receipts will be quite different.

A. It is first assumed that a 100 per cent United States owned foreign enterprise is financed entirely by United States machinery and equipment for $1 million. In this case, and in the next, it is assumed that the depreciation reserve, 5 per cent of net worth, is reinvested quarterly, that current assets are equal to current liabilities, and that no dollars are obtained from the United States during the period of operation. Given the rate of profit, the rate of profits transferred, and tax rates, the following results may be observed:

Gross Profits, 30% of Net Worth	$300 000
All Foreign Taxes, Calculated as 40% of Gross Profits	120 000
Net Profits	$180 000
Reinvested Profits, 50% of Net Profits (9% of Net Worth)	$ 90 000
Transferred Profits, 50% of Net Profits	90 000

Thus, at the end of the year, $90,000 is added to net worth. If this investment continues to earn 30 per cent profits on net worth and if 50 per cent of the net profits are reinvested annually, i. e., 9 per cent of net worth annually, then over a fifteen-year period its total net worth will be $3,462,500, and total accumulated transferred earnings will be $2,552,481.

At the end of the fifteen years of operation the investment may be sold and the funds repatriated, making total net potential inflow into the United States of about $6.0 million. This is approximately a $2.5 million return in receipts and a potential return of $6 million achieved with no foreign exchange outlay.

B. The United States may not have supplied any goods with the $1 million of capital used to acquire the direct investment enterprise. If all of the United States equity in the enterprise has been acquired with dollars and the same variables apply as in the above situation, $1 million outlay will produce transferred earnings of $2,552,481; if the direct investment is sold at the end of the fifteen-year period and the earnings repatriated, then another $3,462,500 may be added to the

total returns of the investment, making the total potential returns $5,014,981.

Next in financing expansion and operation of a direct investment, other significant aspects are considered in the following paragraphs.

1. Out of the reinvested profits, a proportion may be spent on United States goods. Either all of the reinvested profits may be spent on United States capital goods, which will produce $2,552,481 in receipts from the exports of these goods, or none of the reinvested earnings may be spent on United States goods.

2. In addition, the direct investment may have acquired during this period more capital for additional expansion. The United States parent company may have financed the acquisition of more equity by supplying plant and equipment. This actually amounts to added direct investment, and over the period the total transferred earnings would have been proportionately more. All this equipment may have come from the United States. If the goods have been purchased abroad and financed with United States capital, then the United States balance of payments will show a corresponding capital outflow. The additional investment made by the parent company, whether financed by acquiring more equity or a United States long-term loan, will show up on the balance of payments as net outflow of capital only if the capital goods purchased with it have come from abroad. If the goods have come from the United States, the capital outflow will be credited in the United States balance of payments with exports of equal amounts.

3. The direct investment enterprise may have acquired over the fifteen years a long-term debt of $1 million. The money capital may either have been borrowed abroad and used to purchase United States goods, or borrowed in the United States and used to purchase foreign goods.

4. The direct investment enterprise may also have acquired a short-term debt of $150,000, for working capital and current assets, which may have been borrowed either locally or in the United States; in the former case it will not affect the United States balance of payments, and in the latter case it will show up as a short-term capital outflow with subsequent interest returns. This debt may have been acquired by borrowing an additional $10,000 each year for fifteen years, with the old debt annually renewed; interest income at a rate of 12.5 per cent will be $1,250 the first year and $18,750 the last year. Total interest income on this debt over fifteen years will be $150,000. If the capital is borrowed in the United States, the total outlay will be $150,000, and net returns will be $150,000. After the eighth year interest payments start to exceed the net annual outflow of $10,000.

Thus, depending on the circumstances, the United States balance of payments may be affected very differently by a direct investment enterprise. For purposes of measuring such differences two extreme situations are analyzed. In the first method it is assumed that all financing is transacted to favor the United States balance of payments, and in the other, the opposite is assumed. Given now the above features

of the direct investment enterprise, the following effects may be observed. See Table II-1.

Thus, two enterprises identical in size, earning rates, growth rates, and capital requirements show very different results on the United States balance of payments when the methods of financing differ. When financed in a way favorable to the United States balance of payments, net receipts over a fifteen-year period may be as high as about $7.7 million, and when financing is arranged to be as unfavorable as possible to the United States balance of payments, the net receipts may be as low as $2.5 million.

Effects of Varying Operating Characteristics of a Domestic Company and a Foreign Subsidiary

A third method of financing the purchase of a foreign enterprise may not require any foreign exchange. A United States company may acquire control over one or more foreign companies by exchanging a small proportion of parent company stock for a controlling interest of that of the foreign companies. Such acquisitions may not involve any cash transactions if the values of the stocks exchanged are equal.

But, the United States balance of payments will be affected over time if the rate of profit, tax rate, and rates of profits reinvested and transferred differ for the United States and the foreign subsidiaries. The effects of differences in these rates between the United States and the foreign subsidiary are analyzed below.

TABLE II-1

POTENTIAL U. S. RECEIPTS FROM A FOREIGN SUBSIDIARY
GIVEN TWO METHODS OF FINANCING
ACQUISITION AND OPERATION

Method I

1. Acquisition or Establishment:			
a. U. S. Exports			$ 1 000 000
b. Direct Investment Equity			(1 000 000)
2. Transferred Earnings:			
Gross Profits 30% of Net Worth[1]	$	300 000	
Foreign Taxes 40% of Gross Profits		120 000	
Net Profits	$	180 000	
Transferred 50%	$	90 000	
Reinvested 50%		90 000	
Transferred Earnings for 15 Years			2 552 481
3. Reinvested Earnings:			
a. 50% of Net Profits; All Spent on U. S. Goods			2 552 481
4. Transacted Long-term Debt:			
a. Borrowed in the United States, 30 Years @ 8%			- 1 200 000
b. U. S. Goods Purchased			1 200 000
c. Interest for 15 Years			1 440 000
5. Transacted Short-term Debt:			
a. Borrowed in the United States			- 150 000
b. Interest @ 12½% for 15 Years			150 000
c. Repayment End of 15th Year			150 000
Total Net Inflow[1]			$ 7 694 962

[1]Value at the end of the 15th year given an average growth rate of 9 per cent per year is $3,462,500.

TABLE II-1 Continued

Method II	
1. Acquisition or Establishment:	
a. Direct Investment Equity	$-1 000 000
b. Goods Purchased Abroad	(1 000 000)
2. Transferred Earnings:	
The same for 15-year period	2 552 481
3. Reinvested Earnings:	
a. 50% of Net Profits; All Spent on Foreign Goods	(2 552 481)
4. Transacted Long-term Debt:	
a. Borrowed Abroad	(1 200 000)
b. Foreign Goods Purchased	(1 200 000)
5. Transacted Short-term Debt:	
a. Borrowed Abroad	(150 000)
Total Net Inflow[1]	$ 2 552 481

[1]Value at the end of the 15th year given an average growth rate of 9 per cent per year is $3,462,500.

If the rate of profit on net worth and tax rates on profits are the same, but the rates of profits transferred and reinvested vary, the balance of payments will show the results shown on Table II-2. If the rate of profit paid out in the United States is 60 per cent and that for the foreign companies 50 per cent, 40 per cent, and 30 per cent, i. e., for companies I, II, and III, the respective net outflow of profits would be about $136,000, $333,000, and $607,000 over the fifteen-year period. Foreign companies acquired by United States companies are often relatively small, but have rapid growth potential, especially when aided by technological assistance from the United States affiliate. If at the end of the period the United States interest in the foreign subsidiaries is sold and the funds repatriated, total inflow into the United States over this period will be, respectively, about $2.8 million, $3.3 million, and $3.9 million from subsidiary companies I, II, and III.

If, on the other hand, the rates of profit on net worth vary between the United States and the foreign subsidiaries while the rate of profits paid out remains the same, the results will be as shown on Table II-3.

A difference in gross profit rates on net worth from 20 per cent of the United States company to 30 per cent, 40 per cent, and 50 per cent of foreign subsidiaries I, II, and III--all other things remaining the same--would produce a net inflow of profits into the United States of, respectively, about $.9 million, $2.0 million, and $3.6 million over a fifteen-year period. Thus, if the profit rate abroad changes from 30 per cent to 50 per cent, the profits transferred over this period more

TABLE II-2

A COMPARISON OF RECEIPTS AND PAYMENTS OF A U. S. COMPANY AND FOREIGN SUBSIDIARIES RESULTING FROM VARYING RATES OF PROFITS TRANSFERRED

	U. S. Company		Foreign Subsidiaries I		II		III	
Net Worth		$1 000 000		$1 000 000		$1 000 000		$1 000 000
Gross Profits	30%	300 000	30%	300 000	30%	300 000	30%	300 000
Taxes	50	150 000	50	150 000	50	150 000	50	150 000
Net Profits		$ 150 000		$ 150 000		$ 150 000		$ 150 000
Transferred	60%	$ 90 000	50%	$ 75 000	40%	$ 60 000	30%	$ 45 000
Reinvested	40	60 000	50	75 000	60	90 000	70	105 000
Total		$ 150 000		$ 150 000		$ 150 000		$ 150 000
Value End 15 Years		$2 396 600		$2 958 900		$3 642 500		$4 471 300
Accumulated Transfer (- Outflow)		- 2 094 822		1 958 865		1 761 654		1 487 700
Net Transfers if either Foreign Subsidiary I, II, or III is Acquired		--		- 135 957		- 333 168		- 607 122
Total Inflow if the Investments Are Sold and the Funds Repatriated		--		2 822 953		3 309 332		3 864 178

TABLE II-3

A COMPARISON OF RECEIPTS AND PAYMENTS OF A U. S. COMPANY AND FOREIGN SUBSIDIARIES, RESULTING FROM VARYING GROSS PROFIT RATES

	U. S. Company		Foreign Subsidiaries I		II		III	
Net Worth		$1 000 000		$1 000 000		$1 000 000		$1 000 000
Gross Profits	20%	200 000	30%	300 000	40%	400 000	50%	500 000
Taxes	50	100 000	50	150 000	50	200 000	50	250 000
Net Profits		$ 100 000		$ 150 000		$ 200 000		$ 250 000
Transferred	60%	$ 60 000	60%	$ 90 000	60%	$ 120 000	60%	$ 150 000
Reinvested	40	40 000	40	60 000	40	80 000	40	100 000
Total		$ 100 000		$ 150 000		$ 200 000		$ 250 000
Value End 15 Years		$1 800 900		$2 396 600		$3 172 200		$4 177 200
Accumulated Transfer (- Outflow)		- 1 201 422		2 094 822		3 258 240		4 765 860
Net Transfers if either Foreign Subsidiary I, II, or III is Acquired		--		893 400		2 056 818		3 564 438
Total Inflow if the Investments Are Sold and the Funds Repatriated		--		3 290 000		5 229 018		7 681 638

than double. If the investments abroad are sold at the end of the period and the funds repatriated, total net inflows into the United States will be $3.3 million, $5.2 million, and $7.7 million for subsidiaries I, II, and III, respectively.

A United States company may have acquired such foreign affiliates because of unique profit opportunities abroad in a field that has been fairly well developed in the United States.

The other major variable is taxes. In many countries, if not most, total taxes paid by companies are considerably lower than in the United States. If total taxes, figured on the basis of profits, are 50 per cent in the United States and vary from 40 per cent and 20 per cent for the foreign company, the following results may be observed, as shown on Table II-4. Thus, if gross profit rates and profit-transfer rates are the same for the home industry and the foreign companies, a tax rate on gross profits of 40 per cent, 30 per cent, and 20 per cent, as compared with 50 per cent at home, would produce a balance of payments inflow of about $660,000, $1,435,000, and $2,338,000 for foreign subsidiaries I, II, and III. Thus, if the foreign tax rate is 20 per cent instead of 40 per cent, the net inflow into the United States increases about 3.5 times. If these foreign subsidiaries are sold and the funds repatriated, net inflows into the United States will be $3.5 million, $4.8 million, and $6.3 million, for foreign subsidiaries I, II, and III.

If, now, all the previously mentioned variables are permitted to change simultaneously for the three foreign subsidiaries, the results are quite striking. If a United States company with a gross profit rate

TABLE II-4

A COMPARISON OF RECEIPTS AND PAYMENTS OF A U. S. COMPANY AND FOREIGN SUBSIDIARIES, RESULTING FROM VARYING TAX RATES

	U. S. Company		Foreign Subsidiaries I		II		III	
Net Worth		$1 000 000		$1 000 000		$1 000 000		$1 000 000
Gross Profits	30%	300 000	30%	300 000	30%	300 000	30%	300 000
Taxes	50	150 000	40	120 000	30	90 000	20	60 000
Net Profits		$ 150 000		$ 180 000		$ 210 000		$ 240 000
Transferred	60%	$ 90 000	60%	$ 108 000	60%	$ 126 000	60%	$ 144 000
Reinvested	40	60 000	40	72 000	40	84 000	40	96 000
Total		$ 150 000		$ 180 000		$ 210 000		$ 240 000
Value End 15 Years		$2 396 600		$2 837 400		$3 353 000		$3 955 100
Accumulated Transfer (- Outflow)		2 094 822		2 756 084		3 529 575		4 432 666
Net Transfers if either Foreign Subsidiary I, II, or III is Acquired		--		661 262		1 434 753		2 337 844
Total Inflow if the Investments Are Sold and the Funds Repatriated		--		3 498 662		4 787 753		6 292 944

of 20 per cent, a tax rate on gross profits of 50 per cent, and a rate of paying out profits of 60 per cent, acquires control over a foreign subsidiary with a gross profit rate of 50 per cent, a tax rate on gross profits of 20 per cent, and rate of profits transferred of 30 per cent (i. e., 70 per cent reinvested), net United States receipts will be about $15.8 million. If the new foreign affiliate has a gross profit rate of 30 per cent, a tax rate on gross profits of 40 per cent, and a rate of profits transferred of 50 per cent, the net inflow of profits will be about $2.6 million.

If the investments were sold and the funds repatriated at the end of the fifteen-year period, total net inflows over the period would have been $5.0 million, $15.3 million, and $56.3 million for foreign subsidiaries I, II, and III. See Table II-5.

Short-run Effects from Different Methods of Financing Capital Goods Exports

The methods of financing direct investments, which are analyzed above, deal with effects on the United States balance of payments over a period of fifteen years. However, certain effects on the United States balance of payments from different methods of financing capital goods exports may produce considerable loss of cash receipts in the short run, the same as when different methods are used in financing the establishment of a foreign enterprise. Capital goods exports previously paid in cash may be financed by stock in foreign enterprises.

TABLE II-5

A COMPARISON OF RECEIPTS AND PAYMENTS OF A U. S. COMPANY AND FOREIGN SUBSIDIARIES, RESULTING FROM VARYING PROFIT RATES, TAX RATES, AND TRANSFER RATES

	U. S. Company		Foreign Subsidiaries I		II		III
Net Worth		$ 1 000 000		$ 1 000 000		$ 1 000 000		$ 1 000 000
Gross Profits	20%	200 000	30%	300 000	40%	400 000	50%	500 000
Taxes	50	100 000	40	120 000	30	120 000	20	100 000
Net Profits		$ 100 000		$ 180 000		$ 280 000		$ 400 000
Transferred	60%	$ 60 000	50%	$ 90 000	40%	$ 112 000	30%	$ 120 000
Reinvested	40	40 000	50	90 000	60	168 000	70	280 000
Total		$ 100 000		$ 180 000		$ 280 000		$ 400 000
Value End 15 Years		$ 1 800 900		$ 3 642 500		$10 272 000		$40 565 000
Accumulated Transfer (- Outflow)		- 1 201 422		2 552 481		6 181 134		16 956 444
Net Transfers if either Foreign Subsidiary I, II, or III is Acquired		--		1 351 059		4 979 712		15 755 022
Total Inflow if the Investments Are Sold and the Funds Repatriated		--		4 983 559		15 251 712		56 320 022

If, as in the post World War II period, cash exports are financed on increasingly liberal terms, such as the shift from short-term to medium-term credit, an inflow of foreign medium-term capital appears instead of short-term capital which means, in effect, a decrease in cash receipts in the short run. If capital goods exports are financed by development loans, foreign long-term capital is obtained instead of cash.

Medium-term credits earn interest annually and produce an amortization payment. Long-term credits earn interest annually, and may be paid off either at the end of the period or may be paid off in installments.

A sudden upsurge in these types of credits may greatly reduce the country's cash receipts in the short run. For example, a $1 million export of capital goods, instead of being paid in cash, may now be financed either with a five-year medium-term loan, or a ten-year medium-term loan, or a twenty-year development loan; if the interest on all loans is 6 per cent, then the net returns at the end of the first year instead of $1 million are, respectively, $260,000, $160,000 (both including amortization), and $60,000, not including amortization. Thus, if at first the balance of payments shows no deficit, a change to more liberal terms of financing exports may produce a deficit. The magnitude of such losses would be the difference between the former cash receipts and the sum of interest and amortization payments on the loans. It is possible, of course, that such losses may be compensated for by imports similarly financed instead of paid for in cash.

Total receipts on interest and amortization over a period of time within which the loans are to be paid off will be higher than the amount received for cash exports because of the added interest. A $1 million development loan, to be paid off at the end of the twenty-year period of the loan, at 5 per cent interest, will produce over this period $1 million in interest. But, as more cash exports are continually financed on medium-term credit or with development loans, or if the terms are just becoming more liberal, the balance of payments will initially show greatly reduced cash receipts. After this continual extension of loans to finance exports has been going on for many years, the annual returns of interest and amortization payments thus will eventually exceed the annual reduction in cash receipts. But the time required for annual receipts to exceed outlays may vary considerably.

Table II-6 shows that a $1 million annual increase in exports financed at 5 per cent over a twenty-year period will the first year produce a deficit of $900,000. In twenty years the total amount financed will be $20 million, while returns of interest and amortization will have accumulated to about $17.7 million. It requires at least eleven years before the annual balance of payments receipts are equal to the annual reduction in cash receipts.

A similar situation prevails with a change from cash exports to direct investments.

Table II-7 shows an annual investment of $1 million of cash exports into a direct investment for a period of ten years. The investment is assumed to earn 30 per cent net profits on net worth of which

TABLE II-6

EFFECTS ON THE U. S. BALANCE OF PAYMENTS RESULTING FROM $1 MILLION CASH EXPORTS CHANGING ANNUALLY TO LONG-TERM CAPITAL OUTFLOWS FOR A PERIOD OF TWENTY YEARS

(Loans 20 Years; 5 Per Cent Interest)

		Amortization	Interest	Amortization and Interest
1st Year:				
Loan Extended at Beginning of 1st Year	$ 1 000 000			
Amortization Payment Received at End of 1st Year	50 000	$ 50 000		
Outstanding at End of Year	$ 950 000		$ 50 000	$ 100 000
Additional Loan Extended Beginning 2d Year	1 000 000			
New Outstanding Balance	$ 1 950 000			

Note: After the 1st year, the reduction in cash receipts is $900,000. After 11 years, total cash receipts are $1,035,000, which is close to the $1 million annual reduction in cash receipts. After 20 years, the accumulated cash receipts from the loans in interest and amortization receipts are $17,675,000 and at that time the total loss in cash receipts will be $20 million.

TABLE II-6--Continued

		Amortization	Interest	Amortization and Interest
19th Year:				
Loan Outstanding Beginning of 19th Year	$ 9 500 000			
New Loan Beginning 19th Year	1 000 000			
Outstanding at End of Year	10 500 000			
Amortization Payment End of Year	1 000 000	$ 1 000 000		
New Outstanding Balance	$ 9 500 000		$ 525 000	$ 1 525 000
If new $1 million loans are extended for 20 years, the total receipts will be:		$10 500 000	$ 7 175 000	$17 675 000

TABLE II-7

EFFECTS ON THE U. S. BALANCE OF PAYMENTS RESULTING FROM AN ADDITIONAL ANNUAL INCREASE OF $1 MILLION IN CASH EXPORTS BECOMING DIRECT INVESTMENTS FOR A PERIOD OF TEN YEARS

(Net Profit on Net Worth is 30 Per Cent.)

Year	10	9	8	7	6	5	4	3	2	1
1	$ 1 000 000									
2	1 150 000	$ 1 000 000								
3	1 322 500	1 150 000	$ 1 000 000							
4	1 520 900	1 322 500	1 150 000	$ 1 000 000						
5	1 749 000	1 520 900	1 322 500	1 150 000	$ 1 000 000					
6	2 011 400	1 749 000	1 520 900	1 322 500	1 150 000	$ 1 000 000				
7	2 313 100	2 011 400	1 749 000	1 520 900	1 322 500	1 150 000	$ 1 000 000			
8	2 660 000	2 313 100	2 011 400	1 749 000	1 520 900	1 322 500	1 150 000	$ 1 000 000		
9	3 059 000	2 660 000	2 313 100	2 011 400	1 749 000	1 520 900	1 322 500	1 150 000	$ 1 000 000	
10	3 517 900	3 059 000	2 660 000	2 313 100	2 011 400	1 749 000	1 520 900	1 322 500	1 150 000	$ 1 000 000
Cumulative Net Worth @ 15%	$20 303 800	$16 785 900	$13 726 900	$11 066 900	$ 8 753 800	$ 6 742 400	$ 4 993 400	$ 3 472 500	$ 2 150 000	$ 1 000 000
15% Profit on Investment growing at 15% per year:										
15% Profit Transferred	$ 3 045 570	$ 2 517 885	$ 2 059 035	$ 1 660 035	$ 1 313 070	$ 1 011 360	$ 749 010	$ 520 875	$ 322 500	$ 150 000
Cumulative Transferred Profits	$13 349 340	10 303 770	7 785 885	5 726 850	4 066 815	2 753 745	1 742 385	993 375	472 500	150 000
Cumulative Direct Investment (Instead of Cash Exports)	$10 000 000	9 000 000	8 000 000	7 000 000	6 000 000	5 000 000	4 000 000	3 000 000	2 000 000	1 000 000
Net Outflow per year (- Out)[1]	$ 2 045 570	1 517 885	1 059 035	660 035	313 070	11 360	- 250 099	- 479 125	- 677 500	- 850 000
Net Cumulative Outflow (- Out)[2]	$ 3 349 340	1 303 770	- 214 115	- 1 273 150	- 1 933 185	- 2 246 255	- 2 257 615	- 2 006 625	- 1 527 500	- 850 000

Note: Net profit on net worth is 30 per cent annually; of this 50 per cent is reinvested annually and 50 per cent is transferred home annually.

[1]Net outflow per year is calculated by subtracting the annual reduction in cash exports from the transferred profits for the same year.

[2]Net cumulative outflow is calculated by subtracting the cumulative reduction in cash exports from the cumulative transferred profits.

half is reinvested which means that the investment's net worth will grow at a compound interest rate of 15 per cent. The other half of the net profits is transferred to the United States and shows up as receipts in the United States balance of payments. The annual transferred profits are $150,000 at the end of the first year and about $3 million at the end of the tenth year; accumulated profits transferred over the ten years will be about $13,350,000. When examined on a year-to-year basis, the reduction in cash receipts at the end of the first year will be $850,000. At the end of the fourth year the reduction in cash receipts will be $250,000, and at the end of the next year cash receipts from the new investment will exceed the $1 million annual reduction in cash receipts from exports. On a cumulative basis all the added net annual reductions in cash receipts from exports--in those years when the reductions in cash receipts from exports exceed the cash receipts from the investment--are exceeded by the returns from the investments in the ninth year. At the end of the ninth year the total increase in cash receipts is $1.3 million.

A similar situation is shown below, except that the net profit on the net worth of the investment is now 50 per cent, of which half is annually reinvested and the other half transferred. The initial reduction in net cash receipts will be considerably smaller, and returns of the investments will sooner exceed reductions in cash receipts of exports. See Table II-8. Total profits transferred home over a ten-year period will be about $31.6 million while capital goods exports of $10 million are invested in a foreign enterprise at a rate of $1 million

TABLE II-8

EFFECTS ON THE U. S. BALANCE OF PAYMENTS RESULTING FROM AN ADDITIONAL ANNUAL INCREASE OF $1 MILLION IN CASH EXPORTS BECOMING DIRECT INVESTMENTS FOR A PERIOD OF TEN YEARS

(Net Profit on Net Worth is 50 Per Cent.)

Year	10	9	8	7	6	5	4	3	2	1
1	$ 1 000 000									
2	1 250 000	$ 1 000 000								
3	1 562 500	1 250 000	$ 1 000 000							
4	1 953 100	1 562 500	1 250 000	$ 1 000 000						
5	2 441 400	1 953 100	1 562 500	1 250 000	$ 1 000 000					
6	3 051 800	2 441 400	1 953 100	1 562 500	1 250 000	$ 1 000 000				
7	3 814 700	3 051 800	2 441 400	1 953 100	1 562 500	1 250 000	$ 1 000 000			
8	4 768 400	3 814 700	3 051 800	2 441 400	1 953 100	1 562 500	1 250 000	$ 1 000 000		
9	5 960 500	4 768 400	3 814 700	3 051 800	2 441 400	1 953 100	1 562 500	1 250 000	$ 1 000 000	
10	7 450 600	5 960 500	4 768 400	3 814 700	3 051 800	2 441 400	1 953 100	1 562 500	1 250 000	$ 1 000 000
Cumulative Net Worth @ 25%	$33 253 000	$25 802 400	$19 841 900	$15 073 500	$11 258 800	$ 8 207 000	$ 5 765 000	$ 3 802 500	$ 2 250 000	$ 1 000 000
15% Profit Transferred	$ 8 313 250	$ 6 450 600	$ 4 960 475	$ 3 768 375	$ 2 814 700	$ 2 051 750	$ 1 441 400	$ 953 125	$ 562 500	$ 250 000
Cumulative Transferred Profits	$31 566 175	23 252 925	16 802 325	11 841 850	8 073 475	5 258 775	3 207 025	1 765 625	812 500	250 000
Cumulative Direct Investment	$10 000 000	9 000 000	8 000 000	7 000 000	6 000 000	5 000 000	4 000 000	3 000 000	2 000 000	1 000 000
Net Outflow Per Year (- Out)[1]	$ 7 313 250	5 450 600	3 960 475	2 768 375	1 814 700	1 051 750	441 400	- 46 875	- 437 500	- 750 000
Net Cumulative Outflow (- Out)[2]	$21 566 175	14 252 925	8 802 325	4 841 850	2 073 475	258 775	- 792 975	- 1 234 375	- 1 187 500	- 750 000

Note: Net profit on net worth is 50%; of this 50% is reinvested annually and 50% is transferred home annually.

[1]Net outflow per year is calculated by subtracting the annual reduction in cash exports from the transferred profits for the same year.

[2]Net cumulative outflow is calculated by subtracting the cumulative reduction in cash exports from the cumulative transferred profits.

per year. The transferred profits of this direct investment enterprise begin to exceed the reduction in cash receipts in the fourth year at the end of which net foreign exchange receipts are about $440,000. The first year net cash receipts are $750,000 lower than if cash capital goods export sales had been maintained. On a cumulative basis, the total added net decline in cash receipts of the first four years was again exceeded by accumulated investment receipts in the fifth year, at the end of which net receipts are about $260,000.

Thus, if all other things are the same, except that the profit rate on net worth is 30 per cent in the first situation and 50 per cent in the second, the difference in loss of receipts is considerable. In the first situation, the annual net outflow per year from loss of cash receipts persists until the fifth year, and in the second situation, the outflow continues for slightly more than three years. On a cumulative basis, balance of payment receipts do not exceed the annual outflow until the eighth year. In the second situation, less than four years are required for the cumulative receipts to exceed the outflows.

CHAPTER III

UNITED STATES RECEIPTS AND PAYMENTS PRODUCED BY THE EARNINGS AND FINANCING OF UNITED STATES FOREIGN ENTERPRISES

In this chapter an analysis is made of the available empirical evidence of direct effects on the United States balance of payments from the earnings and financing of various types of United States foreign enterprises. Earnings of United States foreign enterprises are after payment of foreign taxes, and United States receipts are before United States taxes.

United States Foreign Enterprises and the United States Balance of Payments

The value of United States foreign enterprises and United States capital flows to the enterprises are not very significant when compared with similar domestic variables. The value of United States foreign enterprises averaged only 1.5 per cent of United States national wealth in the 1945-1959 period. The amount of United States capital invested in foreign enterprises is relatively small in comparison to domestic investment. United States capital outflows to foreign enterprises in the 1945-1949 period averaged about 1.7 per cent of gross private domestic investment. See Table III-1.

But, United States capital exports to United States foreign enterprises have been, on the average, about 34 per cent of all United

TABLE III-1

COMPARISON OF TRENDS AND OF RELATIVE MAGNITUDES OF SELECTED U. S. INDICATORS AND OF U. S. DIRECT PRIVATE FOREIGN INVESTMENTS, 1929-1959 (IN CURRENT PRICES)

	(U. S. Indicators: in Billions)			(Direct Investments: in Millions)		
	National Income	Gross Private Domestic	National Wealth	Value of the Investments	Capital Outflow to the Investments	Income from the Investments
1929	$ 87.8	$ 35.0	$ 410.1	$ 7 500	$- 602	$ 467
1935	57.1	16.1	344.9	7 800	34	320
1940	81.6	29.0	424.2	7 300	32	413
1945	181.2	17.0	570.6	8 400	- 100	426
1946	180.9	42.4	--	7 200	- 230	589
1947	198.2	41.5	--	8 400	- 749	869
1948	223.5	49.8	--	9 600	- 721	1 064
1949	217.7	38.5	--	10 700	- 660	1 112
1950	241.9	55.9	1 054.7	11 800	- 621	1 294
1951	279.3	57.7	--	13 100	- 528	1 492
1952	292.2	50.4	--	14 800	- 850	1 419
1953	305.6	50.6	--	16 300	- 721	1 442
1954	301.8	48.9	--	17 600	- 664	1 725
1955	330.2	62.5	1 384.3	19 300	- 779	1 912
1956	350.8	61.7	--	22 200	-1 859	2 120
1957	366.9	58.5	--	25 300	-2 058	2 249
1958	367.7	47.3	1 682.1	27 300	-1 094	2 140
1959	399.6	60.2	--	29 700	-1 310	2 228

Sources: U. S., Department of Commerce, Historical Statistics of the United States, Colonial Times to 1957, 1960, pp. 139, 143, 564, 565.
U. S., Department of Commerce, Statistical Abstract of the United States, 1960, pp. 304, 326.
U. S., Department of Commerce, Balance of Payments Statistical Supplement, 1958, pp. 10-13.
Survey of Current Business, September, 1960, p. 21.
Federal Reserve Bulletin, October, 1960, p. 1183.

States net capital outflows in the 1946-1959 period.[1] United States receipts from United States foreign enterprises have exceeded the capital exports to the enterprises by a considerable amount in the post World War II period. During the 1945-1959 period total United States income received from these enterprises was about $22 billion, while net United States capital outflows to these enterprises were about $13 billion; this is a difference of about $9 billion. This compares with a merchandise trade surplus during this period of $75.7 billion. While United States foreign enterprises have thus required $13 billion of new United States capital in this period, the value of the enterprise increased about $21.5 billion, indicating substantial contributions other than United States capital exports. These may include reinvested earnings, capital contributions from other countries, and may also have involved United States exports of capital goods. United States foreign enterprises thus involve considerable amounts of United States balance of payments resources.

The Value of United States Foreign Enterprises

Before considering the value of and growth rates of United States foreign enterprises, it is necessary to present a brief outline of the distribution of United States foreign enterprises by type and by major geographical area.

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[1] U. S., Department of Commerce, Balance of Payments Statistical Supplement, 1958, pp. 12-13. U. S., Department of Commerce, Survey of Current Business, many issues.

The value of United States direct private investment enterprises at the end of 1959 amounted to $29,735 million, of which petroleum enterprises are 35 per cent, manufacturing 33 per cent, mining and smelting 10 per cent, and trade 7 per cent. Table III-2 shows additional details.

TABLE III-2

VALUE OF U. S. DIRECT FOREIGN ENTERPRISES
BY TYPE, ALL AREAS, 1959

	Millions of Dollars	Percentage
Mining and Smelting	$ 2 858	9.61%
Petroleum	10 423	35.50
Manufacturing	9 692	32.59
Trade	2 039	6.86
Other	4 723	15.89
	$29 735	100.00%

Source: Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960.

Of a value of United States foreign enterprises of $29,735 million, about 34 per cent is in Canada, 30 per cent in Latin America, 18 per cent in Europe, and 18 per cent in all other areas. The distribution of United States foreign enterprises by types varies also considerably by area. For example, almost 50 per cent of all United States foreign mining and smelting enterprises are in Latin America and 38 per cent in Canada; petroleum enterprises are largely situated in Latin America,

although Canada also has a substantial share; close to 50 per cent of all manufacturing enterprises are in Canada, and 30 per cent in Europe; trade investments are more evenly distributed with close to 30 per cent in all three areas. Table III-3 below shows additional details.

TABLE III-3

VALUE OF U. S. DIRECT FOREIGN ENTERPRISES BY TYPE, BY AREA, 1959

(In Percentages)

	All Industries	Mining and Smelting	Petroleum	Manufacturing	Trade	Other
Canada	34.21	38.14	23.65	47.03	27.66	31.63
Latin America	30.24	49.54	31.78	14.71	33.69	45.52
Europe	17.82	1.75	13.94	30.20	28.50	6.12
Other	17.73	10.57	30.63	8.06	10.15	16.73
	100.00	100.00	100.00	100.00	100.00	100.00

Source: Adapted from Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960.

Within each of these areas the distribution of United States foreign enterprises differs. In Canada in 1959 by far the biggest United States industry is manufacturing, with about 45 per cent of total. In Latin America the biggest United States industry is petroleum, with about 37 per cent of the total, and in Europe United States manufacturing constitutes about 55 per cent of the total United States direct private investments in the area. In the other areas taken together, petroleum is by far the biggest industry. Table III-4 shows additional details.

TABLE III-4

VALUE OF U. S. DIRECT FOREIGN ENTERPRISES
BY INDUSTRY, BY AREA, 1959

(In Percentages)

	Mining and Smelting	Petro-leum	Manufac-turing	Trade	Other	All Indus-tries
Canada	10.72	24.24	44.81	5.54	14.69	100.00
Latin America	15.75	36.84	15.86	7.64	23.91	100.00
Europe	.94	27.42	55.23	10.96	5.45	100.00
Other Areas	5.73	60.55	14.81	3.93	14.98	100.00

Source: Adapted from Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960.

The value of United States foreign enterprises is a particularly valuable variable because the earnings of certain groups of enterprises can be compared when they are figured as a percentage of the value of the enterprises, which is a measure also often used for comparing returns of domestic enterprises. In addition, a given increase in value over time gives some indication of earning capacity and capital requirements of the enterprises.

The growth in United States foreign enterprises has been very significant when based on either the last thirty years, the last fifteen, or the last nine years. When based on the 1929-1959 period, the average annual growth rate in the value of the direct private investments is 4.7 per cent per year; when based on the 1943-1958 period, the average growth rate is

8.6 per cent per year, and when based on the 1950-1959 period, the average growth rate is 10.8 per cent per year. Table III-5 shows the absolute values of United States direct foreign enterprises by major types for the 1950-1959 period for all areas, Canada, Latin America, and Europe, and Table III-6 shows the corresponding average annual percentage increases based on three different time periods.

United States foreign enterprises in Europe increased 13.2 per cent in the 1950-1959 period, in Canada 12.3 per cent, and in Latin America at an average rate of 7.8 per cent per year. Petroleum investments in all areas increased fastest in value in the 1950-1959 period, namely by 13.3 per cent; next, trade by 11.5 per cent, and manufacturing, and mining and smelting both at 10.9 per cent per year. Exceptionally large increases occurred in petroleum investments in Canada with the average growth rate of 21.9 per cent per year. See Table III-6 for further details.

Analysis of Earnings of Direct Investment Enterprises

Data on the value and earnings of domestic and foreign enterprises are subject to many limitations. The following paragraph taken from the primary source of much of the data illustrates the point:

> Comparisons of the absolute ratios, or rates of return, in the manufacturing industry as between different areas abroad, or between United States and foreign firms, are subject to so many qualifications that all but the most general observations are likely to be invalid. The data for earnings and values are affected by different price levels and exchange rates; the earning data in particular are affected by varying accounting procedures and degrees

TABLE III-5

VALUE OF U. S. DIRECT INVESTMENT ENTERPRISES IN CANADA, LATIN AMERICA, EUROPE, AND ALL AREAS FOR SELECTED YEARS, 1929-1959, BY INDUSTRY

(In Millions of Dollars)

	All Industries	Agri-culture	Mining and Smelting	Petro-leum	Manufac-turing	Public Utilities	Trade
All Areas:							
1929	$ 7 528	$ 880	$ 1 185	$ 1 117	$ 1 813	$ 1 610	$ 368
1936	6 691	482	1 032	1 074	1 710	1 640	391
1943	7 862	503	973	1 393	2 276	1 390	654
1950	11 788	589	1 129	3 390	3 831	1 425	762
1957	25 262	680	2 361	9 055	8 009	2 145	1 668
1958	27 255	n. a.	2 561	9 817	8 673	2 269	1 785
1959	29 735	662	2 858	10 423	9 692	2 413	2 039
Canada:							
1929	2 010	21	400	55	819	542	38
1936	1 953	10	239	108	799	520	79
1943	2 378	34	384	161	941	358	128
1950	3 579	21	334	418	1 897	284	240
1957	8 637	52	856	2 016	3 924	581	499
1958	9 338	n. a.	938	2 293	4 164	601	524
1959	10 171	60	1 090	2 465	4 558	636	564

TABLE III-5--Continued

(In Millions of Dollars)

	All Industries	Agri-culture	Mining and Smelting	Petro-leum	Manufac-turing	Public Utilities	Trade
Latin America:							
1929	$ 3 519	$ 817	$ 732	$ 617	$ 231	$ 887	$ 119
1936	2 847	400	708	453	192	937	100
1943	2 798	385	405	618	325	875	143
1950	4 576	523	660	1 303	781	942	245
1957	8 052	571	1 232	2 998	1 280	1 049	471
1958	8 447	n. a.	1 319	3 147	1 334	1 095	604
1959	8 990	529	1 416	3 312	1 426	1 150	687
Europe:							
1929	1 353	0	0	231	629	145	139
1936	1 259	0	43	278	612	91	153
1943	2 051	5	149	375	879	114	306
1950	1 733	1	31	426	932	27	186
1957	4 151	1	55	1 253	2 195	38	433
1958	4 573	n. a.	52	1 320	2 475	41	480
1959	5 300	1	50	1 453	2 927	44	581

Sources: U. S., Department of Commerce, Balance of Payments Statistical Supplement, 1958, p. 153.
Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960, pp. 89, 93.

TABLE III-6

AVERAGE ANNUAL GROWTH RATE OF THE VALUE OF U. S. DIRECT INVESTMENT ENTERPRISES CALCULATED FOR THREE DIFFERENT PERIODS, BY INDUSTRY, BY AREA

(In Percentages)

	All Industries	Agriculture[1]	Mining and Smelting	Petroleum	Manufacturing	Public Utilities	Trade
All Areas:							
1929-1959	4.7	Negative	3.0	7.7	5.7	1.4	5.9
1943-1958	8.6	1.7	6.7	13.9	9.3	3.3	6.9
1950-1959	10.8	1.3	10.9	13.3	10.9	6.0	11.5
Canada:							
1929-1959	5.6	3.6	3.4	13.5	5.9	.5	9.4
1943-1958	9.5	3.6	6.1	19.4	10.4	3.5	9.8
1950-1959	12.3	12.4	14.0	21.9	10.2	9.4	10.0
Latin America:							
1929-1959	3.2	Negative	2.2	5.8	6.3	.9	6.0
1943-1958	7.6	2.0	8.2	11.4	9.9	1.5	10.1
1950-1959	7.8	Negative	8.7	10.9	6.9	2.3	12.1
Europe:							
1929-1959	4.7	n. a.	n. a.	6.3	5.2	Negative	4.9
1943-1958	5.5	Negative	Negative	8.8	7.1	Negative	3.0
1950-1959	13.2	0	5.5	14.6	13.6	5.6	13.5

[1]The second period for agriculture is 1943-1959, instead of 1943-1958.

Source: Table III-5, and compound interest table.

> of consolidation; the total of investment to which these earnings are to be related is subject to variations in the valuation of fixed and current assets; there is no real equivalent in the foreign firm for the net worth of domestic firms, because of the dual nature and size of the accounts with U. S. parent companies; industries, or even individual firms, are often so dissimilar in their physical characteristics or operations that comparisons by rates of return is not pertinent--this applies especially to manufacturing operations which may emerge from integrated heavy industry to firms primarily assembling and selling products at wholesale.[1]

These limitations must be kept in mind. The broad groups of industries dealt with in this study located in three large areas is in part a recognition of the limitations of the data.

Statistical information about the operations and earnings of United States direct foreign enterprises is very limited, but data available on earnings and values of the United States direct investment enterprises permit computing earning rates. Table III-7 shows the value of United States direct private investments for all areas by four types of foreign enterprises for the 1950-1959 period. In addition, the table shows the earnings of the enterprises, the income received of these earnings, the undistributed earnings of subsidiaries, and the net United States capital outflow to the enterprises. The data do not show the net income received of foreign branches, i. e., the income received minus reinvested earnings. Instead, income received includes all branch profits, whether received by the United States parent company or not, while the outflow data include reinvested branch profits, part

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[1]Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960, p. 51.

TABLE III-7

VALUE OF VARIOUS TYPES OF U. S. DIRECT INVESTMENT ENTERPRISES, INCOME RECEIVED AND UNDISTRIBUTED, AND U. S. CAPITAL FLOWS TO THE ENTERPRISES, FOR ALL AREAS, 1950-1959

(Millions of Dollars)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Value:										
Total	$11 788	$13 089	$14 819	$16 286	$17 626	$19 313	$22 118	$25 262	$27 255	$29 735
Mining and Smelting	1 129	1 317	1 642	1 931	2 078	2 209	2 391	2 361	2 561	2 858
Petroleum	3 390	3 703	4 291	4 894	5 270	5 849	7 244	9 055	9 817	10 423
Manufacturing	3 831	4 352	4 920	5 226	5 711	6 349	7 088	8 009	8 673	9 692
Trade	762	883	966	1 049	1 166	1 282	1 444	1 668	1 785	2 039
Income Received:										
Total	1 294	1 492	1 419	1 442	1 725	1 912	2 160	2 249	2 140	2 228
Mining and Smelting	112	159	159	101	154	195	262	210	169	249
Petroleum	555	696	677	759	935	1 026	1 148	1 276	1 189	1 100
Manufacturing	357	331	287	314	346	383	390	429	460	549
Trade	72	79	79	79	76	89	98	101	119	129
Undistributed Earnings of Subsidiaries:										
Total	475	752	876	776	644	898	974	1 363	945	1 081
Mining and Smelting	33	56	45	48	29	81	89	56	42	68
Petroleum	74	204	338	238	94	203	258	468	156	109
Manufacturing	266	359	357	361	376	440	468	455	464	574
Trade	44	63	66	54	73	78	95	161	118	173

TABLE III-7--Continued

(Millions of Dollars)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Earnings:										
Total	$ 1 769	$ 2 244	$ 2 295	$ 2 218	$ 2 369	$ 2 810	$ 3 134	$ 3 561	$ 3 034	$ 3 255
Mining and Smelting	145	215	204	149	183	276	350	266	209	315
Petroleum	629	900	1 015	997	1 092	1 229	1 406	1 726	1 324	1 185
Manufacturing	623	690	644	675	722	823	858	886	926	1 129
Trade	116	142	145	133	149	167	193	263	237	302
U. S. Capital Flows to the Enterprises:										
Total	621	528	850	721	664	779	1 839	2 482	1 181	1 439
Mining and Smelting	87	100	278	243	109	48	95	199	177	239
Petroleum	248	93	248	408	277	369	1 139	1 408	649	511
Manufacturing	192	190	211	- 53	111	173	268	432	269	460
Trade	68	58	17	29	27	42	74	42	12	91

Sources: U. S., Department of Commerce, Balance of Payments Statistical Supplement, 1958, pp. 138-51.
Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960, pp. 130-38.

of which may never have been transferred. But the data do provide some useful picture of the stream of funds to and from foreign enterprises that affect the balance of payments, even though the actual flows are exaggerated.

For example, if, as in 1950, the United States' share in earnings in United States direct private investments is $1,769 million and undistributed earnings of subsidiaries $475 million, the income received is $1,294 million. But this figure includes all branch profits. In 1950 the earnings of all foreign enterprises were 15.01 per cent of the value of the enterprises, income received was 73.14 per cent of earnings, and United States capital outflow was 35.10 per cent of earnings, making United States receipts of 38.04 per cent of the earnings. The computation is as follows:

	Millions	
Earnings of subsidiaries and branches	$1 769	15.01% of value of investments
Undistributed profits of subsidiaries	- 475	
Income received (including all branch profits)	$1 294	73.14% of earnings
U. S. capital outflows (including reinvested branch profits)	- 621	35.10% of earnings
Income received minus U. S. capital outflows	$ 673	38.04% of earnings

Table III-7 shows the earnings, income received, and outflows for the years of the period 1950-1959 in dollars, and Table III-8 shows the corresponding percentages.

TABLE III-8

EARNINGS OF, AND U. S. CAPITAL FLOWS TO VARIOUS TYPES OF U. S. DIRECT PRIVATE FOREIGN ENTERPRISES, FOR ALL AREAS, 1950-1959

(In Percentages)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Earnings as a Percentage of Value of Direct Investment Enterprises:										
Total	15.01	17.14	15.49	13.62	13.44	14.55	14.17	14.10	11.13	10.95
Mining and Smelting	12.84	16.32	12.42	7.72	8.81	12.49	14.64	11.27	8.16	11.02
Petroleum	18.55	24.30	23.65	20.37	20.72	21.01	19.40	19.06	13.48	11.37
Manufacturing	16.26	15.85	13.09	12.92	12.64	12.96	12.10	11.04	10.68	11.64
Trade	15.22	16.08	15.01	12.68	12.78	13.03	13.37	15.77	13.28	14.81
Income Received as a Percentage of Earnings:										
Total	73.14	66.48	61.83	65.01	72.81	68.04	68.92	63.15	70.53	68.44
Mining and Smelting	77.24	73.95	77.94	67.78	84.15	70.65	74.85	78.94	80.86	79.04
Petroleum	88.23	77.33	66.70	76.12	85.62	83.48	81.65	73.92	89.80	92.82
Manufacturing	57.30	47.97	44.56	46.51	47.92	46.53	45.45	48.52	49.67	48.63
Trade	62.07	55.63	54.48	59.40	51.01	53.29	50.78	38.40	50.21	42.71

TABLE III-8--Continued

(In Percentages)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
U. S. Capital Flows as a Percentage of the Earnings of the Enterprises:										
Total	35.10	23.53	37.04	32.51	28.03	27.72	58.67	69.70	38.92	44.20
Mining and Smelting	60.00	46.51	136.27	163.08	59.56	17.39	27.14	74.81	84.68	75.87
Petroleum	39.42	10.33	24.43	40.92	25.37	30.02	81.00	81.57	49.02	43.12
Manufacturing	30.81	27.53	32.76	- 7.85	15.37	21.02	31.23	48.86	29.04	40.74
Trade	58.62	40.85	11.72	21.80	18.12	25.15	38.34	15.97	5.06	30.13

Source: Table II-7.

Table III-9 shows average earnings and outflows for the 1950-1959 period for an average of all United States foreign enterprises. It shows that on the average for all enterprises earnings are 14.0 per cent of the value of the enterprises. Average earnings rates for all petroleum enterprises are 19 per cent, trade 14 per cent, manufacturing 13 per cent, and mining and smelting about 11.5 per cent.

Income received as a percentage of earnings averaged about 68 per cent for all industries, with highest rate for petroleum, 81.5 per cent (which includes a proportion of branch profits actually retained), and lowest for manufacturing enterprises with 48.5 per cent. United States outflow as a percentage of earnings averaged 39.5 per cent for all types of enterprises, with mining and smelting the highest rate, 74.5 per cent, which again includes branch profits, and trade enterprises the lowest rate with 26.5 per cent. United States outflows to petroleum enterprises were also relatively high, with 42.5 per cent, which in part is due to inclusion of a substantial proportion of reinvested branch profits.

United States balance of payments receipts can thus be derived from United States income received minus United States capital outflows, both figured as a percentage of all earnings of the enterprises. For an average of all United States foreign enterprises in the 1950-1959 period about 68 per cent of all earnings constitutes income received. United States capital flows to all United States foreign enterprises have averaged about 39.5 per cent of the earnings of the enterprises. Thus income received minus United States capital flows to all United

TABLE III-9

ANNUAL AVERAGE EARNINGS OF, AND U. S. CAPITAL FLOWS TO VARIOUS TYPES OF U. S. DIRECT PRIVATE FOREIGN INVESTMENT ENTERPRISES FOR ALL AREAS, FOR THE 1950-1959 PERIOD

	Arithmetic Averages in Percentages
Earnings as a Percentage of the Value of Direct Investment Enterprises:	
Total	13.96
Mining and Smelting	11.57
Petroleum	19.19
Manufacturing	12.92
Trade	14.20
Income Received as a Percentage of Earnings of the Enterprises:	
Total	67.83
Mining and Smelting	76.54
Petroleum	81.57
Manufacturing	48.31
Trade	51.80
U. S. Capital Flows to Direct Investment Enterprises as a Percentage of the Earnings of the Enterprises:	
Total	39.54
Mining and Smelting	74.53
Petroleum	42.52
Manufacturing	26.95
Trade	26.58
Income Received minus U. S. Capital Flows, both as a Percentage of the Earnings of the Enterprises:	
Total	28.29
Mining and Smelting	2.01
Petroleum	39.05
Manufacturing	21.36
Trade	25.22

Source: Table III-8.

States foreign enterprises was 28 per cent of the earnings of such an enterprise in the 1950-1959 period. For petroleum enterprises income received minus United States capital outflows averages 39 per cent of earnings, and for mining and smelting enterprises 2 per cent of the earnings.

United States income received minus United States capital flows have been computed for four types of foreign enterprises, namely mining and smelting, petroleum, manufacturing, and trade in four areas, Canada, Latin America, Europe, and for all areas. Appendix Tables 1, 2, and 3 show the data in dollars by industry and by area, and Appendix Tables 4, 6, and 8 show these data in percentages for the 1950-1959 period. Appendix Tables 5, 7, and 9 show arithmetic averages of the percentages for the 1950-1959 period.

Table III-10 shows a summary of earnings and capital flows by type of foreign enterprise and by area in percentages. This table shows that the four different types of foreign enterprises in the various areas have greatly varying net effects on the United States balance of payments, considering both income received and United States capital outflows.

In Canada, all United States foreign enterprises produced an excess of United States capital outflows over income received in the amount of 23 per cent of the earnings of these enterprises. But United States manufacturing and trade enterprises in Canada produced larger income received than United States capital outflows. United States direct foreign enterprises in Latin America produced an excess of income

TABLE III-10

ANNUAL AVERAGE EARNINGS OF, AND U. S. CAPITAL FLOWS TO, VARIOUS TYPES OF U. S. DIRECT INVESTMENT ENTERPRISES, BY AREA, 1950-1959 AVERAGES

(In Percentages)

	All Areas	Canada	Latin America	Europe
Earnings as a Percentage of the Value of Direct Investment Enterprises:				
All Industries	13.96	8.80	13.11	14.22
Mining and Smelting	11.57	9.13	9.51	17.12
Petroleum	19.19	2.74	22.29	11.29
Manufacturing	12.92	11.37	10.77	15.44
Trade	14.20	10.13	12.96	16.95
Income Received as a Percentage of Earnings of the Enterprises (- Outflow):				
All Industries	67.83	52.47	78.30	49.76
Mining and Smelting	76.54	61.35	92.45	51.49
Petroleum	81.57	- 80.38	88.05	54.13
Manufacturing	48.31	52.97	44.81	44.08
Trade	51.80	33.43	51.45	62.61
U. S. Flows to U. S. Foreign Enterprises as a Percentage of Earnings of the Enterprises:				
All Industries	39.54	75.72	35.35	33.99
Mining and Smelting	74.53	133.91	81.43	19.44
Petroleum	42.52	1 011.46	26.21	87.54
Manufacturing	26.95	26.40	44.64	20.28
Trade	26.58	22.83	38.75	15.56

TABLE III-10--Continued

(In Percentages)

	All Areas	Canada	Latin America	Europe
Income Received minus U. S. Flows to U. S. Foreign Enterprises, both, as a Percentage of Earnings of the Enterprises (- Outflow):				
All Industries	28.29	- 23.25	42.95	15.77
Mining and Smelting	2.01	- 72.56	11.02	32.05
Petroleum	39.05	-1 091.84	61.84	- 33.41
Manufacturing	21.36	26.57	.17	23.80
Trade	25.22	10.60	12.70	47.05

Sources: Appendix Tables 5, 7, and 9, and Table III-9.

received over United States capital outflows of an average of almost 43 per cent of earnings, with petroleum the highest rate, 62 per cent, and manufacturing the lowest with .15 per cent.

In Europe, all United States direct foreign enterprises earned an excess of income received over United States capital outflows of about 16 per cent of the earnings of the enterprises, with trade the highest rate, 47 per cent; but, petroleum enterprises show an excess of United States capital outflows over income received of 33.5 per cent of earnings.

Income Received Minus United States Capital Outflows

In order to be able to compare dollar income received minus United States capital outflows for various types of enterprises in various areas over some extended period of time, it has been postulated that a number of $1 million foreign enterprises are established in each of the types and areas considered in Table III-9, and that the enterprises expand, produce earnings, and obtain United States capital contributions according to the actual experience of the 1950-1959 period. The enterprises will operate for a period of fifteen years.

On the basis of the actual growth rates in the 1950-1959 period, earning rates can be derived accordingly. Table III-11 shows the earnings. Income received by the United States and the United States capital outflows, both figured as percentages of earnings, and as shown in Table III-10, can thus be obtained from earnings of the foreign

TABLE III-11

EARNINGS OF VARIOUS TYPES OF FOREIGN ENTERPRISES, WITH AN INITIAL VALUE OF $1 MILLION, OVER A FIFTEEN-YEAR PERIOD, BY INDUSTRY, BY AREA (BASED ON 1950-1959 AVERAGES)

	All Industries	Mining and Smelting	Petroleum	Manufacturing	Trade
All Areas	$4 726 898	$3 949 015	$7 947 289	$4 409 790	$8 608 168
Canada	3 360 931	4 002 802	2 247 193	3 670 338	3 218 544
Latin America	3 504 723	2 727 268	7 607 911	2 685 639	4 870 511
Europe	5 841 377	3 836 352	5 198 582	6 552 196	7 134 662

Note: Earning rates are based on the 1950-1959 experience. See Table III-10. Investment values are based on growth rates shown on Table III-6.

enterprises. The net result--income received minus United States capital outflows--for a number of types of foreign enterprises over a fifteen-year period is shown on Table III-12.

An average of all types of enterprises in all areas produces about $1.3 million in receipts--income received by the United States minus United States capital flows--over the fifteen-year period, but there is considerable difference for the various categories. Petroleum enterprises earn net receipts of about $3.1 million, trade $2.2 million, manufacturing $.9 million, and mining and smelting only about $80,000 over this period. There are also substantial differences between the industry types within the various areas. Mining and smelting in Canada produced an excess of United States capital outflows over income received of $2.9 million. Petroleum enterprises in Canada produced an excess of outflows over income of $24.5 million, but in Latin America an excess of income received over capital outflows of $4.7 million. Manufacturing enterprises earned an excess of income over capital outflows of only $4,600 in Latin America, but $1.6 million in Europe. Trade enterprises in Canada earned an excess of income over capital outflows of $340,000 and in Europe of $3.4 million.

Purchases of Capital Equipment

Reinvested earnings of foreign enterprises and United States capital outflows to the enterprises are used in part to buy capital goods in the United States for expansion and replacements. Also in the initial establishment of a foreign enterprise a proportion of the value

TABLE III-12

INCOME RECEIVED FROM VARIOUS TYPES OF FOREIGN ENTERPRISES WITH AN INITIAL VALUE OF $1 MILLION, MINUS U. S. CAPITAL OUTFLOWS OVER A FIFTEEN-YEAR PERIOD, BY INDUSTRY, BY AREA (BASED ON 1950-1959 AVERAGES)

	All Industries	Mining and Smelting	Petroleum	Manufacturing	Trade
All Areas	$ 1 337 239	$ 79 375	$ 3 103 416	$ 941 931	$ 2 170 980
Canada	- 781 416	- 2 904 433	- 24 535 752	975 209	341 166
Latin America	1 505 279	300 545	4 704 732	4 566	618 555
Europe	921 185	1 229 551	- 1 736 846	1 559 423	3 356 858

Note: Based on 1950-1959 growth rates, and average earnings, minus undistributed earnings of subsidiaries and outflows. See Table III-10.

of the enterprise may have been supplied in the form of United States capital goods. Data on capital goods purchases from the United States by the United States foreign enterprises are available only for 1957. The analysis of receipts and payments produced by foreign enterprises is based on averages of the 1950-1959 period. Capital goods purchases for the year 1957 probably are not average for this period. Most major industrial countries exported very little in the early postwar years. But by 1957 nearly all these countries had recovered beyond what might be considered typical for the 1950-1959 period. Thus United States exports to United States foreign enterprises will be underestimated if 1957 export data are used to represent an average for the 1950-1959 period. Also, the use of data for one year is a poor basis for a fifteen-year projection. However, it was felt necessary to include receipts from capital goods and therefore the data for 1957 have been used as the only available bench mark.

In order to include in the analysis receipts from capital goods exported to United States foreign enterprises for the fifteen-year period, the exports must be related to the value of the foreign enterprises. Subsequently, the capital goods exports must be related to the sum of reinvested earnings and United States capital flows in order to obtain a division between capital goods used for establishment and expansion of the enterprises. Total capital goods purchases of United States foreign enterprises have been computed as a percentage of the total value of United States foreign enterprises in 1957. See Table III-13 shows the percentages.

TABLE III-13

PURCHASES OF CAPITAL EQUIPMENT BY U. S. DIRECT INVESTMENT ENTERPRISES FROM THE UNITED STATES, CALCULATED AS A PERCENTAGE OF THE VALUE OF THE ENTERPRISES, BY INDUSTRY, BY AREA, 1957

(Millions of Dollars)

	All Industries	Mining and Smelting	Petroleum	Manufacturing
All Areas:				
Value U. S. Enterprises	$25 262	$ 2 361	$ 9 055	$ 8 009
Capital Equipment Purchases from the United States	657	82	409	94
Purchases as a Percentage of the Value of the Enterprises	2.60%	3.47%	4.52%	1.17%
Canada:				
Value U. S. Enterprises	$ 8 637	$ 856	$ 2 016	$ 3 924
Capital Equipment Purchases from the United States	47	5	5	33
Purchases as a Percentage of the Value of the Enterprises	.54%	.58%	.25%	.84%
Latin America:				
Value U. S. Enterprises	$ 7 434	$ 1 112	$ 2 702	$ 1 270
Capital Equipment Purchases from the United States	360	72	208	22
Purchases as a Percentage of the Value of the Enterprises	4.84%	6.47%	7.70%	1.73%
Europe:				
Value U. S. Enterprises	$ 4 151	$ 55	$ 1 253	$ 2 195
Capital Equipment Purchases from the United States	43	negligible	17	26
Purchases as a Percentage of the Value of the Enterprises	1.04%	0	1.36%	1.18%

Source: Adapted from Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960, pp. 90, 121.

The values of United States foreign enterprises can be computed for the fifteen-year period with the growth rates shown on Table III-6. Total capital equipment purchases from the United States can then be determined on the basis of these values for the various types of enterprises. Table III-14 accordingly shows the capital equipment purchases for fifteen years for the various industry categories.

No information is available on the division of capital goods expenditures between those used for establishment, and expansion. It has been assumed that the funds spent on United States capital goods in establishing new enterprises is the same as the proportion of all reinvested earnings plus United States capital outflows annually spent on both new plants and expansion of existing plants. Thus, for example, if all United States foreign enterprises spent on the average 26 per cent of all reinvested earnings plus United States capital outflows on United States capital equipment, then also 26 per cent of the initial funds employed to establish a plant is assumed to be spent on United States capital goods.

Expenditures for United States capital equipment have next been computed as a percentage of reinvested earnings and United States capital flows for 1957. These expenditures average 26 per cent for all industry categories, 39 per cent for all petroleum enterprises, 31 per cent for mining and smelting, and 12 per cent for all manufacturing enterprises. For all United States foreign enterprises in Canada, expenditures for United States capital equipment as a percentage of reinvested earnings plus United States capital flows on the average

TABLE III-14

PURCHASES OF CAPITAL EQUIPMENT BY VARIOUS TYPES OF U. S. DIRECT INVESTMENT ENTERPRISES FROM THE UNITED STATES FOR A FIFTEEN-YEAR PERIOD, BY INDUSTRY, BY AREA

(Based on Direct Investments with an Initial Value of $1 Million; in Dollars)

	All Industries	Mining and Smelting	Petroleum	Manufacturing
All Areas	$ 880 368	$1 184 363	$1 871 899	$ 399 339
Canada	206 239	254 285	205 036	271 160
Latin America	1 293 887	1 855 460	2 628 126	431 398
Europe	427 217	0	626 224	500 751

Source: Based on the accumulated values of $1 million investments computed from the growth rates of Table III-6. These values have been multiplied by the 1957 rate of capital equipment purchased in the United States by direct investments. See Table III-13.

is 5 per cent, in Europe 9 per cent, and 65 per cent for Latin America. See Table III-15.

The explanation for this wide variation is probably, in part, the availability of such equipment in the country of location of the enterprises. The results of this analysis are presented below under "Summary of United States Receipts and Payments from Earnings and Financing United States Foreign Enterprises."

Value of the Enterprise at End of the Period

The investment values do not enter into the accounts and, therefore, are not of direct significance to the United States balance of payments. But, the value of the enterprises is of some indirect significance. First, the value of foreign investments is pertinent if the investments are sold at the end of the period and the funds repatriated. The solvency of the United States is related to, and in part dependent upon, United States-owned foreign investments of all sorts, of which direct private investment enterprises are one of the most important single categories.

It is well known that after World War II several western European countries forced many companies and individuals to sell interests in foreign companies in order to obtain foreign exchange.

If a country can foresee the possibility of liquidating some direct foreign investments to meet short-term balance of payments deficits, rather than selling gold, the foreign exchange that can be realized from selling foreign investments may be estimated. The

TABLE III-15

PURCHASES OF CAPITAL EQUIPMENT BY VARIOUS TYPES OF U. S. FOREIGN ENTERPRISES FROM THE UNITED STATES, CALCULATED AS A PERCENTAGE OF THE SUM OF REINVESTED EARNINGS OF, AND U. S. CAPITAL FLOWS TO U. S. FOREIGN ENTERPRISES, BY INDUSTRY, BY AREA, 1957

	All Industries	Mining and Smelting	Petroleum	Manufacturing
All Areas	25.97%	30.61%	38.64%	11.51%
Canada	4.98	3.68	.77	10.06
Latin America	64.71	76.46	90.53	16.09
Europe	8.68	0	9.03	10.03

Source: Tables III-10 and Table III-14.

discount rate to be applied should be a social discount rate, because the resources to be supplemented are social and national rather than private. The rate to be used would be a function of the size of the deficit to be covered.

Second, the value of an enterprise also expresses earning capacity. A foreign enterprise may for a number of years obtain heavy United States capital contributions, and in addition reinvest nearly all earnings. During such a period, a foreign enterprise may have been built up to the point where it is about to become a large producer of receipts. The United States balance of payments does not show potential earning capacity.

If a country were to regulate the outflow of capital to foreign enterprises, it should be recognized that some types of foreign enterprises may require net payments for quite a number of years. The potential earning capacity thus built up may be imputed to the value of a foreign enterprise.

Table III-16 shows the value of the $1 million foreign enterprises at the end of the fifteenth year of operation, figured on the basis of growth rates of the enterprises of the 1950-1959 period. United States mining and smelting enterprises in Canada expanded fast; an average of this type of enterprise with an initial value of $1 million will be valued at about $7.1 million at the end of the fifteenth year. During the fifteen years of operation, an average mining and smelting enterprise in Canada required $2.9 million more in United States capital than it produced in United States receipts from earnings. (See

TABLE III-16

VALUE OF VARIOUS TYPES OF U. S. DIRECT INVESTMENTS WITH AN INITIAL VALUE OF $1 MILLION AT END OF FIFTEENTH YEAR OF OPERATION, BY INDUSTRY, BY AREA (GROWTH RATES BASED ON 1950-1959)

	All Industries	Mining and Smelting	Petroleum	Manufacturing	Trade
All Areas	$ 4 656 900	$ 4 720 300	$ 6 508 000	$ 4 720 300	$ 5 118 300
Canada	5 697 700	7 137 900	19 324 280	4 292 600	4 177 200
Latin America	3 085 200	3 495 000	4 720 300	2 720 600	5 547 300
Europe	6 422 400	2 232 500	7 722 700	6 771 300	6 682 500

Note: Derived from growth rates of Table III-6 and compound interest tables.

Tables III-8 and III-10.) If capital outflows were regulated it would thus not be desirable to judge capital flows to this type of enterprise solely on the basis of recent net receipts.

Summary of United States Receipts and Payments from Earnings and Financing United States Foreign Enterprises

The results may now be summarized for the various types of United States foreign enterprises over a fifteen-year period, using all the variables involved in the earnings and financing of the foreign enterprises.

For all types of enterprises in all areas, on the average, a dollar outlay of $740,000 is required to establish a $1 million enterprise, and this amount is returned three times in fifteen years, which is a pay-back period of five years; for mining and smelting the return is 1.3 times the outlay, for petroleum 8.1 times, manufacturing 1.5 times, and trade 2.2 times, or respective pay-back periods of eleven and one half years, two years, ten years, and seven years. See Table III-17.

For all the types of United States foreign enterprises taken together in the various areas, the return on the dollar outlay is the greatest in Latin America, where the income is on the average 8 times the outlay, and in Europe 1.5 times, or pay-back periods of about two years and ten years. For United States foreign enterprises in Canada, United States outlays exceeded United States income.

Within Latin America the results are extreme. In petroleum, United States income was 77 times the outlay in the fifteen-year period,

TABLE III-17

BALANCE OF PAYMENTS INCOME FROM VARIOUS TYPES OF U. S. FOREIGN ENTERPRISES WITH AN INITIAL VALUE OF $1 MILLION OVER A FIFTEEN-YEAR PERIOD, AVERAGE OF ALL AREAS[1] (BASED ON THE 1950-1959 EXPERIENCE)

All Areas	All Industries	Mining and Smelting	Petroleum	Manufacturing	Trade
Financing Establishment:					
U. S. Exports	$ 260 000	$ 306 000	$ 386 000	$ 115 000	0
Dollar Outlay	(740 000)	(694 000)	(614 000)	(885 000)	($1 000 000)
Income and Exports over 15 Years:					
Income Received minus U. S. Capital Outflows	1 337 239	79 375	3 103 416	941 931	2 170 980
Exports of Capital Goods for Expansion and Replacement	620 368	878 363	1 485 899	284 339	0
Balance of Payments Income	$2 217 607	$1 263 738	$4 975 315	$1 341 270	$2 170 980
Value of the Enterprise at the End of the 15th Year of Operation	$4 656 900	$4 720 300	$6 508 000	$4 720 300	$5 118 300
Income-Outlay Ratio[2]	3.00	1.27	8.10	1.52	2.17

[1]See the preceding tables for the appropriate rates on growth, earnings, exports, and year-end investment values.

[2]If the dollar outlay in establishing the foreign enterprise is $740,000 and the income over 15 years is $2,217,607, then the income-outlay ratio is $\frac{2\ 217\ 607}{740\ 000}$ = about 3.00; when expressed in terms of pay-back period, an income-outlay ratio of 15.00 is one year and a ratio of 3.00 gives a pay-back period of 5 years.

which is largely caused by the very high contribution of United States capital goods in the establishment of this type of enterprise. In manufacturing, United States income is only .5 times outlay, or a pay-back period of thirty years, which is largely caused by a relatively high proportion of earnings reinvested for expansion and by a relatively high dollar contribution in establishing this type of foreign enterprise. See Table III-18.

In Europe trade enterprises have the highest income-outlay ratio with 3.4, which is a pay-back period of about four and one half years. Petroleum enterprises in Europe have the lowest income-outlay ratio with 1.22. See Table III-19.

In Canada the income-outlay ratio is positive only in manufacturing and trade, with ratios of 1.4 and .7, or pay-back periods of about ten years and twenty years. See Table III-20.

Income on all United States foreign mining and smelting enterprises is relatively low, in part because the benefits of foreign production are preferred to be passed on to United States parent companies in lower prices rather than in transferred profits. Income on all United States foreign manufacturing enterprises is also relatively low because of reinvestment of a relatively large proportion of earnings.

United States income of United States foreign petroleum enterprises is relatively high, in part because of depletion allowances, and perhaps to some extent because of imperfectly competitive conditions prevailing in the industry.

TABLE III-18

BALANCE OF PAYMENTS INCOME FROM VARIOUS TYPES OF U. S. FOREIGN ENTERPRISES WITH AN INITIAL VALUE OF $1 MILLION OVER A FIFTEEN-YEAR PERIOD IN LATIN AMERICA[1] (BASED ON THE 1950-1959 EXPERIENCE)

	All Industries	Mining and Smelting	Petroleum	Manufacturing	Trade
Financing Establishment:					
U. S. Exports	$ 647 000	$ 765 000	$ 905 000	$ 160 000	0
Dollar Outlay	(353 000)	(235 000)	(95 000)	(840 000)	($1 000 000)
Income and Exports over 15 Years:					
Income Received minus U. S. Capital Outflows	1 505 279	300 545	4 704 732	4 566	618 555
Export of Capital Goods for Expansion and Replacement	646 887	1 090 460	1 723 126	271 398	0
Balance of Payments Income	$2 799 166	$2 156 005	$7 332 858	$ 435 964	$ 618 555
Value of the Enterprise at the End of the 15th Year of Operation	$3 085 200	$3 495 000	$4 720 300	$2 720 600	$5 547 300
Income-Outlay Ratio[2]	7.93	9.17	77.19	.52	.62

[1]See the preceding tables for the appropriate rates on growth, earnings, transfers, exports, and year-end investment values.

[2]If the dollar outlay in establishing the foreign enterprise is $353,000 and the income over 15 years is $2,799,166, then the income-outlay ratio is $\frac{2\ 799\ 166}{353\ 000} = 7.93$; expressed in terms of pay-back period, an income-outlay ratio of 15.00 is one year and a ratio of 3.00 gives a pay-back period of 5 years.

TABLE III-19

BALANCE OF PAYMENTS INCOME FROM VARIOUS TYPES OF U. S. FOREIGN ENTERPRISES WITH AN INITIAL VALUE OF $1 MILLION OVER A FIFTEEN-YEAR PERIOD IN EUROPE[1] (BASED ON THE 1950-1959 EXPERIENCE)

	All Industries	Mining and Smelting	Petroleum	Manufacturing	Trade
Financing Establishment:					
U. S. Exports	$ 87 000	0	$ 90 000	$ 100 000	0
Dollar Outlay	(913 000)	($ 1 000 000)	(910 000)	(900 000)	($ 1 000 000)
Income and Exports over 15 Years:					
Income Received minus U. S. Capital Outflows	921 185	1 229 551	-1 736 846	1 559 423	3 356 858
Export of Capital Goods for Expansion and Replacement	340 217	0	536 224	400 751	0
Balance of Payments Income	$ 1 348 402	$ 1 229 551	$-1 110 622	$ 2 060 174	$ 3 356 858
Value of the Enterprise at the End of the 15th Year of Operation	$ 6 422 400	$ 2 232 500	$ 7 722 700	$ 6 771 300	$ 6 682 500
Income-Outlay Ratio[2]	1.48	1.23	-1.22	2.29	3.36

[1]See the preceding tables for the appropriate rates on growth, earnings, transfers, exports, and year-end investment values.

[2]If the dollar outlay in establishing the foreign enterprise is $913,000 and the income over 15 years is $1,348,402, then the income-outlay ratio is $\frac{1\ 348\ 402}{913\ 000} = 7.93$; expressed in terms of pay-back period, an income-outlay ratio of 15.00 is one year and a ratio of 3.00 gives a pay-back period of 5 years.

TABLE III-20

BALANCE OF PAYMENTS INCOME FROM VARIOUS TYPES OF U. S. FOREIGN ENTERPRISES WITH AN INITIAL VALUE OF $1 MILLION OVER A FIFTEEN-YEAR PERIOD IN CANADA[1] (BASED ON THE 1950-1959 EXPERIENCE)

	All Industries	Mining and Smelting	Petroleum	Manufacturing	Trade
Financing Establishment:					
U. S. Exports	$ 50 000	$ 37 000	$ 7 700	$ 100 000	0
Dollar Outlay	(950 000)	(963 000)	(991 300)	(900 000)	($ 1 000 000)
Income and Exports over 15 Years:					
Income Received minus U. S. Capital Outflows	-781 416	-2 904 433	-24 535 752	975 209	341 166
Export of Capital Goods for Expansion and Replacement	156 239	217 285	197 336	171 160	0
Balance of Payments Income	$ -575 177	$ -2 650 148	$-24 330 716	$ 1 246 369	$ 341 166
Value of the Enterprise at the End of the 15th Year of Operation	$ 5 697 700	$ 7 137 900	$ 19 324 280	$ 4 292 600	$ 4 177 200
Income-Outlay Ratio[2]	- .61	-2.75	-24.52	1.38	.38

[1]See the preceding tables for the appropriate rates on growth, earnings, transfers, exports, and year-end investment values.

[2]If the dollar outlay in establishing the foreign enterprise is $950,000 and the income received over 15 years is $ - 575,177, then the income-outlay ratio is $\frac{575\ 177}{950\ 000} = -.61$; expressed in terms of pay-back period, an income-outlay ratio of 15.00 is one year and a ratio of 3.00 gives a pay-back period of 5 years.

Derivation of Balance of Payments Income Formula

The analysis of United States balance of payments receipts and payments presented in the preceding sections can be employed to derive a formula with which receipts and payments can be computed for any type of enterprise over any period of time, given the value of the five variables.

The data as reported in the primary sources consist of five basic variables. First, there are the data on the absolute increase in the value of United States foreign enterprises for the 1950-1959 period, by industry and by area. These data can be used to determine average annual growth rates with the aid of compound interest tables. The second variable is earnings, figured as a percentage of the value of the foreign enterprises. Earnings of various types of foreign enterprises are also available for the 1950-1959 period. With this information, growth rates and earnings can be determined for a number of types of $1 million enterprises for a fifteen-year period.

The third major variable is the division of earnings between those transferred and reinvested. As explained more fully above, under "Analysis of Earnings of Direct Investment Enterprises," this information is not available in detail because income received as reported by the primary sources include earnings of foreign branches not actually transferred. There is available United States income received from foreign enterprises and United States capital outflows to foreign enterprises, and addition of the two gives net receipts

and, in some cases, net payments. Both of these variables can be calculated as a percentage of earnings for the 1950-1959 period for various types of enterprises, and the average of this percentage can be employed to derive income received minus United States capital flows to foreign enterprises for a fifteen-year period for the four types of enterprises in the four areas.

The fourth variable is the purchase of United States capital goods by the foreign enterprises. Data on United States capital equipment exports to United States foreign enterprises are available for only one year, and have been figured as a percentage of reinvested earnings plus United States capital flows to the enterprises. This relationship has been assumed to hold for fifteen years. In addition, the proportion of the initial value of the foreign enterprise contributed in the form of United States capital goods is assumed to be the same as the proportion of reinvested earnings plus United States capital flows spent on United States capital goods.

In computing an income-outlay ratio, the initial United States outlay required to establish the foreign enterprise is a very significant element in determining the pay-back period. This will become apparent in the formula presented below.

The fifth variable is the extent of allowance made, if any, for the value of the foreign enterprise at the end of the period. It has been assumed that some percentage of this value can be computed as receipts.

With these variables, the income-outlay ratio of any type of foreign enterprise can be computed over a given period with the following Formula A:

$$x = \frac{\left[\sum_{i=1}^{n} (1+i)^{n-1}\right] .r.y + \left[\sum_{i=1}^{n} (1+i)^{n-1}\right] r(1-y)\ F + f'(1+i)^{n}}{I(1-F)}$$

Where:

$x = \frac{\text{income}}{\text{outlay}}$

I = investment value

F = fraction spent on United States goods; figured as a percentage of reinvested earnings plus United States capital outflows

I(1-F) = balance of payments outlay

i = compound rate of growth of the investment

r = rate of earnings after foreign taxes; figured as a percentage of investment value

y = fraction of earnings received as income, i. e., income received minus United States capital contributions

1-y = fraction of earnings reinvested plus United States capital contributions

f' = fraction of the value of the direct investment counted as receipts

n = number of years of operation of the investment enterprise.

This formula expresses the balance of payments receipts from earnings and United States exports of capital goods and subtracting United States capital contributions.

Another way of expressing the income-outlay ratio is to divide the time period involved by the income-outlay ratio and arrive at the

so-called "pay-back" period. See Formula B below:

$$P = \frac{n}{x} \quad \text{or}$$

$$P = \frac{n}{\left[\sum_{i=1}^{n} (1+i)^{n\ 1}\right] r.y. + \left[\sum_{i=1}^{n} (1+i)^{n-1}\right] r(1-y).F + f'(1+i)^{n}}{I(1-F)}$$

For example, if the variables are:

P = pay-back period in years	r = 14.0
I = $1,000,000	y = 28.3
F = .26	f'= 0
i = 10.8	n = 15

then a dollar outlay of $740,000 produces a balance of payments income of about $2,200,000 over a fifteen-year period, or an income of about 3 times the outlay. When expressed in Formula B the outcome thus is:

$$P = \frac{15}{\frac{2,200,000}{740,000}} = \frac{15}{3} = 5 \text{ years}$$

At the end of the period the value of the investment will be about $4.65 million, for which no credit has been allowed.

This outcome probably closely resembles the pay-back period of an average $1 million of all United States direct private investments for a fifteen-year period, when the 1950-1959 experience is taken as a basis.

The significance of the year-end value can be demonstrated by taking as high a social discount rate as 8 per cent to determine the

present value of a foreign enterprise. A discount rate of 8 per cent makes the present value of the enterprise about $1.47 million.[1] If this amount is added to the balance of payments income mentioned above, the pay-back period will be shortened, from an average of five years to four years.

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[1]The present value of 1 is determined by the formula: $v^n = (1+i)^{-n}$.

CHAPTER IV

DIRECT TRADE EFFECTS ON THE UNITED STATES BALANCE OF PAYMENTS FROM TRADE BETWEEN THE UNITED STATES AND UNITED STATES FOREIGN ENTERPRISES

United States foreign enterprises generate a considerable amount of trade with the United States and with third countries. The purpose of this chapter is to extend the analysis presented in Chapter III and to determine the magnitude of United States net trade with various types of foreign enterprises over a fifteen-year period. The indirect effects on the United States balance of payments from United States trade with United States foreign enterprises are dealt with in Chapter V.

United States exports of capital equipment to United States foreign enterprises have been included in balance of payments receipts in Chapter III because these exports directly affect United States net payments for financing foreign enterprises. United States capital goods exports thus are not included in the net trade effects here considered, but are included in the summary of all direct receipts and payments shown in the last section of this chapter.

United States Exports to and Imports from United States Foreign Enterprises

The exports of United States foreign enterprises to the United States and the imports of United States foreign enterprises from the United States together produce a net trade position for the foreign

enterprises. Table IV-1 shows the net trade by area and by industry for the year 1957. The over-all net trade position of United States foreign enterprises with the United States was favorable in 1957 in the amount of about $1,800,000 which means to the United States a net import position of that amount. But there is much variation by type of enterprise. Trade of all United States enterprises in Canada shows a surplus for Canada of about $520 million, and United States foreign enterprises in Latin America show a surplus for that area of $1,120,000. United States foreign enterprises in Europe produced for that area a trade deficit with the United States of about $200 million. Thus, for all areas together only United States enterprises in Europe earned a trade surplus for the United States. United States foreign mining enterprises produced the largest United States import surplus, $840 million, next United States petroleum enterprises with a $680 million import surplus, while United States foreign manufacturing enterprises earned a $190 million export surplus for the United States. This means that only United States foreign manufacturing enterprises earn a trade surplus for the United States, and of these enterprises actually only manufacturing enterprises in Latin America produce a surplus for the United States. Other major types of United States foreign enterprises producing a trade surplus for the United States are petroleum enterprises in Europe and Canada. See Table IV-1.

For the purpose of including these direct trade data with the other receipts and payments arising from earnings and financing, net trade must be related to the value of these enterprises. See Table IV-2.

TABLE IV-1

NET TRADE OF U. S. FOREIGN ENTERPRISES WITH THE UNITED STATES, BY INDUSTRY, BY AREA, 1957 (EXCLUDING CAPITAL EQUIPMENT PURCHASES)

(In Millions of Dollars; Net Import -)

	All Industries	Mining and Smelting	Petroleum	Manufacturing
All Areas	$1 799	$ 841	$ 685	$ 19
Canada	518	399	- 54	169
Latin America	1 119	288	764	- 169
Europe	- 202	3	- 253	52

Source: Adapted from Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960, pp. 110, 111, 121.

Note: A net import figure of the enterprises constitutes a U. S. trade surplus.

TABLE IV-2

U. S. NET TRADE WITH U. S. FOREIGN ENTERPRISES AS A PERCENTAGE OF THE VALUE OF THESE ENTERPRISES, BY INDUSTRY, BY AREA, 1957 (EXCLUDES U. S. CAPITAL EQUIPMENT EXPORTS)

(Net U. S. Import Percentage -)

	All Industries	Mining	Petroleum	Manufacturing
All Areas	- 7.1	- 35.6	- 7.6	.2
Canada	- 6.0	- 46.6	2.7	- 4.3
Latin America	- 15.0	- 25.9	- 28.3	13.3
Europe	4.9	- 5.5	20.2	- 2.4

Source: Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960.

The direct trade effects are expressed in this table in terms of a United States surplus or deficit. In 1957 the United States shows a net import with United States foreign enterprises of about $1,800,000, which is about 7 per cent of the value of all United States foreign enterprises. Actually, the United States net import balance with United States foreign enterprises is smaller because of the omission of United States sales of capital equipment. United States capital goods exports to United States foreign enterprises have been included in Chapter III in the section dealing with the financing of foreign enterprises.

It is not known how much the net trade effects have been with United States foreign enterprises for any other year during the 1950-1959 period. If the relationship between United States net trade with United States foreign enterprises and the value of United States foreign enterprises for the year 1957 is applied to the fifteen-year period, then the net trade results will be as shown on Table IV-3. Large net United States imports will come from all United States petroleum and mining enterprises, while all United States foreign manufacturing enterprises will produce a relatively small United States export surplus. As between areas and types of enterprises, the United States will show a particularly large import surplus with petroleum and mining enterprises in Latin America, and mining enterprises in Canada, while United States petroleum enterprises in Europe and Canada and United States manufacturing enterprises in Latin America will show large United States exports surpluses. Trade enterprises also will show a very substantial export surplus.

TABLE IV-3

U. S. NET TRADE WITH U. S. FOREIGN ENTERPRISES OVER A FIFTEEN-YEAR PERIOD, BY INDUSTRY, BY AREA[1] (BASED ON THE 1950-1959 EXPERIENCE)

(In Dollars; Net Import -)

	All Industries	Mining	Petroleum	Manufacturing	Trade[2]
All Areas	$- 2 404 000	$-12 151 000	$- 3 147 000	$ 68 300	$ 8 738 000
Canada	- 2 292 000	-20 431 000	2 214 000	- 1 388 000	n. a.
Latin America	- 4 010 000	- 7 428 000	- 9 659 000	3 317 000	n. a.
Europe	2 013 000	- 1 232 000	9 301 000	- 1 018 000	n. a.

[1]Based on growth rates of U. S. direct investments in the 1950-1959 period. See Table III-5; and on net trade data of the United States with these enterprises shown on Table IV-2. U. S. exports of capital equipment to these enterprises is not included. Trade data are available only for 1957 and are assumed to bear the same relation to the value of the enterprises in other years as in 1957.

[2]U. S. exports to trade enterprises in 1957 were $407 million, which was 24.4 per cent of the value of U. S. direct investments in all trade enterprises abroad in 1957. It is not sure if there are any U. S. imports from these trade enterprises.

Adding All United States Receipts and Payments

The trade data for various types of enterprises for a fifteen-year period have next been added to the balance of payments income developed in Chapter III and shown on Tables III-17, III-18, III-19, and III-20. For an average of all United States foreign enterprises total United States receipts cover nearly all payments, considering earnings, financing, and trade. See Table IV-4. United States petroleum and manufacturing enterprises in Europe and in Latin America show large net receipts, while United States mining and smelting and petroleum enterprises in Canada show large United States net payments over this period.

Formula for All Direct Balance of Payments Effects

A formula has been derived in Chapter III with which United States receipts and payments can be determined from earnings, and financing various types of enterprises. This formula can now be extended to include also the net United States trade results with United States foreign enterprises. The extension to the formula will be $\sum_{i=1}^{n} (1+i)^{n-1}.T$ where $\sum_{i=1}^{n} (1+i)^{n-1}$ is the accumulated year-end values of a $1 million foreign enterprise expanding at a rate already determined, and for a period of fifteen years. T is the United States net trade position with the foreign enterprise figured annually as a percentage of the value of the foreign enterprise.

TABLE IV-4

SUMMARY OF U. S. BALANCE OF PAYMENTS RECEIPTS AND PAYMENTS FROM EARNINGS, FINANCING, AND FROM TRADE WITH VARIOUS TYPES OF U. S. FOREIGN ENTERPRISES, BY AREA[1]

(The foreign enterprises, with an initial value of $1 million, are assumed to operate for 15 years on the basis of the 1950-1959 experience. In Dollars)

	All Industries	Mining and Smelting	Petroleum	Manufacturing	Trade
All Areas:					
Balance of Payments Income	$ 2 218 000	$ 1 264 000	$ 4 975 000	$ 1 341 000	$ 2 171 000
Trade (Net Import -)	- 2 404 000	-12 151 000	- 3 147 000	68 300	8 738 000
Net Effect	- 186 000	-10 887 000	- 1 828 000	1 409 300	10 909 000
Canada:					
Balance of Payments Income	$- 575 000	$- 2 650 000	$-24 331 000	$ 1 246 000	$ 341 000
Trade (Net Import -)	- 2 292 000	-20 431 000	2 214 000	- 1 388 000	n. a.
Net Effect	- 2 867 000	-23 081 000	-22 117 000	- 142 000	n. a.

[1]Receipts and payments from earnings and financing, respectively, have been added and called Balance of Payments Income.

TABLE IV-4--Continued

	All Industries	Mining and Smelting	Petroleum	Manufacturing	Trade
Latin America:					
Balance of Payments Income	$ 2 799 000	$ 2 156 000	$ 7 333 000	$ 436 000	$ 619 000
Trade (Net Import -)	- 4 010 000	- 7 428 000	- 9 659 000	3 317 000	n. a.
Net Effect	- 1 211 000	- 5 272 000	- 2 326 000	3 753 000	n. a.
Europe:					
Balance of Payments Income	$ 1 348 000	$ 1 230 000	$- 1 111 000	$ 2 060 000	$ 3 357 000
Trade (Net Import -)	2 013 000	- 1 232 000	9 301 000	- 1 018 000	n. a.
Net Effect	3 361 000	- 2 000	8 190 000	1 042 000	n. a.

Sources: Tables III-18, III-19, and III-20, and Table IV-7.

The formula with which the income-outlay ratio can be computed, including earnings, financing, and direct trade effects, will thus be as follows:

$$x = \frac{\left[\sum_{i=1}^{n} (1+i)^{n-1}\right] .r.y + \left[\sum_{i=1}^{n} (1+i)^{n-1}\right] r(1-y).F + f'(1+i)^{n}}{I(1-F)} + \sum_{i=1}^{n} (1+i)^{n-1}.T$$

where, as shown in Formula A (Chapter III, page 72):

$\left[\sum_{i=1}^{n} (1+i)^{n-1}\right] .r.y + \left[\sum_{i=1}^{n} (1+i)^{n-1}\right] .r(1-y)F$ = United States receipts from earnings, considering income received and United States capital outflows, and United States capital goods exports; $f'(1+i)^{n}$ = United States receipts attributed to the value of the foreign enterprise at the end of the period; $I(1-F)$ = outlay or United States balance of payments payment to establish the foreign enterprise; and $\sum_{i=1}^{n} (1+i)^{n-1}.T$ = direct net trade effect.

CHAPTER V

INDIRECT EFFECTS ON THE UNITED STATES BALANCE OF PAYMENTS FROM THE OUTPUT AND TRADE OF UNITED STATES FOREIGN ENTERPRISES

United States foreign enterprises produce a significant output and volume of trade, including trade with the United States. In 1957, United States foreign enterprises sold $38,154 million, and purchased $37,274 million in goods and services. United States foreign enterprises produced in the same year $10,459 million of exports, including $3,770 million to the United States, and $5,298 million of imports, of which $2,628 came from the United States.[1] The trade carried on between the United States and United States foreign enterprises, and between United States foreign enterprises and third countries, has considerable implications for the United States balance of payments beyond receipts and payments. United States imports from United States foreign enterprises affect the United States terms of trade. Sales of manufactured goods of United States foreign enterprises in the host countries and to third countries adversely affect United States exports of manufactured goods.

In the first section of the chapter an examination is made of trends in the relative position of United States exports and imports.

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[1]Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960, pp. 110, 115.

The next section deals with the effects of the sales of United States foreign enterprises on United States exports. In the third section an analysis is made of the effects of three categories of United States imports from United States foreign enterprises on the United States balance of payments. In the final section a comparison is made between the indirect and direct effects from United States imports on the balance of payments.

Trends in United States Exports and Imports

United States imports and exports are directly related to the growth in United States foreign enterprises, but the impact on United States trade is not readily measurable. The value of United States direct foreign enterprises increased from $7.2 billion in 1946 to $29.7 billion in 1959, which is about a fourfold increase.[1] There was no significant increase in the value of United States foreign enterprises from 1928-1929 to 1945-1946. Although it is certain that United States trade has been affected in various ways by the rapid increase in output of United States foreign enterprises, no substantial shifts in the relative magnitude of exports and imports are apparent. United States merchandise exports averaged 6 per cent of United States national

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[1]Table III-5 and U. S., Department of Commerce, Historical Statistics of the United States, Colonial Times to 1957, 1960, p. 565.

income in 1928-1929 and averaged 4.6 per cent in 1958-1959.[1] This decline may be typical for an industrial country where growth in service industries is exceeding that of manufacturing, and the output of service industries does not as readily enter into international trade. No significant change can be observed either in relating United States exports to world exports. In 1928 United States exports were 15.6 per cent of total world exports, 14.0 per cent in 1938, 17.2 per cent in 1958, and 17.0 per cent in 1959 of total world exports.[2]

United States imports, as a percentage of United States national income, have also dropped somewhat in the past thirty years. In 1928-1929 imports were, on the average, 5 per cent of United States national income, and an average of 2.5 per cent in 1958-1959. As a percentage of total world imports, United States imports have increased slightly in percentage, from 12 per cent in the late twenties to an average of 14 per cent in 1958-1959.[3]

Thus, the level of United States exports has decreased 1 to 2 per cent as a percentage of United States national income in the past thirty years, and imports have decreased about 2 to 3 per cent. In relationship to total world trade, United States trade also changed

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[1]U. S., Department of Commerce, Historical Statistics of the United States, Colonial Times to 1957, 1960, pp. 139, 562; Federal Reserve Bulletin, October, 1960, p. 1183; U. S., Department of Commerce, Statistical Abstract of the United States, 1960, p. 867.

[2]International Monetary Fund, International Financial Statistics, many monthly issues.

[3]Ibid. See also Table III-4.

slightly. United States exports as a percentage of total world exports increased perhaps 1 per cent, while United States imports as a percentage of total world imports increased perhaps 2 per cent.

Another variable that may have been affected by the foreign enterprises is the United States trade surplus, although the relative positions of exports and imports shown above do not suggest this. From 1956 through 1960 the excess of United States exports of merchandise over imports averaged about $5 billion per year, and during this period United States merchandise exports averaged $17.5 billion per year.[1] In the late twenties the United States merchandise export surplus averaged about $700 million a year when United States merchandise exports averaged about $4.7 billion per year.[2] This indicates actually a relative increase in the United States export surplus.

The position of United States trade in terms of the prices paid for imports relative to those received for exports shows no discernible unfavorable trend. The United States terms of trade in the fifties increased from 100 in 1950 to 108 in 1960.[3]

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[1]U. S., Department of Commerce, Survey of Current Business, many issues.

[2]U. S., Department of Commerce, Historical Statistics of the United States, Colonial Times to 1957, 1960, p. 537.

[3]International Monetary Fund, International Financial Statistics, February, 1960, pp. 34-35.

Effects on United States Exports from Output and Foreign Sales of United States Foreign Enterprises

About 72.5 per cent of the output of United States foreign enterprises, valued at $38,154 million in 1957, was sold in the host countries of the enterprises, 17.5 per cent went to countries other than the United States, and 10 per cent went to the United States. See Table V-1. But, there is much variation between the types of United States enterprises. United States mining enterprises sold only 16 per cent of total sales locally, and exported 40 per cent to third countries, and agricultural enterprises sold 37 per cent locally, and 25 per cent to third countries. The sales of United States foreign mining and agricultural enterprises are only 7.5 per cent of the total sales of all United States foreign enterprises, and probably do not affect United States exports very much, because the United States is a major net importer of most of the products from these foreign enterprises.[1] United States foreign petroleum enterprises sold in 1957 about 38 per cent of all the sales of all United States foreign enterprises. Of these sales, 66 per cent was sold locally and 24 per cent to third countries. The United States is also a major oil importer, and sales of petroleum products of United States foreign enterprises probably do not seriously affect United States exports of petroleum products. United States exports of petroleum products largely consist of more complicated finished products--refinery

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[1] U. S. cotton enterprises in Mexico, for example, may adversely affect U. S. cotton exports. Perhaps other factors are also responsible for lagging U. S. cotton exports.

TABLE V-1

SALES OF U. S. FOREIGN ENTERPRISES IN THE HOST COUNTRIES OF THE ENTERPRISES AND TO COUNTRIES OTHER THAN THE UNITED STATES, BY INDUSTRY, BY AREA, 1957

(In Millions of Dollars)

	All Industries	Mining	Petroleum	Manufacturing	Agriculture
All Areas:					
Total Sales	$38 154	$ 2 032	$14 501	$18 331	$ 856
Exports other than to the United States	6 689	809	3 539	1 819	212
Percentage of Total Sales	17.53%	39.81%	24.41%	9.92%	24.76%
Local Sales	$27 695	$ 325	$ 9 519	$15 419	$ 318
Percentage of Total Sales	72.58%	15.99%	65.64%	84.11%	37.14%
Canada:					
Total Sales	$11 704	$ 740	$ 2 098	$ 7 897	$ 186
Exports other than to the United States	651	216	3	432	0
Percentage of Total Sales	5.56%	29.18%	.14%	5.47%	0
Local Sales	$ 9 691	$ 124	$ 1 971	$ 6 637	$ 181
Percentage of Total Sales	82.80%	16.75%	93.94%	84.04%	97.31%

TABLE V-1--Continued

(In Millions of Dollars)

	All Industries	Mining	Petroleum	Manufacturing	Agriculture
Latin America:					
Total Sales	$ 7 509	$ 808	$ 2 981	$ 2 425	$ 595
Exports other than to the United States	1 473	365	827	61	211
Percentage of Total Sales	19.61%	45.17%	27.74%	2.52%	35.46%
Local Sales	$ 4 472	$ 104	$ 1 232	$ 2 323	$ 124
Percentage of Total Sales	59.55%	12.87%	41.32%	95.79%	20.84%
Europe:					
Total Sales	$11 181	$ 70	$ 4 449	$ 6 313	0
Exports other than to the United States	1 605	47	373	1 174	0
Percentage of Total Sales	14.35%	67.14%	8.38%	18.59%	0
Local Sales	$ 9 379	$ 18	$ 4 075	$ 4 950	0
Percentage of Total Sales	83.88%	25.71%	91.59%	78.40%	0

Source: Adapted from Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960, pp. 110-11.

and petro-chemical industry end products--than those produced by United States foreign enterprises.

However, the sales of United States foreign manufacturing enterprises, which are about 48 per cent of all the sales of all United States foreign enterprises in 1957, do affect United States exports. About 84 per cent of the output of United States foreign manufacturing enterprises was sold in the host countries in 1957 and 10 per cent in third countries. United States total merchandise exports of finished manufactures in 1957 were $11,800 million, which compares with the total sales of United States foreign manufacturing enterprises of $18,331 million.[1] United States foreign manufacturing enterprises have expanded rapidly in the post World War II period. The value of United States foreign manufacturing enterprises increased in the 1950-1959 period from $3,831 million to $9,692 million. See Table III-5. The capital-sales ratio of United States foreign manufacturing enterprises is available only for the year 1957; in that year it was 1:2.288. If this ratio is applied to the value of the enterprises in 1950 and 1959, then the sales of United States manufacturing enterprises increased from $8,765 million to $22,175 million, or an absolute increase of about $13.4 billion over ten years. United States exports of finished manufactures increased during the 1950-1957 period about $6 billion.[2] It is very likely that

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[1]U. S., Department of Commerce, Statistical Abstract of the United States, 1960, pp. 890-91; see also Table V-1.

[2]U. S., Department of Commerce, Historical Statistics of the United States, Colonial Times to 1957, 1960, p. 544.

this increase in production of manufactured goods of United States foreign enterprises seriously affected United States exports of manufactured goods. United States exports must continually make readjustments to meet this increase in production abroad. The most notable change has been in the composition of exports to more finished manufactures. In recent years United States exports of finished manufactures averaged 60 per cent of all United States merchandise exports, which compares with an average of about 45 per cent in the late twenties.[1]

It is difficult to measure the magnitude of the impact on United States exports from production abroad of United States enterprises. As shown in the preceding section, the position of United States exports has not deteriorated measurably, either in relation to the United States national income, or world exports, or United States imports. But, it is clear that many new United States foreign enterprises have replaced United States exports. New United States foreign enterprises are established when conditions in the foreign market are right. The establishment of new United States enterprises abroad holds these markets for the United States, and the former export receipts are being replaced by other receipts produced by the United States foreign enterprises, such as transferred earnings and United States exports of goods to establish and expand the enterprises, and current goods for operation. If non-United-States-owned enterprises take over foreign markets, the

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[1]U. S., Department of Commerce, Statistical Abstract of the United States, 1960, pp. 890-91; see also Table V-1.

United States will not obtain any receipts from earnings, and United States sales of capital goods and current goods to foreign-owned enterprises will be relatively small. As shown in Table V-2, United States foreign manufacturing enterprises purchased 78.5 per cent of all imports from the United States in 1957. United States manufacturing enterprises in Canada and in Latin America imported an especially large proportion of their total imports from the United States; for Canada this was 93.5 per cent, and for Latin America 84.5 per cent. All United States foreign petroleum enterprises bought 27 per cent of all imports in the United States in 1957, and mining and smelting enterprises bought 88 per cent of total imports in the United States.

As shown in Chapter IV, United States payments made to finance the establishment and expansion an average of all United States foreign enterprises, and payments for United States imports from the foreign enterprise, are nearly fully covered by receipts from earnings and exports. But there are large differences by the type of enterprise and by area. For example, United States manufacturing enterprises in Latin America show a particularly large surplus of receipts over payments, primarily due to a relatively large United States export surplus with these enterprises. See Table IV-4.

The loss of export markets from new production facilities in the foreign country requires adjustment. When a foreign market has been built up over the years to a point which allows local production to be undertaken and to earn a profit, new production facilities will probably be established soon, because competitors of the United States,

TABLE V-2

TOTAL IMPORTS AND IMPORTS FROM THE UNITED STATES OF U. S. FOREIGN ENTERPRISES, BY INDUSTRY, AND BY AREA, 1957 (INCLUDING CAPITAL EQUIPMENT AND OTHER ITEMS)

(In Millions of Dollars)

	All Industries	Mining and Smelting	Petroleum	Manufacturing	Trade
All Areas:					
Total Imports	$6 155	$ 158	$4 272	$1 536	$ 614
Imports from the U. S.	2 628	139	1 165	1 206	407
Percentage from the U. S.	42.70%	87.97%	27.27%	78.51%	66.29%
Canada:					
Total Imports	$1 249	$ 6	$ 494	$ 739	n. a.
Imports from the U. S.	892	6	184	692	n. a.
Percentage from the U. S.	71.42%	100.00%	37.25%	93.64%	n. a.
Latin America:					
Total Imports	$1 182	$ 140	$ 677	$ 274	n. a.
Imports from the U. S.	804	124	364	232	n. a.
Percentage from the U. S.	68.02%	88.57%	53.77%	84.67%	n. a.
Europe:					
Total Imports	$2 227	$ 1	$1 891	$ 327	n. a.
Imports from the U. S.	440	1	270	163	n. a.
Percentage from the U. S.	19.76%	100.00%	14.28%	49.85%	n. a.

Source: Adapted from Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960, p. 121.

including local or foreign companies, may seek to take over the market. Moreover, the foreign country can apply incentives to induce local production. Therefore companies of an industrial country usually consider trade to be closely linked with investment. Many United States companies hold foreign markets by establishing production facilities in the foreign country.

But the adjustment process does not stop here. If a new enterprise is built in a foreign market, perhaps new additions must also be made to utilities servicing the new plant, which may require additional imports.[1] Or the new enterprise may need large imports for operation. United States manufacturing enterprises in Latin America, for example, still require relatively large imports from the United States for operations. See Table IV-4.

Another basis for expanding trade through investment may be created by foreign exchange earnings of United States foreign enterprises. United States raw-material-producing enterprises in Latin America, for example, earn sizeable foreign exchange receipts for the area; this is shown on Table IV-4. In addition, if new manufacturing plants are established in the foreign country, local output and employment may increase, which over time may call for additional imports of all sorts, including imports from the United States. As new foreign enterprises take over United States export markets, United States capital contributions

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[1]It is likely that these additional imports may have to be financed on medium-term credit, or with a long-term development loan, in which case additional investments must be made.

may be required for a number of years. For example, United States petroleum enterprises in Canada have required large net United States outlays in the past ten years. See Table IV-4.

It is thus evident that companies of an industrial country that export manufactured goods must perpetually seek new markets for displaced exports, and that financing new foreign investments has become a necessary link in retaining foreign markets and in expanding trade. The composition of United States exports must also continually transform to meet the changes in the foreign markets. New and more complex products must be introduced, while less advanced countries begin the manufacture of less complicated products.

In summary, it may be stated that United States exports of manufactured goods are up against formidable competitors in United States foreign enterprises. Probably a portion of nearly all increases in output of these enterprises displaces United States exports. In part this is caused by the access of United States foreign enterprises to the latest United States technological knowledge, managerial talent, and access to United States capital markets.

However, new United States foreign investments also assist in holding markets for the United States, and in creating new markets for United States exports. United States companies retain foreign markets by establishing new enterprises abroad, and the resulting lost receipts from exports are replaced by receipts from earnings of the new foreign enterprises, from United States exports for expanding and

operating the enterprises, and possibly from additional United States exports to the host country.

Effects on the United States Balance of Payments from Imports of United States Foreign Enterprises

The United States obtains considerable quantities of material from United States foreign enterprises. United States imports from United States foreign enterprises require payment. But these imports also may have indirect effects on the United States balance of payments. These indirect effects supplement the total net United States direct receipts or payments arising from the operation of United States foreign enterprises.

Before looking into the indirect effects of United States imports, a few data must be presented first to show the type and value of various United States imports produced by United States foreign enterprises.

United States foreign enterprises shipped to the United States in 1957 about $3,770 million of goods and services, which was about 10 per cent of total sales of the enterprises, but which was 36 per cent of the exports of the enterprises. See Tables V-3 and V-4. United States merchandise imports in 1957 were $12,921 million, and sales of United States foreign enterprises to the United States $3,770 million, which means that about 29 per cent of United States imports

TABLE V-3

TOTAL SALES AND SALES TO THE UNITED STATES OF U. S. DIRECT FOREIGN ENTERPRISES, BY INDUSTRY, BY AREA, 1957

(In Millions of Dollars)

	All Industries	Mining	Petroleum	Manufacturing	Agriculture
All Areas:					
Total Sales	$38 154	$ 2 032	$14 501	$18 331	$ 856
To the U. S.	3 770	898	1 441	1 093	327
Percentage to the U. S.	9.88%	44.19%	9.94%	5.96%	38.20%
Canada:					
Total Sales	$11 704	$ 740	$ 2 098	$ 7 897	$ 186
To the U. S.	1 363	400	125	828	5
Percentage to the U. S.	11.65%	54.05%	5.96%	10.48%	2.69%
Latin America:					
Total Sales	$ 7 509	$ 808	$ 2 981	$ 2 425	$ 595
To the U. S.	1 563	340	920	41	260
Percentage to the U. S.	20.81%	42.08%	30.86%	1.69%	43.70%
Europe:					
Total Sales	$11 181	$ 70	$ 4 449	$ 6 313	0
To the U. S.	195	4	0	189	0
Percentage to the U. S.	1.74%	5.71%	0	2.99%	0

Source: Adapted from Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960, pp. 110-11.

TABLE V-4

TOTAL EXPORTS AND EXPORTS TO THE UNITED STATES OF U. S. DIRECT FOREIGN ENTERPRISES, BY INDUSTRY, BY AREA, 1957

(In Millions of Dollars)

	All Industries	Mining	Petroleum	Manufacturing	Agriculture
All Areas:					
Total Exports	$10 459	$ 1 707	$ 4 980	$ 2 921	$ 539
To the U. S.	3 770	898	1 441	1 093	327
Percentage to the U. S.	36.05%	52.61%	28.93%	37.42%	60.67%
Canada:					
Total Exports	$ 2 014	$ 616	$ 128	$ 1 260	$ 5
To the U. S.	1 363	400	125	828	5
Percentage to the U. S.	67.68%	64.93%	97.66%	65.71%	100.00%
Latin America:					
Total Exports	$ 3 036	$ 705	$ 1 747	$ 102	$ 471
To the U. S.	1 563	340	920	41	260
Percentage to the U. S.	51.48%	48.23%	52.66%	40.20%	55.20%
Europe:					
Total Exports	$ 1 800	$ 51	$ 373	$ 1 363	0
To the U. S.	195	4	0	189	0
Percentage to the U. S.	10.83%	7.84%	0	13.87%	0

Source: Adapted from Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960, pp. 110-11.

come from United States foreign enterprises.[1] But there is much variation between various types of foreign enterprises and geographical areas. As a percentage of total sales of the foreign enterprises, only mining and agricultural enterprises sold a large proportion to the United States, namely 44 per cent and 38 per cent, while petroleum enterprises sold 10 per cent, and manufacturing enterprises sold only 6 per cent of total sales to the United States in 1957. The United States is particularly dependent upon raw-material-producing enterprises in Latin America, including petroleum, and also upon mining enterprises in Canada. The only area from which the United States imports a significant volume of manufactured goods is Canada. See Table V-3. United States foreign enterprises in Europe sell, on the average, only a few per cent of total sales in the United States.

All imports require payment of some sort, but there are significant differences between imports in their effect upon the United States balance of payments. Imports may be classified here by their effect upon the United States balance of payments. Class I imports are products not produced in the United States, but are available to the United States at much lower prices, because they are produced by United States foreign companies which affects the United States terms

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[1]For purposes of comparison, the U. S. Department of Commerce adjusted U. S. imports and U. S. imports from direct investment enterprises to $13,291 million and $2,610 million, respectively, which makes the percentage 27.2 per cent instead of 29 per cent. Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960, p. 114.

of trade. Class II imports are raw materials that supplement domestic production; these imports may keep down the cost of domestic industrial production, which in turn may affect the price level of United States exports. Class III imports are manufactured goods which may have predominantly adverse effects on the United States balance of payments, but may also exert some downward effects on the United States price level.

These classifications overlap to some extent. For example, an imported commodity that is available to the United States at lower price than to other countries will not only affect the United States terms of trade, but may also affect the United States cost of production and hence the United States price level. Nevertheless, United States imports have been placed in one of three classes. Products not produced in the United States, or only in relatively small amounts, have been placed in Class I imports, and consist of such products as tropical agricultural products, newsprint, and such vital minerals and metals as copper, nickel, tungsten, beryllium, and manganese.[1] Class II imports consist primarily of petroleum products. Class III imports consist of finished manufactured goods.

Imports, Class I

The United States balance of payments is probably affected favorably by imports from United States foreign enterprises. These

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[1]The Chase Manhattan Bank, Latin American Business Highlights, Vol. 10, No. 4 (Fourth Quarter, 1960), p. 11.

indirect advantages are realized by effects on the United States terms of trade. The prices United States buyers pay for imports is primarily a function of the elasticity of domestic demand and the elasticity of foreign supply.

The demand for many United States imports in Class I, consisting of industrial raw materials not produced in the United States, such as tungsten, nickel, and manganese, is probably highly inelastic because there are no close substitutes for these products. Moreover, the cost of these metals is, in many processes in which they are used, probably a relatively small proportion of the total cost of production. If this is true, United States industries using the metals probably will prefer to pay a much higher price for imports than they are paying now, rather than to do without them. The output of many imported industrial raw materials can probably be increased by relatively small increases in costs.

An inelastic demand for imports can greatly affect the terms of trade of the importing country if the cost of production rises rapidly with expanding output. An elastic supply of foreign production, on the other hand, can cancel these adverse effects. A foreign enterprise that increases output and causes prices of a scarce raw material to drop, improves the terms of trade of the importing country. But there are also other significant factors that must be included if the effect on terms of trade is to be significant. The level of technology of the foreign enterprise must be relatively high, productivity must increase at a relatively rapid rate, and the benefits of low-cost foreign

production and increasing productivity must be passed on to United States buyers.

Perhaps in only a few cases will the United States terms of trade be affected by imports produced and purchased under the most favorable combination of circumstances, but the over-all effects on the United States terms of trade from Class I imports are clearly favorable.

United States foreign enterprises may sell to United States parent companies at a lower price than to non-United States buyers, because the company may want to realize the benefits of foreign operations in the United States rather than abroad. If the foreign subsidiary sells to the United States parent company at a lower price, the earnings of the foreign operations will be lower and those of the United States parent company higher. Tax rates in the United States and abroad may induce such a pricing policy. United States foreign mining enterprises show relatively low earning rates, which may be caused in part by such a pricing policy. See Table III-10.

United States foreign enterprises, established abroad with the specific intent to produce products needed by the parent company, can also in many cases be expected to produce at the lowest possible cost, if for no other reason than that competitive forces in the domestic market demand the lowest possible combination of inputs into United States processing or manufacturing. Another reason may be that companies of other industrial countries own and operate foreign enterprises, and United States companies engaged in international trade will force their

foreign enterprises to supply them at costs at least as low as foreign companies supply their parent companies. A third reason that foreign enterprises may supply parent companies at relatively low prices may be that operations such as mines, including exploration and production activities, may use the latest available modern United States technology and methods to which they have access.[1]

On the other hand, there may be United States foreign enterprises operating under noncompetitive conditions, in which case the United States buyers do not obtain the full advantage of foreign output by United States enterprises.

The United States demand for agricultural products in Class I imports is probably more elastic than for industrial raw materials. Bananas are not produced in the United States, but several domestic fruits and vegetables are close substitutes. Coffee, on the other hand, may not have as close substitutes as do bananas, but there are other beverages as substitutes. Foreign production of bananas, coffee, and other tropical products is quite inelastic in the short run because new plantings take a number of years to mature. In the long run the output of many tropical agricultural products tends to increase faster than the demand in the industrial countries, with the result that world prices begin to sag relative to prices of manufactured goods. The United States terms of trade improve from such a trend in declining

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[1]David MacEachron, "The Impact of Overseas Investment on Jobs and Tax Revenues at Home," Export Trade, June 15, 1959, pp. 10-11.

primary commodity prices, but United States exports will eventually also feel the consequence of a relative decline in purchasing power of the countries exporting the primary commodities.

If the output of the foreign enterprise is geared to meet the requirements of the United States parent company, no such overexpansion of production will occur.

Finally, there is, with all categories of United States imports from United States foreign enterprises, the advantage to the United States balance of payments of receipts from earnings and exports to the enterprises. On the basis of the 1950-1959 experience, an average United States mining and smelting enterprise in Latin America with an initial value of $1 million, operating for fifteen years, will produce United States receipts from earnings and capital goods exports of about $2.2 million, after subtracting all United States capital flows needed to establish the enterprise and to finance expansion over this period. See Table III-20. The goods shipped to the United States by this type of foreign enterprise require payment in the amount of about two and one half times United States receipts from earnings and from exports to the enterprise.

Thus, while the indirect effects of Class I imports generally improve the United States terms of trade, United States receipts from United States foreign enterprises producing these materials are exceeded by United States payments, if an average United States foreign mining and smelting enterprise is assumed to supply this category of United States imports. See Table IV-4.

Imports, Class II

The next category of United States imports from United States foreign enterprises consists of products produced in the United States, but at higher costs than abroad. Class II imports are dominated by petroleum and petroleum products. United States imports of petroleum can have a downward effect on domestic petroleum prices, which may cause similar effects on the United States price level, and thus on the prices of United States exports. In order for this effect on the prices of United States exports to materialize, it is first of all necessary that petroleum products be more widely used in the United States economy than in other countries. If this is true, and if all countries are paying the same prices for oil imports, the United States will experience more of a relative benefit from lower oil prices than other countries. Lower cost imports will have a greater possible impact on domestic prices if the United States demand for oil products is inelastic, if the supply of domestic production is inelastic, and that of foreign production is elastic. Oil imports may thus keep down the domestic price of oil products. If the relative magnitude of the cost of oil products is significant in the total costs of the net national products, the United States price level may be affected. If thus the United States price level is held down, the prices of United States exports will also be affected. The competitive position of United States exports will benefit from a reduction in the United States price level, or from a smaller rate of increase. United States export receipts

will increase as United States export prices are reduced, assuming that the elasticity of demand for and supply of United States exports is elastic; it must also be assumed that the prices of similar exports of other countries remain the same and that their output decreases.

The possible indirect benefits from Class II imports on the United States balance of payments are thus subject to many qualifications. On the other hand, the direct effects from United States foreign petroleum enterprises are clear. United States petroleum imports come largely from Latin America. An average United States foreign petroleum enterprise with an initial value of $1 million in Latin America earns, over a fifteen-year period, about $7.3 million in United States net receipts considering earnings, and financing the enterprise. See Table IV-4. United States net imports from this enterprise will be $9.7 million over the fifteen-year period. Thus about 80 per cent of United States payments to an average United States foreign petroleum enterprise in Latin America are covered by United States receipts. For an average of all United States foreign enterprises in all areas, United States total receipts exceed total United States payments, including payment for imports.

Imports, Class III

The third category of United States imports from United States foreign enterprises consists of finished manufactured goods. Well known imports of finished manufacture from United States foreign enterprises are such products as automobiles, business machines, and sewing machines.

In 1957 the total sales of United States foreign manufacturing enterprises were $18,331 million, but only 6 per cent of these sales went to the United States.[1] United States imports of finished manufactures increased in the period 1950-1957 from $1,504 million to $3,527 million.[2] Of these imports $1,093 million came from United States foreign enterprises in 1957 which is about 31 per cent.

United States imports of manufactured goods generally affect the United States balance of payments adversely, but there appear to be a number of mitigating circumstances. Many of these imports constitute a welcome addition to the variety of goods available in the domestic market. But, more important, the imports may increase competition in the domestic market which spurs technological change and increases efficiency in the allocation of resources.[3]

The United States domestic price level increases, at times perhaps, beyond increases in productivity. United States companies competing with imports from United States foreign enterprises may offer more resistance to wage increases above productivity increases than

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[1]Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960, p. 110.

[2]U. S., Department of Commerce, Statistical Abstract of the United States, 1960, p. 891.

[3]For example, such changes as have occurred in the U. S. automobile industry in recent years can be attributed largely to import competition. For an analysis of U. S. imports forcing changes at home, see: J. S. Revis and R. W. Hardy, "International Competition in the American Steel Market," Business Horizons, Vol. 3, No. 4 (Winter, 1960), pp. 30-37.

those which do not face import competition. Moreover, United States exports experience the same effects of undue domestic price advances, and companies involved in export trade will no doubt offer also more resistance to wage rises.[1]

About 30 per cent of United States imports of manufactures are supplied by United States foreign enterprises. This may provide some safeguards from new tariffs for these products and all similar products from non-United-States-owned foreign enterprises. United States imports of finished manufactured goods constitute only a small fraction of the domestic market of all these goods, and the impact of these imports on United States prices is probably of minor significance. But, if it is felt at all, it produces favorable effects on the United States balance of payments. United States exports of finished manufactured goods are facing more competition in world markets than right after World War II, and the relative movement of domestic prices, i. e., relative to these other countries, is very important for further expansion of United States exports. Any additional pressure against undue price advances in the United States will assist the competitive position of United States exports.

Thus, although the indirect effects of Class III imports are perhaps generally unfavorable, the direct effects on the United States balance of payments from United States imports of foreign manufacturing

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[1]See E. Sohmen, "Competition and Growth: West Germany," American Economic Review, Vol. XLIX, No. 5 (December, 1959), p. 994.

enterprises are definitely favorable. United States receipts from United States foreign manufacturing enterprises from earnings and United States exports exceed United States payments for imports plus United States capital outflows. An average of all United States foreign manufacturing enterprises in all areas, with an initial value of $1 million, will earn during a period of fifteen years of operation $1.4 million in United States receipts from earnings and exports over United States payments for imports plus United States capital required to finance the enterprise over this period. See Table IV-4.

Summary of the Indirect and Direct Effects on the United States Balance of Payments from Three Classes of Imports

Class I imports, consisting of industrial and agricultural materials, clearly have favorable effects on the United States terms of trade. On the other hand, the direct effects are negative. For example, an average United States foreign mining and smelting enterprise produces United States payments to the foreign enterprises for imports, and capital flows for financing that far exceed United States receipts from earnings and United States exports.

Effects on the United States balance of payments from Class II imports, consisting of materials produced in the United States but at higher cost and consisting predominantly of petroleum products, are less clear, depending on supply and demand functions and other factors. But, United States total direct receipts from an average of all United

States foreign petroleum enterprises well exceed total United States payments to this type of enterprise.

Class III imports, consisting mainly of finished manufactured goods, generally have an unfavorable effect on the United States balance of payments. However, United States direct receipts of United States foreign manufacturing enterprises from earnings and United States exports are considerably larger than United States payments to the enterprises for imports plus United States capital contributions for financing the enterprise.

If United States companies had not established enterprises abroad to supply the United States with these imports, non-United-States-owned foreign enterprises probably would have. United States foreign enterprises have the advantage for the United States balance of payments of producing receipts from earnings, and the enterprises tend to buy a larger proportion of their imports from the United States than do non-United-States-owned foreign enterprises.

CHAPTER VI

SUMMARY AND CONCLUSIONS

The objective of the study is to analyze how United States direct private foreign investment enterprises affect the United States balance of payments, and to determine the nature and magnitude of this impact for various types of investments in various areas.

The variables investigated are the methods of financing the foreign enterprises, the proportion of earnings transferred, imports and exports associated with the operations of the foreign enterprises, and the indirect effects on United States trade resulting from foreign enterprises.

There is little doubt that the direct effect of United States foreign enterprises on the United States balance of payments has been favorable. Total receipts from earnings of the foreign enterprises have in most years exceeded direct capital outflow. In addition, the terms of trade of the United States are probably improved by imports from United States foreign enterprises producing vital industrial raw materials and tropical agricultural products not produced in the United States, or produced only at much higher costs.

Trade is closely linked with investment. For the conduct of trade, investment capital must be available to finance the establishment and expansion of foreign enterprises, because exports are continually

displaced by new plant and facilities established abroad. New United States foreign enterprises replace former exports receipts by new receipts from earnings and trade.

If the present deficit in the United States balance of payments were to be dealt with by restricting the outflow of capital to finance the establishment of new foreign enterprises, the long-run outlook for United States receipts would be unfavorable because losses in export receipts would not be replaced.

For the purpose of making comparisons of dollar receipts and payments arising from foreign enterprises under various assumptions of methods of financing and other relevant variables, it was postulated that a number of $1 million foreign enterprises are established, that they operate for fifteen years, transfer earnings, require United States capital for financing, and generate trade with the United States, according to the actual experience of several types of United States foreign enterprises during the 1950-1959 period.

A formula has been devised for computing United States receipts from earnings and from exports of capital goods, and United States capital outflows for financing the hypothetical foreign enterprises under varying assumptions. The formula can express the results either in terms of an income-outlay ratio, or in terms of a pay-back period.

On the basis of the actual experience of United States foreign enterprises in the 1950-1959 period, the income-outlay ratio for an average of all United States foreign enterprises was 3.0 for a fifteen-year period. This means that over the period United States receipts from

earnings and from the export of capital goods to an average foreign enterprise, which has an initial value of $1 million, are three times as large as United States capital flows required to finance the enterprise. The pay-back period is thus, on the average, five years. For an average United States foreign petroleum enterprise the income-outlay ratio is 8.1, for a foreign trade enterprise 2.2, a manufacturing enterprise 1.5, and a mining and smelting enterprise 1.3, which are pay-back periods of, respectively, two, seven, ten, and eleven years.

United States foreign enterprises in Latin America produced the highest income-outlay ratio. The ratio here was 8.0 which is a pay-back period of less than two years; next is Europe with a ratio of 1.5, or a pay-back period of ten years. In Canada, an average of all United States foreign enterprises there produces United States capital flows in excess of United States receipts from earnings, and from exports of capital goods.

Trade between the United States and United States foreign enterprises, excluding United States exports of capital goods, has next been included in the analysis of receipts and payments. When all United States receipts from exports and from earnings are included, and all United States payments for imports plus capital flows for financing, an average United States foreign enterprise engaged in trade becomes the largest producer of net receipts; next in size is petroleum, followed by manufacturing enterprises; an average United States foreign mining and smelting enterprise, on the other hand, shows large United States net payments.

An average of all United States foreign enterprises in Latin America generated United States net payments. But, an average manufacturing enterprise in Latin America earned net receipts primarily because of a United States trade surplus with this type of foreign enterprise.

An average United States foreign enterprise in Europe showed substantial United States net receipts, especially an average petroleum enterprise which purchased considerable United States supplies; an average United States manufacturing enterprise in Europe earned United States net receipts primarily from transferred earnings.

An average of all United States foreign enterprises in Canada produced considerable United States net payments; an average petroleum enterprise in Canada obtained particularly large United States capital contributions.

The indirect effects on United States trade resulting from foreign enterprises are less tangible. The United States has a sizeable net import surplus with United States foreign enterprises. However, since a large proportion of the imports from United States enterprises operating abroad consists of raw materials upon which this country is partially or wholly dependent, foreign production benefits the United States balance of payments by improving United States terms of trade.

United States imports from United States foreign enterprises have been divided into three categories for purposes of analysis. The first category of imports are raw materials not produced in the United States. Here the balance of payments advantage of foreign production is quite clear. At the same time, an average United States foreign

mining and smelting enterprise supplying this type of imports requires United States payment for imports and requires capital for financing, which together far exceed United States receipts from earnings and exports to the enterprise.

A second category of imports consists of petroleum products and other raw materials that supplement United States domestic production, which is subject to rapidly rising costs while foreign costs of production are lower. In this case, the balance of payments advantage of the foreign enterprise is less clear than for the first category, depending upon the nature of the demand and supply functions and other factors. But, an average United States petroleum enterprise earns for the United States considerably more receipts from earnings and exports than payment for imports plus capital to finance the foreign enterprise.

A third category of United States imports from United States foreign enterprises is finished manufactured goods. The effect of such imports on the United States balance of payments is generally unfavorable. However, an average United States foreign manufacturing enterprise also produces for the United States considerably more receipts from earnings and exports than payments for imports plus capital to finance the enterprise.

Thus, in the case of imports from all United States foreign enterprises there are mitigating circumstances. These imports might otherwise have been produced and shipped to the United States by non-United-States-owned foreign enterprises and United States-owned foreign enterprises earn balance of payments receipts from earnings,

while non-United-States-owned enterprises do not. United States enterprises also tend to purchase more goods and services from the United States than non-United-States-owned foreign enterprises.

Sales of United States foreign manufacturing enterprises in foreign markets affect United States exports. The output of these enterprises increased about $13.5 billion in the 1950-1959 period. Probably a portion of the output of most of these enterprises will displace United States exports. But, in this situation there are similar mitigating circumstances because non-United-States-owned foreign enterprises probably would have been established to produce this output if United States foreign enterprises had not done so. New United States foreign enterprises tend to replace lost United States export receipts while non-United-States-owned foreign enterprises do not.

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APPENDIX

APPENDIX TABLE 1

VALUE OF U. S. DIRECT INVESTMENT ENTERPRISES IN CANADA, INCOME RECEIVED AND UNDISTRIBUTED, AND U. S. CAPITAL FLOWS TO THE ENTERPRISES, BY INDUSTRY, 1950-1959

(Millions of Dollars)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Value:										
Total	$ 3 579	$ 3 972	$ 4 593	$ 5 242	$ 5 871	$ 6 494	$ 7 480	$ 8 637	$ 9 338	$10 171
Mining and Smelting	334	400	550	677	792	862	938	856	938	1 090
Petroleum	418	562	715	933	1 152	1 350	1 752	2 016	2 293	2 465
Manufacturing	1 897	2 000	2 241	2 418	2 592	2 841	3 186	3 924	4 164	4 558
Trade	240	262	284	330	358	383	426	499	524	564
Income Received:										
Total	294	236	223	208	237	293	341	335	315	345
Mining and Smelting	31	34	36	26	39	44	55	40	30	32
Petroleum	- 3	- 17	- 20	- 22	- 11	4	27	56	27	41
Manufacturing	211	164	139	146	138	170	156	171	188	206
Trade	17	13	14	11	5	10	10	13	20	10

APPENDIX TABLE 1--Continued

(Millions of Dollars)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Undistributed Earnings of Subsidiaries:										
Total	$ 146	$ 181	$ 199	$ 259	$ 232	$ 298	$ 360	$ 357	$ 279	$ 393
Mining and Smelting	18	30	14	16	21	37	40	32	5	32
Petroleum	20	20	31	36	25	39	48	67	40	44
Manufacturing	85	101	120	153	123	166	237	180	168	240
Trade	12	16	20	22	27	24	31	37	27	46
Earnings of Direct Investment Enterprises:										
Total	440	417	421	467	469	591	701	653	569	713
Mining and Smelting	49	64	50	42	60	81	95	70	37	67
Petroleum	17	3	11	14	14	43	75	112	57	74
Manufacturing	296	265	259	299	261	336	393	342	349	438
Trade	29	29	34	33	32	34	41	49	47	56

APPENDIX TABLE 1--Continued

(Millions of Dollars)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
U. S. Capital Flows to the Enterprises:										
Total	$ 287	$ 240	$ 420	$ 387	$ 385	$ 300	$ 544	$ 718	$ 421	$ 409
Mining and Smelting	29	36	134	110	85	33	34	60	78	120
Petroleum	122	124	122	181	190	146	280	250	237	113
Manufacturing	88	30	121	27	51	53	101	184	72	139
Trade	32	6	2	25	negligible	1	13	- 2	- 2	- 6

Sources: U. S., Department of Commerce, Balance of Payments Statistical Supplement, 1958, pp. 153-65.
Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960, pp. 124-38.

APPENDIX TABLE 2

VALUE OF U. S. DIRECT INVESTMENT ENTERPRISES IN LATIN AMERICA, INCOME RECEIVED AND UNDISTRIBUTED, AND U. S. CAPITAL FLOWS TO THE ENTERPRISES, BY INDUSTRY, 1950-1959

(Millions of Dollars)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Value:										
Total	$4 735	$5 176	$5 758	$6 034	$6 244	$6 608	$7 408	$7 434	$7 751	$8 218
Mining and Smelting	628	736	871	999	1 002	1 024	1 090	1 112	1 182	1 258
Petroleum	1 408	1 408	1 577	1 684	1 689	1 801	2 227	2 702	2 825	2 963
Manufacturing	780	992	1 166	1 149	1 240	1 372	1 515	1 270	1 316	1 405
Trade	242	303	344	354	405	442	495	545	567	641
Income Received:										
Total	522	652	599	570	590	678	840	880	641	600
Mining and Smelting	64	87	81	31	65	91	120	91	80	135
Petroleum	262	327	303	341	345	420	530	576	382	292
Manufacturing	55	72	64	64	54	44	53	62	47	50
Trade	17	26	25	27	27	26	29	24	33	39
Undistributed Earnings of Subsidiaries:										
Total	109	249	303	152	125	192	212	239	143	202
Mining and Smelting	4	16	15	11	- 15	13	20	8	11	10
Petroleum	14	82	135	51	29	47	67	64	13	31
Manufacturing	49	96	94	54	69	77	72	67	58	71
Trade	12	23	30	13	17	23	25	58	32	62

APPENDIX TABLE 2--Continued

(Millions of Dollars)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Earnings of Direct Investment Enterprises:										
Total	$ 631	$ 901	$ 902	$ 722	$ 714	$ 870	$1 052	$1 096	$ 760	$ 774
Mining and Smelting	68	103	96	42	50	104	140	95	86	141
Petroleum	276	409	438	392	374	467	597	638	393	321
Manufacturing	104	168	158	118	123	121	125	129	104	120
Trade	29	49	55	40	44	49	54	81	63	98
U. S. Capital Flows to the Enterprises:										
Total	40	166	277	117	88	193	612	1 163	299	338
Mining and Smelting	29	60	120	120	17	7	50	131	76	75
Petroleum	- 69	- 75	32	58	- 22	72	365	862	147	129
Manufacturing	64	116	80	- 73	24	66	76	102	63	63
Trade	18	38	11	- 3	34	18	37	25	1	20

Sources: U. S., Department of Commerce, Balance of Payments Statistical Supplement, 1958, pp. 153-65.
Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960, pp. 124-38.

APPENDIX TABLE 3

VALUE OF U. S. DIRECT INVESTMENT ENTERPRISES IN EUROPE, INCOME RECEIVED AND UNDISTRIBUTED, AND U. S. CAPITAL FLOWS TO THE ENTERPRISES, BY INDUSTRY, 1950-1959

(Millions of Dollars)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Value:										
Total	$1 720	$1 979	$2 146	$2 369	$2 639	$3 004	$3 493	$4 151	$4 573	$5 300
Mining and Smelting	21	23	26	30	35	40	44	55	52	50
Petroleum	424	511	532	609	668	764	994	1 253	1 320	1 453
Manufacturing	932	1 070	1 187	1 295	1 451	1 640	1 835	2 195	2 475	2 927
Trade	186	207	218	232	253	286	311	433	480	581
Income Received:										
Total	111	119	127	143	186	255	277	281	339	443
Mining and Smelting	1	1	1	1	2	2	2	11	10	11
Petroleum	9	15	33	30	32	73	76	58	95	125
Manufacturing	69	71	56	71	109	124	135	145	165	226
Trade	21	20	24	24	22	33	34	47	49	61
Undistributed Earnings of Subsidiaries:										
Total	151	181	174	173	198	219	208	294	238	258
Mining and Smelting	2	3	4	2	5	5	4	0	- 1	- 1
Petroleum	32	33	45	45	36	41	63	95	8	- 7
Manufacturing	101	122	111	115	134	143	111	154	180	207
Trade	13	14	9	6	17	17	23	32	38	44

APPENDIX TABLE 3--Continued

(Millions of Dollars)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Earnings of Direct Investment Enterprises:										
Total	$ 262	$ 300	$ 303	$ 316	$ 384	$ 474	$ 485	$ 582	$ 583	$ 709
Mining and Smelting	3	4	5	3	7	7	6	12	9	10
Petroleum	41	48	78	75	68	114	139	152	103	114
Manufacturing	170	193	167	186	243	267	246	306	349	444
Trade	34	34	33	30	39	50	57	81	88	107
U. S. Capital Flows to the Enterprises:										
Total	119	62	- 8	51	50	139	456	287	190	466
Mining and Smelting	0	0	0	0	0	0	0	1	1	0
Petroleum	73	37	- 24	33	20	53	344	135	67	148
Manufacturing	32	17	6	- 7	21	41	83	120	92	231
Trade	7	7	2	8	- 14	15	3	11	12	59

Sources: U. S., Department of Commerce, Balance of Payments Statistical Supplement, 1958, pp. 153-65.
Pizer and Cutler, U. S. Business Investments in Foreign Countries, U. S. Department of Commerce, 1960, pp. 124-38.

APPENDIX TABLE 4

EARNINGS OF, AND U. S. CAPITAL FLOWS TO U. S. FOREIGN ENTERPRISES IN CANADA, BY INDUSTRY, 1950-1959

(All in Percentages)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Earnings as a Percentage of Direct Investment Enterprises:										
Total	12.29	10.50	9.17	8.91	7.99	9.10	9.37	7.56	6.09	7.01
Mining and Smelting	14.67	16.00	9.09	6.20	7.57	9.40	10.13	8.18	3.94	6.15
Petroleum	4.07	.53	1.54	1.50	1.21	3.19	4.28	5.55	2.49	3.00
Manufacturing	15.60	13.25	11.56	12.37	10.07	11.83	12.33	8.71	8.38	9.61
Trade	12.08	11.07	11.97	10.00	8.94	8.88	9.62	9.82	8.97	9.93
Income Received as a Percentage of Earnings of the Enterprises:										
Total	66.81	56.59	52.97	44.54	50.53	49.58	48.64	51.30	55.36	48.39
Mining and Smelting	63.27	53.13	72.00	61.90	65.00	54.32	57.89	57.14	81.08	47.76
Petroleum	- 17.65	-566.67	-181.82	-157.14	- 78.57	9.30	36.00	50.00	47.37	55.40
Manufacturing	71.28	61.89	53.67	48.83	52.87	50.59	39.69	50.00	53.87	47.03
Trade	58.62	44.83	41.18	33.33	15.63	29.41	24.39	26.53	42.55	17.86

APPENDIX TABLE 4--Continued

(All in Percentages)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
U. S. Capital Flows to U. S. Foreign Enterprises as a Percentage of the Earnings of the Enterprises:										
Total	65.23	57.55	99.76	82.87	82.09	50.76	77.60	109.95	73.99	57.36
Mining and Smelting	59.18	56.25	268.00	261.90	141.67	40.74	35.79	85.71	210.81	179.10
Petroleum	717.64	4 133.33	1 109.09	1 292.85	1 357.14	339.53	373.33	223.21	415.78	152.70
Manufacturing	29.73	11.32	46.72	9.03	19.54	15.77	25.70	53.80	20.63	31.73
Trade	110.34	20.69	5.88	75.76	0	2.94	31.71	- 4.08	- 4.25	10.71

Source: Appendix Table 1.

APPENDIX TABLE 5

ANNUAL AVERAGE EARNINGS OF, AND U. S. CAPITAL FLOWS TO U. S. FOREIGN INVESTMENT ENTERPRISES IN CANADA BY INDUSTRY, FOR THE 1950-1959 PERIOD

	Arithmetic Average in Percentage
Earnings as a Percentage of the Value of Direct Investment Enterprises:	
Total	8.80
Mining and Smelting	9.13
Petroleum	2.74
Manufacturing	11.37
Trade	10.13
Income Received as a Percentage of the Earnings of the Enterprises:	
Total	52.47
Mining and Smelting[1]	61.35
Petroleum	- 80.38
Manufacturing	52.97
Trade	33.43
U. S. Capital Flows to the Enterprises as a Percentage of the Earnings of the Enterprises:	
Total	75.72
Mining and Smelting	133.91
Petroleum	1 011.46
Manufacturing	26.40
Trade	22.83

[1]When based on the last five years this percentage is 39.61.

Source: Appendix Table 4.

APPENDIX TABLE 6

EARNINGS OF, AND U. S. CAPITAL FLOWS TO U. S. DIRECT INVESTMENT ENTERPRISES IN LATIN AMERICA, BY INDUSTRY, 1950-1959

(All in Percentages)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Earnings as a Percentage of Direct Investment Enterprises:										
Total	13.33	17.41	15.67	11.97	11.43	13.17	14.20	14.74	9.81	9.42
Mining and Smelting	10.83	13.99	11.02	4.20	4.99	10.16	12.84	8.54	7.28	11.21
Petroleum	19.60	29.05	27.77	23.28	22.14	25.93	26.81	23.61	13.91	10.83
Manufacturing	13.33	16.93	13.55	10.27	9.92	8.82	8.25	10.16	7.90	8.54
Trade	11.98	16.17	15.99	11.30	10.86	11.09	10.91	14.86	11.11	15.29
Income Received as a Percentage of Earnings of the Enterprises:										
Total	82.73	72.36	66.41	78.95	82.63	77.93	79.85	80.29	84.34	77.52
Mining and Smelting	94.12	84.47	84.37	73.81	130.00	87.50	85.71	95.79	93.02	95.74
Petroleum	94.93	79.95	69.18	86.99	92.25	89.93	88.78	90.28	97.20	90.97
Manufacturing	52.88	42.86	40.51	54.24	43.90	36.36	42.40	48.06	45.19	41.67
Trade	58.62	53.06	45.45	67.50	61.36	53.06	53.70	29.63	52.38	39.79

APPENDIX TABLE 6--Continued

(All in Percentages)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
U. S. Capital Flows to U. S. Foreign Enterprises as a Percentage of the Earnings of the Enterprises:										
Total	6.34	18.42	30.71	16.20	12.32	22.18	58.17	106.11	39.34	43.67
Mining and Smelting	42.65	58.25	125.00	285.71	34.00	6.73	35.71	137.89	88.37	53.19
Petroleum	- 25.00	- 18.34	7.31	14.80	- 5.88	15.42	61.14	135.11	37.40	40.19
Manufacturing	61.54	69.05	50.63	- 61.86	19.51	54.55	60.80	79.07	60.58	52.50
Trade	62.07	77.55	20.00	- 7.50	77.27	36.73	68.52	30.86	1.59	20.41

Source: Appendix Table 2.

APPENDIX TABLE 7

ANNUAL AVERAGE EARNINGS OF, AND U. S. CAPITAL FLOWS TO U. S. FOREIGN INVESTMENT ENTERPRISES IN LATIN AMERICA, BY INDUSTRY, FOR THE 1950-1959 PERIOD

	Arithmetic Average in Percentage
Earnings as a Percentage of the Value of Direct Investment Enterprises:	
Total	13.11
Mining and Smelting	9.51
Petroleum	22.29
Manufacturing	10.77
Trade	12.96
Income Received as a Percentage of the Earnings of the Enterprises:	
Total	78.30
Mining and Smelting	92.45
Petroleum	88.05
Manufacturing	44.81
Trade	51.45
U. S. Capital Flows to the Enterprises as a Percentage of the Earnings of the Enterprises:	
Total	35.35
Mining and Smelting	81.43
Petroleum	26.21
Manufacturing	44.64
Trade	38.75

Source: Appendix Table 6.

APPENDIX TABLE 8

EARNINGS OF, AND U. S. CAPITAL FLOWS TO U. S. DIRECT INVESTMENT ENTERPRISES IN EUROPE, BY INDUSTRY, 1950-1959

(All in Percentages)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Earnings as a Percentage of Value of Direct Investment Enterprises:										
Total	15.23	15.16	14.12	13.34	14.55	15.78	13.88	14.02	12.73	13.38
Mining and Smelting	14.29	17.39	19.23	10.00	20.00	17.50	13.64	21.82	17.31	20.00
Petroleum	9.67	9.39	14.66	12.31	10.18	14.92	13.98	12.13	7.80	7.85
Manufacturing	18.24	18.04	14.07	14.36	16.75	16.28	13.41	13.94	14.10	15.17
Trade	18.28	16.43	15.14	12.93	15.41	17.48	18.33	18.71	18.33	18.42
Income Received as a Percentage of Earnings of the Enterprises:										
Total	42.37	39.67	41.91	45.25	48.44	53.80	57.11	48.28	58.25	62.48
Mining and Smelting	33.33	25.00	20.00	33.33	28.57	28.57	33.33	91.67	111.11	110.00
Petroleum	21.95	31.25	42.31	40.00	47.06	64.03	54.68	38.16	92.23	109.65
Manufacturing	40.59	36.79	33.53	38.17	44.85	46.44	54.88	47.39	47.28	50.90
Trade	61.76	58.82	72.73	80.00	56.41	66.00	59.65	58.02	55.68	57.01

APPENDIX TABLE 8--Continued

(All in Percentages)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
U. S. Capital Flows to U. S. Foreign Enterprises as a Percentage of the Earnings of the Enterprises:										
Total	45.42	20.67	- 26.40	16.14	13.02	29.32	94.02	49.31	32.65	65.73
Mining and Smelting	0	0	0	0	0	0	0	8.33	11.11	0
Petroleum	178.05	77.08	- 30.77	44.00	29.41	46.49	247.48	88.81	65.05	129.82
Manufacturing	18.82	8.81	3.59	- 3.76	8.64	15.36	33.74	39.21	26.36	52.03
Trade	20.59	20.59	6.06	26.67	- 35.90	30.00	5.26	13.58	13.64	55.14

Source: Appendix Table 3.

APPENDIX TABLE 9

ANNUAL AVERAGE EARNINGS OF, AND U. S. CAPITAL FLOWS TO U. S. FOREIGN INVESTMENT ENTERPRISES IN EUROPE BY INDUSTRY, FOR THE 1950-1959 PERIOD

	Arithmetic Average in Percentage
Earnings as a Percentage of the Value of Direct Investment Enterprises:	
Total	14.22
Mining and Smelting	17.12
Petroleum	11.29
Manufacturing	15.44
Trade	16.95
Income Received as a Percentage of the Earnings of the Enterprises:	
Total	49.76
Mining and Smelting	51.49
Petroleum	54.13
Manufacturing	44.08
Trade	62.61
U. S. Capital Flows to the Enterprises as a Percentage of the Earnings of the Enterprises:	
Total	33.99
Mining and Smelting	19.44
Petroleum	87.54
Manufacturing	20.28
Trade	15.56

Source: Appendix Table 8.

Typed by Frances G. Ericson