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APPENDIX II: PART D

REPORT OF THE WORKING GROUP ON NET FOREIGN CLAIMS

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PREFACE

The Working Group on Net Foreign Claims met twice, on September 17 and December 10, 1963. The first sesstion was devoted to a general discussion of principles and data problems. At the second session, a preliminary draft of the report was considered. Subsequently, the members of the group read and commented on a second draft; however, final responsibility for the report rests with the secretary.

While all members of the group made substantial contributions, the deliberations were aided especially by the participation of Messrs. Pizer and Reynolds, who, because of their close professional connection with the subject matter, were exceptionally cognizant of the intricacies of existing data. Joel Popkin and John W. Kendrick, of the staff of the Wealth Inventory Planning Study, attended the meetings of the working group and made many helpful suggestions. Finally, the cooperation of Eleanor J. Stockwell, secretary of the Working Group on Nonfarm Business Financial Claims, is also gratefully acknowledged.

ROBERT L. SAMMONS.

NET FOREIGN CLAIMS

I. Introduction

Traditionally, national wealth has been defined as including all tangible assets located within the geographic limits of the area the wealth of which was being measured, plus (or minus) an adjustment variously referred to as "net foreign claims," "net foreign investments," "international," or the like. An estimate of the latter, in substantially the form needed for a national wealth estimate, is now being published annually by an agency of the U.S. Government.[1] The data are known to be incomplete in some respects, and the bare figures conceal knotty problems of a conceptual as well as statistical nature. Nevertheless, the estimates go a long way toward meeting any reasonable stadards for inclusion in national wealth estimates, and all users of such data must be grateful to the Balance of Payments Division, Office of Business Economics, U.S. Department of Commerce, for having inaugurated and carried forward these interesting and valuable data for so many years.

The Working Group on Net Foreign Claims has directed its attention to the following major aspects of its assignment:

1. Some alternative measures of "net foreign claims," with respect to: (*a*) whose assets and liabilities should be considered; (*b*) what assets and liabilities should be considered; (*c*) what values should be placed on those assets and liabilities.
2. What classifications of types of claims, and U.S. creditor or debtor sectors, would be needed to permit integration with the remaining segments of the national wealth estimates, and at the same time would be useful for other purposes.
3. A careful examination of the present estimates prepared by the Department of Commerce with a view to evaluating both their accuracy and the extent to which they conform to those concepts and classifications for which the working group expresses a preference.
4. Recommendations for changes and improvements, both in the collection of data and their presentation.

PRINCIPAL RECOMMENDATIONS

The major recommendations of the working group, with respect to conceptual and definitional aspects, are summarized in the following paragraphs:

1. All claims on nonresidents as well as equity in tangible property located abroad (except movable military property) should be included as "international claims" in the national wealth estimates.

[1] The latest data, for the end of 1962, may be found in an article by Samuel Pizer and Frederick Cutler, "U.S. International Investments," Survey of Current Business, August 1963, pp. 16 ff.

2. Puerto Rico should *not* be counted as part of the United States in making national wealth estimates, thus making the latter consistent in coverage with the gross national product data.

3. The unpaid, but not formally repudiated or forgiven, obligations to the U.S. Government arising out of World War I should not be included in the national wealth estimates. Nor should claims payable in foreign currency if the employment of that currency is restricted in such a way as to make it not essentially different from local currency counterpart funds generated by grant aid.

4. In principle, marketable portfolio securities should be carried in the data at market value; other debt at face value; direct investment, whether in the form of equities or debt, at book value according to issuers' books, adjusted to reflect depreciated replacement cost of underlying tangible assets. Some members of the working group expressed a preference for valuing all debt at face value.

5. The U.S. monetary gold stock should be treated as if it were an international asset. Foreign-owned gold held under earmark in the United States, or held elsewhere, should, however, not be treated as a foreign claim on the United States.

6. Claims on foreigners should be allocated to the sector owning the claim, even if the loan is guaranteed by some other sector of the U.S. economy.

The major recommendations regarding data collection are summarized below. For this purpose, the economy has been divided into three major sectors: (1) Households, (2) government, and (3) corporations, partnerships, and all other businesses and institutions for which balance sheets are ordinarily, or could be, prepared.

Households

It is unlikely that any substantial amount of foreign claims on the United States takes the form of liabilities of U.S. households, and the working group believes that any census of foreign claims on the United States could ignore this possibility.

On the other hand, portfolio holdings of foreign securities by the household sector are undoubtedly large. The present estimates of all U.S. portfolio holdings of foreign stocks and bonds rest on extremely shaky foundations; moreover, they do not distinguish by sector of ownership. Therefore, an estimate of *household* assets in this class would have to be based on a special inquiry. Two possibilities emerge.

1. A complete census of all foreign assets of all U.S. residents, or of private households separately. This would be an extremely costly operation, might be politically unpopular, and might have psychological repercussions on the international position of the dollar. It is, therefore, not recommended by the working group.

2. A sample inquiry, based on a procedure in which the coverage of high-income families, and possibly other groups, such as foreign-born residents, was relatively much greater than of other income groups.

3. An alternative to either proposal, which could be undertaken with far less publicity, would be to confine the census to, or select the sample from, those persons claiming credit for foreign income taxes on U.S. income tax returns, form 1040. It would even be possible to use the tax returns alone, although the problem of converting income data to capital values would undoubtedly be formidable.

The secretary and several members of the working group felt that the third method might yield the best results. However, the second alternative, presuming such an inquiry could be incorporated as part of a broader survey of assets of households, also would merit serious consideration.

Government

The foreign claims of the U.S. Government can be obtained from Government records; the data are published regularly by the Department of Commerce. It is understood that data on real fixed assets of the U.S. Government abroad are also available on the same valuation basis as similar assets located domestically. The value of Government-owned movable property located abroad is apparently not separately known.

It seems unlikely that State and municipal governments have any significant foreign assets, but the only way to be sure would be by inquiry, perhaps through the Census Bureau's surveys of local governments.

On the *liabilities* side, present estimates of all foreign holdings of U.S. Government securities, and short-term State and municipal issues, seem reasonably adequate, although they include essentially only those securities held in custody by domestic financial institutions and brokers. No data are presently collected on *holdings* of long-term municipals; as in the case of private securities, present reports cover *transactions* only.

The following procedures could be used to improve on present data; the working group, however, is recommending only that they be considered.

1. A report on long-term municipals held in U.S. custody accounts.
2. Reports by paying agents of municipal and Federal *registered* issues as to foreign holdings.
3. A more drastic method would be to require an ownership certificate with all coupons cashed (on bearer issues) during a census year.

All Other Sectors

All private economic entities except households would be requested to file balance sheets as part of a national wealth survey, according to recommendations being prepared by the working group on claims. In such balance sheets, foreign assets and liabilities would be reported separately at both book and market values. If such balance sheets were prepared so as to leave foreign subsidiaries *and branches* out of the consolidation, which our working group recommends be done, the data obtained would be suitable for measuring the foreign assets and liabilities of the covered institutions, subject to the following reservations.

1. The investment in foreign branches and subsidiaries should be included at book value *as reflected on the foreign books*, preferably adjusted to reflect the depreciated replacement cost of the underlying real assets. This would require a supplemental schedule for such investments; in effect, a continuation of the Commerce Department's direct investment surveys.

2. The payer, or debtor, corporation cannot always identify the real owner of its publicly offered securities. Supplemental information would have to be collected, using one or more of the methods outlined below.

3. Since a principal use of international investment data is to help in preparing balance-of-payments estimates, the working group recommends that any balance sheet survey include a request for income paid or received during the most recent calendar year on each of the foreign items reported.

4. Since for many purposes, the country distribution of our international investments is useful, supplementary requests for this information should be made if large items not covered by current reporting requirements are disclosed. However, it is likely that most of the significant types of international assets and liabilities are in principle covered by existing reporting requirements, except for foreign portfolio investments in U.S. securities, and U.S. portfolio investments in foreign securities. With respect to the former, a substantial amount of detail by country of ownership can be obtained by analyzing withholding tax returns. Likewise, a considerable amount of information as to the source of foreign income reported on both personal and corporate income tax returns appears in the returns, but the cost of extracting it would be extremely great. And reference has already been made to the difficulty of converting from income data to capital values if this source were used.

The additional data needed, as mentioned in paragraph 2 above, might be collected in the following manner.

Bonds, bearer (foreign holdings of registered bonds could presumably be reported on the balance sheet).—The only method of obtaining relatively complete data would be to require the filing of an ownership certificate with every interest coupon cashed during a period of, say, 1 year. These certificates would be signed by the owner or his authorized agent, certifying the owner's country of residence. Such certificates are already being filed with the Internal Revenue Service.

Bonds on which no interest was paid during the census year would not, of course, be amenable to this procedure, nor—so far as the working group sees—to any other.

Stocks.—Foreign holdings of U.S. stocks registered as such on the books of issuing corporations would be reported on the balance sheet. A separate report would have to be filed by domestic nominees (mainly banks and brokers) acting for foreigners. Alternatively, a substantial amount of information on foreign holdings can be obtained from an analysis of withholding tax returns filed by the nominees.

II. The Conceptual Framework

"Domestic," "national," or "supernational" wealth

The working group believes that the traditional concept of "national" wealth is the most logical one; namely, all the physical (tangible) assets located within the geographic boundaries of the country ("domestic" wealth), *plus* physical assets located abroad but owned by domestic residents,[1] *plus* claims on residents of other countries owned by domestic residents, *minus* domestically located physical assets and claims on residents owned by residents of other countries. Such a definition is generally consistent with the standard definition of the gross national product,[2] and the "plus" and "minus" items are analogous to the international investment income item which accounts for the difference between *national* and *domestic* product.

But even this definition contains at least three imprecise elements which may be worth mentioning.

First, what are the appropriate geographic boundaries? The national product data cover only the 50 States and the District of Columbia. The international investment figures of the Commerce Department, being derived mainly as a byproduct of balance-of-payments estimates, treat the customs area of the United States as domestic territory. The only significant present discrepancy, for our purposes, between the two definitions is the Commonwealth of Puerto Rico; but before they became States, Alaska and Hawaii were also omitted from the GNP calculations, although counted as domestic territory for balance-of-payments purposes. The working group recommends consistency with the GNP definitions for national wealth purposes, although it sees no objection to the Balance of Payments Division's continued publication of data consistent with the balance-of-payments statistics. From a purely economic point of view, it might be more appropriate to secure this consistency by including Puerto Rico in the national GNP estimates, but there are serious objections—mainly of a political nature—to this procedure. However, it is likely that the Puerto Rico Planning Board has, or can obtain, sufficient information on mainland investments in Puerto Rico and Puerto Rican investments on the mainland to make a satisfactory adjustment to the Commerce Department estimates.[3]

Secondly, should a sort of implied principle of extraterritoriality be applied with respect to tangible (real and personal) property owned by governments outside their own frontiers? For instance, should foreign embassies in the United States (and the buildings owned by international organizations) (a) be ignored entirely in estimating U.S. national wealth, or (b) should they be considered as part of *domestic* wealth, and adjusted out of *national* wealth via the net foreign claims entry? A similar question arises, *a fortiori*, regarding U.S. military property abroad. While a decision on this matter must be essentially an arbitrary one, the working group favors alternative. (b) as far as national wealth estimating is concerned. Again, it sees

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[1] See next page.

[2] The major exceptions are Government and consumer assets, not treated as investments in the U.S. gross national product statistics as presently constructed. See footnote 5.

[3] The necessary information could also be obtained, of course, as part of any general census or other inquiry into the international investments of the United States.

no objection to the Commerce Department's continuing to omit these items from its statement of the international investment position of the United States; such a treatment is, as a matter of fact, consistent with both balance-of-payments and national product statistics, as presently constructed.[4]

The third ambiguity in our definition relates to the question what natural persons are to be considered residents. The rule used in balance-of-payments estimating is that all persons "ordinarily" living in a country are considered to be residents thereof, except that citizens of a country serving their own government overseas are considered residents of the country of their citizenship. Citizens living abroad but not working for their own government would be counted as residents of the country where they live.

Some members of the working group were in favor of a broader definition, to which the term "supernational" might be applied; namely, *all residents* of the country plus *all nonresident citizens*. Such a definition was employed by the U.S. Treasury Department in its census of U.S.-owned property abroad,[5] but would not be consistent with national income and balance-of-payments practices. Moreover, it would result in the same assets being counted as part of the national wealth of more than one country.

If another complete census of foreign assets were to be taken, it would probably be useful to cover again "all persons subject to the jurisdiction of the United States," even if it were decided, for statistical purposes, not to include the property of citizens permanently residing abroad as part of the national wealth. The assets of nonresident citizens might well be estimated and shown in a footnote as a contingent item, since for tax and other purposes such persons are subject to the jurisdiction of the United States.

The present methods of estimating probably fail to reflect the assets *in the United States* of U.S. citizens residing abroad as "foreign" investments in the United States, and the working group foresaw that some problems of a political or public relations nature could well arise if a census of such assets were taken for the specific and only purpose of *excluding* them from the "national" wealth; that is, in order to be able to include them in *foreign* investments in the United States.

WHAT CONSTITUTES AN "INTERNATIONAL" ASSET OR LIABILITY?

In the construction of national balance sheets, it is customary to distinguish between "real assets" on the one hand and "claims" (including shares and other equities) on the other. However, the distinction is not always an easy one to make, and for many purposes it is useful to impute a "claim" where the property is, from a legal point of view, held directly. For instance, the assets (and liabilities) of sole proprietorships are usually included in the enterprises sector, with

[4] This is true because all Government expenditures on goods and services are treated as current expenditures in the national product statistics, and, if made abroad, are treated as imports in the current account of the balance of payments. When the Federal Government spends money on military construction abroad, the expenditure appears in the gross national product statistics (positive) as a Government purchase of goods and services, but is also included as an import (negative) in the current account of the balance of payments. The net effect is to show no gross national product and no net foreign investment as a result of such expenditures.

[5] U.S. Treasury Department, "Census of American-Owned Assets in Foreign Countries," Washington, D.C., 1947.

the net equity treated as a claim on the enterprises sector by the household sector. Owner-occupied residences may be handled in the same manner; if that is done, consumer durables become the only "real" assets (in the private sector) "directly" held by their owners.

The working group favors treating all tangible assets, real estate, and movable property, located in one country but owned by residents of another, as international claims, and thus part of the "domestic" wealth of the country of location but part of the "national" wealth of the country of ownership. (The only exception would be movable military property; since much of such property is subjected to frequent and large-scale shifts of location, it seems logical to consider all of it as part of the "domestic" wealth of the country of ownership.)

There are some international debts which have never been formally repudiated, but which seem so unlikely ever to be paid that it is unrealistic to include them in national wealth estimates at this time. Private investments in Cuba may be in this class; at least the Department of Commerce has omitted them from its latest estimates. Similarly, the intergovernmental debts arising out of World War I, long in complete default (except for that of Finland), have generally been omitted from the official statistics, latterly without even a footnote calling the user's attention to the fact.[6]

On the other hand, $490 million of U.S. Government claims on Japan in settlement of postwar aid were included in the data for the first time in 1962, the year in which a settlement agreement was signed. Obviously, some sort of a claim had existed, and was acknowledged by the Japanese Government, during the years intervening since the end of World War II, but it would have been impractical to put a precise figure in the tables.

Perhaps some of these problems are similar to those encountered in determining what domestic assets are to be included in national wealth. Buildings in an abandoned mining town, even though structurally sound, may have no economic value as long as the town is effectively abandoned, but if the mine reopens, or the town becomes a tourist center, they may come to have value again.

PROBLEMS OF VALUATION

"Domestic" wealth is ordinarily considered to consist of all the real, or tangible, assets in a country, although it is sometimes limited to reproducible assets. The question of intangible assets frequently arises, especially the value of human capital, and what might be called the excess of the "going concern" value of the economy over the value of its physical assets taken separately. This "surplus" value is compounded of a complex of many factors—de jure or de facto monopolies, goodwill, quality of management and administration, external economics, and many others.[7]

[6] As of June 30, 1963, the balance on such debts, including accrued interest, was in excess of $20 billion. See U.S. Agency for International Development, "Foreign Debts Owed to the U.S. Government and Certain International Organizations," Washington, D.C., 1963.

[7] The excess of market value of claims, especially common stock, over the value of the underlying assets can be used as a measure of the "going concern" or "surplus" value just mentioned. For a suggestion along this line see Vernon L. Smith, "The Measurement of Capital," appendix I, part H.

If this intangible aspect of wealth is to be omitted from the estimates, the superstructure of claims and equities which overlies the real assets that compose the national wealth can, in a closed economy, be ignored. The net balance of all such claims and equities is zero, if valued at the same value on debtors' books and in creditors' portfolios. It is, of course, possible to value these claims in various ways—face value, market value, book value as registered by "debtors," book value adjusted to reflect adjustment of the "debtors" real assets to some base other than the one employed by the debtor, and many others. However, the value of national wealth will not be affected by the method used to value claims; only the method used to value the underlying real assets is significant.

However, in the measurement of net international assets, since these can, as we have seen, most logically be thought of as claims, the question of valuation becomes all important, and it is to this subject that we now turn our attention.

Three basic methods of valuation—book, market, and face—have been used by the Department of Commerce in estimating the net international investment position of the United States.

1. *Book value* has been applied to direct investments, those in which the owner has a significant entrepreneurial interest. This means value as shown on the books of the debtor, or owned, enterprise. This value, in turn, is obviously determined by the way in which the "debtor" values its own assets, presumably in most cases cost less depreciation for fixed assets, cost or market for inventories (or cost, on a last in, first out or first in, first out basis), and face value for financial claims (or cost or market, if equities in other enterprises are held). In the case of U.S. direct investments abroad, exchange rate problems enter, at least with respect to financial assets and liabilities denominated in foreign currencies.
2. *Market values* have been used to value portfolio holdings of stocks and bonds for which organized markets exist.
3. *Face value* governs short-term debt, as well as most long-term nonmarketable debt, including the foreign loans made by the U.S. Government.

Some members of the working group, including the secretary, expressed a strong preference for valuing international claims at market value, wherever possible. International creditors, as a group, can only realize on their foreign claims by selling them to residents of the debtor country, or of some country other than the creditor country. Therefore, present market value, which presumably represents what a willing buyer would pay a willing seller under existing conditions, is the best measure of what an international investment is worth to the creditor country. Market value seems especially appropriate in the case of portfolio holdings of stocks and bonds which are traded on organized security markets.

It is recognized that, in the case of equities and direct investments, market value may be quite different from the value of the underlying tangible assets. To take a simple example: the real assets of a corporation—adjusted to a depreciated replacement cost basis and after allowing for net financial assets—may be such as to impart a book value per share of $100, but the market value of the shares may be $200. If the shares are owned by nonresidents, the effect of valuing such shares at market value is to "subtract" from domestic wealth of the debtor country, to arrive at national wealth, a larger amount than was included in domestic wealth to start with. But this excess may be regarded as a legitimate foreign claim against the wealth of the Nation as a whole, rather than against any particular real assets.

On the other hand, in the case of a creditor country like the United States, it is likely that its *net* international assets would be greater relative to total national wealth if valued at market prices than if valued at the (depreciated replacement cost) value of the underlying real assets.

The following basic principles of valuation, which are essentially those employed by the Commerce Department, are therefore recommended:

1. Claims payable in money: market value, if available; otherwise face value.
2. Real assets: depreciated replacement cost.
3. Equities: market value except for direct investments; for the latter, book value according to issuers' books, adjusted to reflect depreciated replacement cost of underlying tangible assets.

Some special problems in appying these principles and the majority views of the working group regarding their solution are discussed in the following pages.

Equities, direct investments.—Even if it were preferable to use market values for all assets, it is usually impossible to obtain a market value in the cases of subsidiaries and branches. In the case of branches, no securities representing the home office ownership exist; and in the case of 100 percent subsidiaries, no market for the shares exists. Even if some minority holdings are present, for which there is a market, it can be argued that their value may be quite different from the one that would exist if all shares were publicly held. Moreover, the value of such investments is affected by the nature and extent of the parent-subsidiary relationship; the concept of a "pure" market value is extremely elusive.

However, there is much to be said for trying to adjust the book value of such investments to reflect the depreciated replacement cost of the underlying real assets, thus making the value of the investment in some measure comparable to the value assigned to real domestic assets. In the case of foreign direct investments in the United States, such a procedure should be feasible if the value of domestic real assets, so adjusted, is calculated for each company.[8] But to attempt this procedure for direct investments of U.S. residents abroad would require collecting data on the nature of the assets owned abroad, and their date of acquisition or construction, similar to that collected for domestic real assets. And it would involve the application of price indexes, for purposes of converting to present values, that would, in many cases, be very difficult to obtain.

In these circumstances, the working group considers that the method followed by the Department of Commerce in the past is the most practical alternative available, with respect to U.S. investments abroad, and that the value of foreign direct investments in the United

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[8] A similar treatment, of course, could be provided for miscellaneous foreign portfolio investments in domestic corporations, and would then logically be applicable to U.S. portfolio investments in foreign stocks. It would, however, be completely impractical for U.S. holders of foreign shares to obtain the necessary data.

States should continue to be calculated in the same manner for the sake of consistency.

However, the group also recommends that, as part of a complete census of national wealth, an attempt be made to collect sufficient information to permit showing the value of direct investments on both bases.

Government loans at special interest rates.—In general, the working group favors including financial claims payable in money at market or face value. A special situation arises, however, in the case of loans made by the U.S. Government to foreign governments and other foreigners at extremely low rates of interest. (The discussion in this section applies only to loans payable in dollars.) It can be argued that an estimate of the present value of such loans ought to take into account the difference between the stipulated rate of interest and the "going" rate.

But what should be considered the "going" rate for this purpose? At least two major possibilities may be considered. The first would be the rate charged by the Export-Import Bank, at present 5¾ percent per annum. Since this represents the highest rate charged by the U.S. Government on foreign loans payable in dollars, the present value of loans made at lower rates, discounted at 5¾ percent, might be considered to represent their current real value for purposes of national wealth estimating.

Another possibility would be to use the cost of money to the U.S. Government for equivalent terms as the discounting factor, which would produce a higher value than the use of 5¾ percent, since interest on even the longest term U.S. Government loans is less than 5¾ percent. However, many foreign loans are now being made for terms longer than the longest outstanding Government bonds; some of these loans could, perhaps, even be left out of the accounting entirely as being substantially equivalent in their entire amount to grants. However, conditions change over time, and many of these loans may some day be repaid.

It was recognized that this procedure would tend to undervalue, in a sense, the postwar loans to Europe made at low interest rates, some of which are being repaid ahead of schedule, at full face value. However, if new loans were to be made now to these same debtors, they would not likely bear less than the 5¾ percent rate of interest; such a rate may, therefore, be a reasonable one to use in calculating their present value.

In support of this point of view, it may be noted that the market ordinarily recognizes changes in the general level of interest rates by revaluing bonds and other interest-bearing securities payable in money. The foregoing suggestion represents, in effect, an extension of that principle.

The majority of the working group, however, favored valuing such debts at face value, in accordance with the basic principle already enunciated, while recognizing discounted present value as a defensible alternative.

U.S. Government loans payable in foreign currencies.—The U.S. Government has followed two basic procedures in making so-called soft loans. One is to make loans payable in dollars, but with very low interest rates and exceptionally long terms and grace periods. The other is to make loans payable in the debtor's currency, with the express or implied understanding that the repayments will not be converted into foreign currency, directly or indirectly, without the consent of the debtor. Such loan agreements may or may not contain a maintenance-of-value clause; if not, they are subject to having their dollar value decline if the debtor's currency is depreciated. In any event, the prospect of the U.S. Government receiving repayments on such loans in a form that would result in a net credit to the U.S. balance of payments is obviously remote, to say the least.

The working group recommends that the claims represented by such loans not be considered as part of the national wealth of the United States, but that they be considered as a memorandum item or contingent asset—to be mentioned in a footnote or an accompanying text.

These are the valuation problems that seem worthy of special mention; in the detailed listing of assets and liabilities in part III of this report, the method of valuation presently in use will be described, together with the working group's views thereon.

PROBLEMS OF CLASSIFICATION

The following is suggested as a minimum breakdown by type of claim, although, for some purposes, obviously more detail would be useful.

1. Gold (asset only).
2. Currency.
3. Deposits at banks:
   - (a) Demand.
   - (b) Time.
4. Other short-term claims:
   - (a) Money market instruments.
   - (b) Other.
5. Long-term debt:
   - (a) Marketable bonds.
   - (b) Other.
6. Direct investments:
   - (a) Subsidiaries and affiliates.
   - (b) Branches.
7. Other equities:
   - (a) Marketable stocks.
   - (b) Other.
8. Real assets:
   - (a) Consumer durables.
   - (b) Real estate.

Probably the content of each of these suggested rubrics is unambiguous enough; in any event, the extent to which the existing estimates conform to these categories will be discussed in part III, and in the process a more detailed description of each will emerge.

The troublesome question of monetary gold stock can be solved in one of several ways:

1. Consider it a domestic asset, not to be included in net claims on the rest of the world. This is the solution customarily followed in most national wealth estimates.[9]

[9] E.g., Raymond W. Goldsmith, "The National Wealth of the United States in the Postwar Period," Princeton, 1962, p. 69.

2. Treat the domestic gold stock as an international asset, and all the gold held by foreign monetary authorities wherever located as an international liability. Although this is compatible with the treatment adopted in the official flow-of-funds statistics prepared by the Federal Reserve Board, it seems somewhat unrealistic. The nature of a financial claim is that it can only be extinguished by a transfer of real goods; the United States can pay off (net) foreign debts only with an export surplus or by selling gold. On the other hand, if exports are exchanged for gold, one asset has been traded for another—a debt has neither been created nor extinguished. Under this treatment, a consolidated statement of total world wealth would not include monetary gold.

3. Treat the domestic gold stock as an international asset, but ignore foreign-held gold. This is not essentially different from (1) and has the merit of showing that gold is an asset, and part of the national wealth, only because of its ability to command foreign goods and services. True, it is only a generalized and not a particular claim; in fact, it is not really a claim at all, but simply a special kind of asset with an unlimited foreign market at a fixed price. Nevertheless, the working group recommends this treatment, which is consistent with the treatment of gold in the balance-of-payments statistics.

The classification of international claims by U.S. debtor or creditor sector is necessary to produce a complete matrix of the network of claims that represent title to the real assets of the economy plus claims on abroad. Thus, the degree of sectoring depends on the degree of detail desired for this matrix—a point on which the judgment of this working group should not be controlling. However, the following sectoral classifications would appear to be minimal:

1. Households.
2. Agriculture.
3. Nonfinancial business, including sole proprietorships, and nonprofit institutions.
4. Financial corporations:
   (*a*) Commercial banks.
   (*b*) Other.
5. Government:
   (*a*) Federal Government.
   (*b*) Federal Reserve System.
   (*c*) Other.

Most of the feasible methods for collecting data would easily provide this sector breakdown, and many finer divisions that might be desired. By their nature, of course, claims can be classified only on a company, not an establishment, basis. But most of the information, whether collected by census-type enumerations or as a byproduct of tax collection or other administrative processes, would be available for individual firms, and hence, amenable to whatever sectoral classifications might be desired. Again, we shall comment on this aspect when we discuss the existing data.

For many purposes, it would be desirable to have a breakdown by major foreign countries or areas of our international assets and liabilities. Also, it is useful to have some breakdown by foreign sector of ownership, especially of short-term claims on the United States; holdings of monetary authorities and commercial banks are of particular interest. However, these refinements are not of direct interest for national wealth measurement.

We turn now to points 3 and 4 mentioned on page 475; that is, a detailed discussion of the data presently available and our recommendation for collecting new or better data as part of a national wealth census in or about 1970, or by other means.

III. Data Evaluation and Recommendations

In examining the existing data, it is convenient to focus on the data for 1962, published in the August 1963 issue of the "Survey of Current Business."[1] For convenient reference, an elaboration of the Commerce table[2] is reproduced below, with the lines numbered to facilitate easy reference. Only the 1962 data for the world as a whole are reproduced; the original table contains data for 1950 and 1961, and for major geographic areas. Annual estimates are available for all recent years.

We shall discuss assets and liabilities separately, although in some cases, where common sources are used, this will involve repetition.

INTERNATIONAL ASSETS OF THE UNITED STATES

1. Gold

Data on gold holdings of the U.S. Government are published regularly in the Federal Reserve Bulletin and elsewhere. The gold is valued at its statutory price of $35 per ounce.

2. Currency.

The Commerce data do not include an estimate for U.S. holdings of foreign currency; that is, paper money and coin. The difficulty of collecting data on such holdings is obvious; but with so many persons stationed abroad whose assets should be included in U.S. national wealth, the figure may not be a negligible one. On the other hand it seems highly unlikely that, under present circumstances, any significant amounts of foreign currency are physically held in the United States itself, aside from small balances held by banks and dealers in foreign currencies.

The working group recommends that, as long as large numbers of U.S. civilian and military personnel are stationed overseas, the national wealth estimates include an allowance for their holdings of foreign currency. Since the amount involved would probably not be large, fairly rough estimating procedures would be appropriate. Two possibilities suggest themselves:

(*a*) A sample survey, using the panel of respondents which, it is understood, the Department of Defense maintains for other inquiries.

(*b*) Estimate total (United States and foreign) currency holdings of personnel stationed abroad by applying national averages,

[1] Samuel Pizer and Frederick Cutler, "U.S. International Investments." See especially table 9, p. 18.

[2] Provided by Mr. Pizer, a member of the working group.

stratified, to the extent possible, by income level. Prorate between holdings of United States and foreign currency using as an index the ratio of sales in PX's and commissaries to estimated expenditures in the foreign economy.

TABLE 1.—*International investment position of the United States, 1962*

[Millions of dollars]

1.	U.S. assets and investments abroad, total	80,126
2.	Private investments	59,810
3.	Long-term, total	52,576
4.	Direct [1]	37,145
5.	Foreign dollar bonds [2]	6,373
	Other foreign securities:	
6.	Stocks	4,715
7.	Bonds	714
	Other long-term:	
8.	Reported by banks (form B-3)	2,151
9.	Reported by commercial concerns (C-2)	769
10.	Other [3]	709
11.	Short-term assets and claims, total [4]	7,234
12.	Reported by banks (B-2)	5,038
13.	Reported by commercial concerns (C-2)	2,111
14.	Brokerage balances	85
15.	U.S. Goverment credits and claims	20,316
16.	Long-term [5]	16,040
17.	Foreign currencies and short-term claims [6]	3,113
	Monetary assets:	
18.	IMF position	1,064
19.	Convertible currencies	99
20.	Foreign assets and investments in the United States, total	47,368
21.	Long-term	20,201
22.	Direct [7]	7,597
23.	Corporate stocks [8]	10,336
24.	Corporate, State, and municipal bonds [9]	657
25.	Other long-term	1,611
26.	Reported by banks (B-3)	4
27.	Reported by commercial concerns (C-1)	161
28.	Other [10]	1,446
29.	Short-term assets and U.S. Goverment obligations	27,167
30.	Private obligations	13,340
31	Reported by banks (B-1) [11]	12,583
32.	Reported by commercial concerns (C-1)	645
33.	Reported by brokers (S-4)	112
34.	U.S. Government obligations	13,827
35.	Long-term marketable issues [12]	2,061
36.	Special nonmarketable nonconvertible issues	251
37.	Short-term	11,515
38.	Bills and certificates [13]	9,331
39.	Foreign-currency certificates	48
40.	Currency	906
41.	Miscellaneous [14]	1,230

[1] Country and industry detail in August 1963 Survey of Current Business.
[2] Detail by country and class of borrower being developed.
[3] Represents values carried forward (with adjustments) from the Treasury census (TFR-500) for certain types of assets, including real estate, estates and trusts, insurance, and miscellaneous claims. The major adjustment was to eliminate part of the value of real property abroad reported by individuals who at the time were noncitizen residents of European origin.
[4] Stabilization fund credits ($62,000,000) are subtracted from the B-2 reports and included in Government assets.
[5] Detail as in "Foreign Grants and Credits" except that the latter excludes (1) contributions to international organizations (other than IMF) of $1,117,000,000, (2) nonmilitary installations abroad, $71,000,000, and (3) miscellaneous claims and settlements, $101,000,000.
[6] Detail by program and country in "Foreign Grants and Credits."

(Additional footnotes on page 489.)

Foreign currency holdings of corporations and other businesses would be reported on the balance sheets which would be filed by such organizations, if the recommendation of the working group on claims is followed.

Foreign currency belonging to the U.S. Government should also be included, but official records probably do not readily provide the data separately from holdings of foreign money in the form of bank deposits. The working group sees no great advantage in separating the two.

3. Deposits in banks.

It will be convenient to describe the data presently collected on deposits in banks abroad according to the various economic sectors listed on page 486. With the rapid growth of the so-called Euro-dollar market, this item is obviously of much greater magnitude than just a few years ago. A separation of demand from time deposits would be useful for many analytical purposes, though not strictly needed for national wealth estimates. Moreover, like most forms of short-term capital, deposits can be a very volatile item; changes (which represent capital movements in the balance of payments) cannot be accurately measured except by reporting procedures which cover almost the whole universe.

(*a*) *Households and agriculture.*—No information is currently available regarding deposits in foreign banks by the household sector, including U.S. Government personnel abroad.[3] This omission, together with the probable omission of other foreign investments of the household sector, no doubt contributes to the "errors and omissions" item in the balance of payments. Clearly, therefore, a census of national wealth should include some provision for estimating this component. Two major possibilities seem to exist.

> (1) A complete census of all foreign assets of U.S. residents, similar to the 1943 Treasury census on form TFR–500, could be conducted, covering bank deposits as well as all other foreign assets or claims. To be successful, such a census would have to be compulsory, and would have to be given extensive publicity. If the U.S. balance of payments were still in deficit at the time of the census, widescale apprehension that the census was a prelude to

[3] Deposits placed abroad through U.S. banks are required to be reported by the latter on Treasury Foreign Exchange Form B–2 (see below), but are not separately identified.

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[7] Area data in August 1963 "Survey of Current Business": industry breakdowns can be derived from that article and "Foreign Business Investments in the United States."

[8] Certain country details are available, but are not accurate. Industry data are available only for earlier years.

[9] Transactions data do not segregate by type; corporate bonds predominated in Treasury census (TFR–300).

[10] Represents value carried forward from the Treasury census (TFR–300) for real property, estates and trusts, insurance, and miscellaneous debts and claims.

[11] Derived as follows:

Total reported on B–1	$25,023
Less:	
U.S. bills and certificates	12,343
U.S. foreign currency certificates	48
IMF deposit	49

[12] As published in "Federal Reserve Bulletin," with minor adjustments.

[13] Excludes IMF holdings ($3,012).

[14] Includes special issues to international organizations, military procurement accounts, and other liabilities of U.S. Government agencies.

NOTE.—The designations in parentheses refer to Treasury Department reporting forms. See annex.

exchange control would probably arise, and the impact on the international status of the dollar might be catastrophic. The working group does not believe that the need for data on national wealth is sufficiently great to justify such a procedure in the foreseeable future.

(2) A more feasible procedure, also not without its dangers, would be to include a question on foreign deposits (and other foreign assets) as part of a more general inquiry designed to determine the value of household assets. Presumably such a survey would be conducted on a sample basis. The working group commends this to the consideration of the working group on consumers' assets.

(3) An alternative to either proposal would be to confine the inquiry to those persons (or a sample of them) reporting foreign income on income tax returns 1040. It might even be feasible to amend form 1116, used to claim credit for foreign income taxes paid, for the census year to obtain all the necessary information. Of course, investments on which no income was received (or no foreign tax credit claimed) would be missed by such a procedure.

(*b*) *Nonfinancial business, other than agriculture.*—Foreign bank deposits of such businesses, together with those of some financial corporations (but not U.S. banks), are reported on the U.S. Treasury's Foreign Exchange Form C–1/2, and the supplement thereto, described in the annex. Deposits payable in foreign currencies, included in line 13 of the table, amounted to $217 million on December 31, 1962. Deposits payable in dollars were not separately reported.

The quarterly form, C–1/2, is required from all "nonbanking" firms whose foreign assets and liabilities exceed a certain minimum. However, the segregation of deposits from other short-term assets is required only if the deposits are payable in foreign currency. Deposits payable in dollars are included in a broader category of other short-term claims. But the firms with large holdings are required to file a monthly supplement (see annex), on which deposits payable in dollars and foreign currencies are reported separtely with each category further segregated between demand and time deposits. Form C–1/2 is required from "nonbanking" firms, that is, from firms not required to file reports on the Treasury foreign exchange forms B–1 and B–2 (see below). The C–1/2 reporters include some firms which should be classified as financial rather than nonfinancial businesses. However, since individual reports are available, presumably any desired segregation by type of business can be undertaken.

The working group has no basis for judging whether or not the data collected in this form are reasonably adequate for a national wealth inventory. However, it is understood that the Working Group on Claims is recommending that, for the year in which a national wealth census is undertaken, all private economic entities except households be required to file balance sheets. These balance sheets would provide for a far more detailed classification of assets and liabilities than we are recommending, and for a separation between domestic and foreign claims.

This recommendation, if followed, would provide substantially all the information needed to measure the net international claims of the reporting institutions. The reports thus received would also provide benchmark data and information needed to supplement the present lists of organizations filing the Treasury foreign exchange forms described in this report.

Therefore, any other recommendations made herein for improvement in the existing system, or for other means of supplementing that system, should be considered to be in lieu of, and not in addition to, the balance sheet reports just mentioned.

(*c*) *Financial corporations.*—Aside from deposits in foreign banks reported by those financial corporations filing reports on Treasury forms C–1/2, foreign deposits owned by commercial banks and other financial corporations are reported on the Treasury Foreign Exchange Form B–2 (see annex). This form is filed by all "bankers and banking institutions" in the United States, including U.S. branches, agencies, subsidiaries, and other affiliates of foreign banks, whose claims on foreigners exceed a certain minimum amount. Only deposits payable in foreign currencies are shown separately on the forms; these amounted to $0.4 billion on December 31, 1962, and are included in line 12. Deposits payable in U.S. dollars are included in an "all other" category. However, it is believed that the institutions reporting on this form do not have substantial amounts of foreign deposits payable in dollars. Except for the lack of coverage due to the cutoff exemption, it appears that this report provides as much information as it is probably feasible to obtain, but the general balance sheet survey would uncover any omissions.

For various purposes, it would be highly desirable to segregate commercial banks—those institutions whose assets and liabilities are included in the "all bank" statistics published by the Federal Reserve Board—separately from other financial institutions. This would be feasible since the individual reports are available in the various Federal Reserve banks, to which the reports are rendered. However, to the (unknown) extent that assets belonging to clients are included on this form the sector classification would, of course, be incorrect. The proposed balance sheet survey would require these institutions to report their own assets only.

(*d*) *Government.*—U.S. Government-owned deposits in foreign banks are basically of three types. The first is what might be called normal deposits—working balances in foreign currencies, ordinarily purchased with dollars but also acquired from sales of surplus agricultural products, but in any case, freely usable to meet the normal operational expenses of the Federal Government. Second are the convertible currency holding of the stabilization fund, considered to be part of the international monetary reserves of the country. The third category consists of holdings, the use of which is restricted by agreement with the foreign country concerned to purposes which, in general, would not substitute for dollar-financed U.S. Government expenditures abroad, and thus would not aid the U.S. balance of payments. Examples of such deposits include the proceeds of surplus property sales abroad, sales of surplus agricultural products, repayments of loans in foreign currencies, and the like (unless the foreign currencies can be used without restriction to meet U.S. Government expenditures or for other purposes).

With respect to U.S. Government holdings of "soft" currencies, that is, currencies the use of which is restricted, the working group suggests that they be treated in the same way as foreign currency loans (see p. 484); that is, that they not be considered as part of the national wealth of the United States, but that they be carried as a memorandum item or contingent asset—to be mentioned in a footnote or in an accompanying text.[4]

Information regarding both of these types of holdings of foreign deposits are obtained regularly by the Commerce Department, and are included in line 17 of the Commerce Department's table. Among other claims here included are the loans made by the Treasury's stabilization fund and the loans on gold collateral made by the Federal Reserve System, although these are not, of course, "deposits."

Since it began direct operations in foreign currencies in 1962, the Federal Reserve Bank of New York, acting as agent for the Federal Reserve System, holds foreign currencies as a result of its swap operations with foreign central banks. These currencies are ordinarily held in the form of deposits; full information regarding the amount is published from time to time in the Federal Reserve Bulletin. These, together with convertible foreign currency holdings of the Treasury (not all of which, however, are held in the form of deposits), comprise the $99 million of line 19.

It seems unlikely that any State or local government holds any significant amount of foreign deposits (or any other foreign claim). However, in the wealth census year, the customary survey of State and local government finances could include a question on foreign assets.

4. Other short-term claims

For purposes of balance-of-payments analysis, it would be desirable to separate this category into (*a*) what might be called loosely money market instruments, and (*b*) all other short-term claims. In discussing the various sectors, we shall indicate to what extent a breakdown between money market instruments and other types of short-term claims is presently available.

(*a*) *Households and agriculture.*—No direct information is available on foreign short-term assets owned by these sectors; the position is essentially the same as described above with respect to deposits. However, it seems unlikely that such holdings would be significant, with the exception of bank deposits, already discussed. If a complete census or sample survey of foreign assets of these sectors were to be undertaken, requests for data on these assets would presumably be included.

(*b*) *Nonfinancial business, other than agriculture.*—As in the case of deposits, short-term claims on foreigners by nonbanking institutions are required to be reported on the Treasury Foreign Exchange Form C–1/2. The Treasury Department and the Federal Reserve System have made strong efforts to expand the coverage of this form in recent years, and several hundred new reporters have been added. The reporting instructions are sufficiently explicit to cover many of the types of assets or liabilities that would result from the well-known phenomena of leads and lags in foreign trade payments. Thus, an

[4] Some members of the working group felt that a special committee might be appointed to evaluate such assets on a case-by-case basis, with a view to setting values thereon that could be included in national wealth estimates.

advance payment by an American exporter or a credit extended in connection with American exports should be reported on this form. However, the size and variability of the errors and omissions item in the balance of payments are such that there seems to be reason to expect that such capital movements, as well as deposits in banks, are not being fully reported. The following peculiarities of the data may be noted:

(1) As already stated, the companies reporting on form C–1/2 include both financial and nonfinancial concerns; but the amounts reported by nonfinancial businesses can be obtained by special tabulations.

(2) Trade bills forwarded for collection through commercial banks are reported by the banks on form B–2 instead of by the exporters, or other creditors, on form C–1/2. On form B–2 they are combined with collections outstanding for the bank's own account; to obtain an accurate sectoring, a special survey would have to be undertaken to make the separation. However, in all probability the collections reported by the banks on form B–2 are mainly for the account of customers; probably the error involved in attributing the total to the nonfinancial sectors would not be great. The amount involved at the end of 1962 was $0.7 billion; this is included in line 12. Collections payable in foreign currencies are not reported separately from other foreign currency claims.

(3) Short-term claims of parent companies on their foreign subsidiaries or affiliates are not included in this category, but under direct investments. Although some companies make an effort to segregate their advances to their subsidiaries between short- and long-term claims, many do not, and in any event, whether the claim is short term or long term can frequently only be determined after the fact. The total amount reported on form C–1/2 at the end of 1962, other than deposits payable in foreign currencies, was $1.9 billion, of which $1.7 billion was payable in dollars (line 13). The balance sheet proposal would, of course, provide more complete coverage of this item.

(*c*) *Financial corporations.*—The existing data with regard to short-term claims, other than deposits, of financial corporations are those obtained on the Treasury forms B–2 and C–1/2, to which reference has already been made. The separation between commercial banks and other financial institutions is not made in the published statistics but can be determined, as already indicated, by retabulating the data from the original reports. These report forms are described in the annex. The total amount of claims reported on form B–2, other than deposits payable in foreign currencies, was $4.8 billion at the end of 1962 (line 12). Of this, $4.6 billion was payable in U.S. dollars, and $0.2 billion was payable in foreign currencies.

Another Treasury foreign exchange form, S–4, is designed to collect data on foreign debit and credit balances in accounts of U.S. brokers. The amount of assets reported on this form as of December 31, 1962, was $0.1 billion.

Complete coverage of this sector, too, in the census year would be provided by the proposed balance sheet survey.

(*d*) *Government.*—Holdings of short-term claims of the Federal Government on foreigners, aside from deposits, consist mainly of the gold tranche position in the International Monetary Fund—equal to the U.S. quota in the Fund, minus the Fund's holdings of U.S. dollars. The implication of this treatment is that any drawings by the United States would be treated as a reduction in U.S. Government claims on abroad up to the amount of the gold tranche plus any drawings of U.S. dollars by other countries; U.S. drawings in excess of this amount would appear on the liability side of the international balance sheet as a net liability to the International Monetary Fund. Stabilization fund loans and loans by the Federal Reserve System on gold collateral would be included here; as already mentioned, they are entered in line 17 of the table. Again, there seems to be no reason to believe that State and local governments would have any significant amount of short-term claims on foreigners.

5. Long-term debt

There is no feasible way, with the information presently available, to segregate portfolio investments in foreign securities—either debt instruments or equities—according to sector of ownership. While the Treasury Department's census of foreign assets, taken in 1943, did provide such information, the only information available which serves to bring these figures up to date is obtained from data on transactions which show no breakdown by nature of the transactor. Moreover, there is no information available regarding transactions between American residents in foreign securities; thus, even if it were possible to know the enonomic sector of the original purchaser of a foreign security, that would be of little value in determining the present ownership. Again, the only feasible way of obtaining a sector breakdown of holdings of miscellaneous foreign securities is through a census-type inquiry, and such an inquiry would have to cover all types of holders, not just households. The latter might be covered by a sample survey; corporate and institutional holdings would probably have to be reported in full if adequate data are to be obtained. This would be accomplished, as far as nonhousehold assets are concerned, by the proposed balance sheet survey.

Private holdings of portfolio foreign debt securities are valued, insofar as feasible, at current market values. Nonmarketable types of debt are values, in the main, at face value. These principles of valuation accord with the recommendations of this report. In the absence of a sector breakdown, our description of the existing data will be organized according to type of securities rather than sector of ownership.

(*a*) *Dollar bonds, publicly offered.*—The Commerce Department keeps an individual record of each issue of foreign dollar bonds, publicly offered in the United States, including those of international institutions such as the World Bank. It endeavors to find out, usually by correspondence with the underwriters, the percentage of the issue taken in the United States at the time of issue. The amount of the issue outstanding at any particular time is ordinarily a matter of public record; the amount held in the United States is calculated by applying the percentage of the issue originally sold in the United States to the amount outstanding. Any error resulting from a subsequent change in the country of ownership is offset by a corresponding error in the estimates of U.S. holdings of foreign bonds other than dollar issues, as explained in detail below. Obviously, this method of estimating can be used to produce either face value or market value.

(*b*) *Private placements.*—Private placements of foreign securities in the U.S. market are usually made through investment firms and more often than not are publicly announced. Some additional data are obtained from reports to the Securities and Exchange Commission and to insurance commissioners. Again, the Department of Commerce makes an effort to ascertain what part, if any, of each issue is placed with non-U.S. investors. It ordinarily assumes that such issues are paid at maturity, unless information to the contrary comes to the Department's attention. Total U.S. holdings of foreign dollar bonds, publicly offered and privately placed, were estimated at $6,373 million (market value) at the end of 1962 (line 5).

(*c*) *Other foreign bonds.*—The estimate for private U.S. investments in foreign bonds, other than those originally offered in the United States, is based on a benchmark obtained by the U.S. Treasury census of foreign assets taken in 1943. This estimate has been brought forward on the basis of data on transactions in foreign bonds between U.S. and foreign residents as reported on Treasury Foreign Exchange Form S–1 (see annex). These reports show transactions at the value at which they take place, and are classified only by country of residence of the non-U.S. party to the transaction; information regarding the nationality of the issuer of the securities involved is not obtained. The basic data reported on form S–1 include new issues and redemptions; adjustment is made to remove such transactions, to the extent they are deemed to involve dollar bonds, from the data before applying the residual to the benchmark estimates. The results are further adjusted, in an extremely rough manner, by reference to indexes of bond prices in those countries, mainly Canada and certain Western European countries, whose securities comprised the major part of U.S. holdings in 1943.

In some years, Canadian data on transactions in foreign securities between the United States and Canada were substituted for the U.S. figures, since the Canadian figures seemed to be more complete. However, no effort has been made to adjust the data for changes in ownership due to migration of individuals, nor to allow for transactions which might have been undertaken by Americans directly with foreign brokers without using the intermediary of a U.S. broker (except to the extent that such transactions accounted for the difference between the United States and Canadian figures in the years in which Canadian data were used).

It is evident from the foregoing that the existing estimates of U.S. private holdings of foreign bonds and other long-term debt (excluding amounts reported on Treasury Exchange Forms B–2 and C–1/2, to be described presently) rest on extremely shaky foundations.

Moreover, the sector distribution of such holdings is not known, although presumably some scattered data could be obtained from published holdings of insurance companies, mutual and pension funds, and the like.

The working group believes that the only feasible way of getting reasonably reliable estimates for such holdings would be the household and balance sheet surveys already described.

(*d*) *Nonmarketable foreign debt* (*other than privately placed dollar bonds*).—As already indicated, the Treasury Foreign Exchange Forms B–2 (for banking institutions) and C–1/2 (for reporters other than banks) request information not only on short-term claims but on claims with original maturities of more than 1 year. Treasury Foreign Exchange Form B–3, described in the annex, requires monthly reports on long-term claims on foreigners from all institutions holding such claims in excess of an average of $500,000 over a 6-month period. Form B–3 was recently inaugurated by the Treasury in order to provide a more detailed breakdown on the types of claims included in this category; formerly all long-term claims were reported only in a single column on form B–2. Also, the C–1/2 form, already described, requires a report of claims on foreigners with an original maturity of more than 1 year, although without any breakdown by type of claim. Long-term claims reported on form B–2 at the end of 1962 amounted to $2.2 billion; on C–1/2 to $769 million. These amounts are shown in lines 8 and 9 of the table. It is unlikely that households possess any large amounts of nonmarketable claims; those held by other private entities would be reported on the balance sheet survey.

Some of the problems involved in evaluating U.S. Government long-term claims on foreigners have already been discussed. The Commerce Department assembles and publishes data on such credits and investments in a bulletin entitled, "Foreign Grants and Credits by the U.S. Government." While this report does not distinguish between claims payable in dollars and claims payable in foreign currencies, presumably the basic data are available and any adjustments that might be considered desirable could be made. The data are presented by the Commerce Department in terms of U.S. dollars at face value of the claims. With respect to foreign currency proceeds of surplus agricultural sales and similar transactions, the long-term account includes only the equivalent of the currencies that have actually been loaned to the foreign governments for development purposes; any currencies not yet disbursed for that purpose, but held as liquid cash balances by the U.S. Government, are included in short-term assets. As already indicated, the working group recommends that most of these foreign currency assets not be included in the national wealth estimates. The long-term claims also include the paid-up subscriptions of the United States in international development-lending institutions; however, the net position in the International Monetary Fund, as already indicated, is included among short-term claims.

The working group recommends that loans as well as other investments in foreign countries be allocated to the sector of the economy actually holding the claim, whether or not such loans or investments are guaranteed by the U.S. Government or an agency thereof. This is, in effect, the way commercial bank participation and Export-Import Bank credits are presently being handled; they are reportable on Treasury Foreign Exchange Form B–2 by the bank providing the funds (or on form C–1/2 if the institution providing the funds is not a bank). Direct investments have also been made with guarantees provided by the Agency for International Development. The nature of the guarantees and the extent of the risk covered may vary from case to case. (The working group presumes that similar principles are followed in classifying domestic claims according to sector of ownership.)

6. Direct investments

Estimates of the value of the U.S. direct investments abroad, owned mainly by business firms but also by households, are based on a benchmark survey taken as of 1957, the latest in a series of such surveys taken by the Department of Commerce. The census was compulsory and there is no reason to believe that the coverage was not substantially complete. The data are brought up to date annually using information on transactions with, and earnings reinvested by, foreign branches and subsidiaries obtained on a compulsory basis from a sample of American companies covering approximately 90 percent of the total amount of the investment involved. Allowance is also made for new direct investment abroad by companies not included in the Commerce Department's sample, to the extent information regarding such investment comes to the Department's attention. The sample includes all companies with foreign direct investments valued at over $2 million, and companies are added to the sample as they reach that level. The value of such investments at the end of 1962 was $37.1 billion (line 4).

Direct investments, as already indicated, are shown at book value; that is, book value of the American interest in the company as reflected on the books of the foreign enterprise. For the purpose of converting this value to U.S. dollar equivalent, the value of fixed assets and related depreciation reserves is, generally speaking, converted at the exchange rate prevailing at the time the assets were acquired. The value of financial assets and liabilities and inventories is ordinarily converted into U.S. dollars at the rate of exchange prevailing at the time of conversion.

The treatment of subsidiaries and branches is essentially similar. The method followed by the Department of Commerce amounts to taking the total assets of the foreign enterprise (excluding any claims on the home office or the parent company) and deducting therefrom all liabilities due to outsiders as well as any outside equity in the stock (including surplus) or other securities of the company.[15] The resulting figure represents the net equity of the home office of the enterprise.

It is also customary to include in direct investments all interests of American investors in the securities of such enterprises. These holdings could, of course, be included in miscellaneous portfolio securities; if such a procedure were followed they would be included in the Commerce Department estimates at market rather than book values. However, the differences in value would undoubtedly be relatively small and the working group sees no reason for recommending

[15] Since balance sheet data supplied on U.S. income tax returns form 1120 are frequently used for statistical purposes, attention should be directed to the fact that such balance sheets, in probably all cases, include the foreign assets and liabilities of foreign branches of U.S. companies. It is particularly important, therefore, that if Internal Revenue balance sheet data are used for national wealth estimates, the assets and liabilities pertaining to foreign branch operations included in these figures be eliminated. The most recent censuses of foreign direct investments taken by the U.S. Department of Commerce have included a request for a balance sheet of each foreign enterprise. Although in many cases probably not strictly comparable to the balance sheet data on form 1120, they could be used, if necessary to make the necessary adjustments to the income tax data.

The amounts involved are not negligible. Several very large foreign enterprises in the petroleum industry are U.S. incorporated concerns. Moreover, in many cases a U.S. company will form a separately incorporated U.S. subsidiary to operate in one or more foreign companies. The Western Hemisphere corporation provision of the income tax laws, by providing a reduced rate of tax for those companies whose income is from sources without the United States but within the Western Hemisphere, encourages this practice.

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a change in the Commerce Department procedure. The sector of ownership of these miscellaneous public holdings is not known.

The working group has recommended that a census of foreign assets of households be undertaken, but it believes that the detail requested should be limited to types of assets and country of location. This would not permit the segregation of those miscellaneous security holdings which, according to definitions now employed, would be considered direct investments. We do not believe that this refinement would justify the much greater effort and cost involved.

As already indicated, the working group also recommends, for the census year, that data be collected to permit the calculation of direct investments adjusted to reflect the depreciated replacement cost of the underlying fixed assets.

The forms used in the census of direct investments in 1957 as well as those used in the annual surveys are described in the annex.

7. Other equities

This item includes corporate stocks, other than direct investments, and a miscellaneous collection of other investments of an equity or quasi-equity character, most of which were uncovered in the Treasury census of 1943.

With respect to U.S. holdings of foreign stocks, the remarks made above with respect to portfolio holdings of foreign bonds apply. The only benchmark data available are those of the Treasury census of 1943. Adjustments to bring this figure up-to-date are based on transactions with foreigners in foreign stocks as reported on the Treasury Foreign Exchange Form S-1. Adjustment has also been made for changes in market values of securities, but this obviously has to be done on an extremely rough basis since the reporting form does not disclose the nationality of the security but only the residence of the foreign partner to the transaction.

In view of the fact that the reporting system does not cover transactions made directly abroad by individuals without going through a U.S. broker and in view of the difficulty in adjusting to current market values, it is evident that the present estimates at best can be considered only a very gross approximation. Here again, the only feasible way of obtaining reasonably accurate data on household assets would be a new census using one of the procedures already described; assets of the rest of the private sector would be covered by the balance sheet survey.

8. Real assets

The term "real assets" refers in this connection only to the properties of households and governments; real assets of business firms can best be considered as branches and treated in the manner already described in the section on direct investments.

Two types of real assets owned by households must be considered. The first is consumer durables owned by persons temporarily residing abroad but who are considered domestic residents for national wealth purposes. These could be considered either as domestic real assets, or as part of net foreign assets. The working group suggests the latter treatment. In all probability the estimates of the value of consumer durables will be made on the basis of household samples, taken either in connection with the population census or under some other circumstances. In any event, there is no reason to believe that the average holdings of household goods of families residing abroad would vary significantly from the national average of families living in rented quarters.

The second category is residential real estate owned by residents of the United States, including residents temporarily stationed abroad. Again, the only feasible way to obtain information on such holdings would be to take a census. In order to be consistent with the direct investment estimates, the value should be either the cost to the present owner with some reasonable allowance for depreciation, or preferably, estimated current value. In either case, any mortgage debt outstanding should be deducted from the value thus calculated.

The working group recommends a similar treatment for Government real assets. We understand, from the report of the Government Assets Working Group, that reasonably complete and accurate data on oversea real property holdings of the U.S. Government exist. We believe that the same principles of valuation should be applied to such assets as are applied to similar assets located in the United States; it is likely, however, that such values are well in excess of any conceivable amount that might be obtained for the assets if they were resold to foreigners.

Government-owned movable property located abroad should, in the view of the working group, be considered as a "domestic" asset, especially military property, much of which is frequently moved from one location to another. Movable property of civilian agencies might well be handled in a similar manner, especially if the most convenient sources of data fail to disclose geographic location.

FOREIGN INVESTMENTS IN THE UNITED STATES

The treatment of foreign investments as "claims" on the United States raises certain technical problems which do not exist with respect to U.S. assets abroad. As to the latter, the investigator can be reasonably arbitrary both with respect to the sector which owns the assets and the value placed on them. He may make errors, of course, but since these figures do not, at least in principle, have to be integrated with any of the other accounts included in the national wealth statement, there can be no question of duplication. Nor will errors in other items result because an item estimated directly (in this case the foreign investments) is deducted from some other figure to arrive at a residual.

On the other hand, foreign claims on the United States constitute a part of the overall matrix of claims and liabilities overlying domestic tangible assets; it is necessary to insure, for instance, that total holdings of stock of American corporations, including foreign holdings, add up to the estimate of total corporate stock outstanding. And if, for instance, it were necessary to estimate consumer holdings of corporate stock as a residual, obviously the accuracy of that estimate would depend on the accuracy of the estimate of foreign holdings.

For purposes of measuring net international claims, the recommended method of valuation would be that which most nearly approximates market value. However, as already mentioned, the use of market value may result in the apparent anomaly of "deducting" a larger amount from the domestic real wealth than was included in the first place. This would result, for instance, when the market value of an equity security held by a foreigner exceeds the value of the underlying real assets, even after adjusting the latter to the basis being recommended for national wealth estimates. But, as already indicated this anomaly is only apparent.

It is of some interest, perhaps, that a somewhat similar conceptual problem occurs in national income accounting. Interest on public debt securities, for instance, is ordinarily considered to be a transfer payment in the national income estimates. However, when such interest is paid to foreign holders of the securities, it seems logical not to treat it as a transfer payment, since foreigners have had to surrender real resources to acquire the security, but as an ordinary payment of investment income. This results also in "deducting" from national income an amount which was never "included" in national income in the first place.

Our apparent anomaly, of course, does not apply to domestic claims on foreign countries, since whatever value is placed on them for national wealth accounting purposes is then added to domestic real assets to arrive at total national wealth.

1. Gold

Not applicable.

2. Currency

The Commerce Department includes in its estimates a figure for foreign holding of U.S. currency. At the end of 1962, this amounted to $0.9 billion. U.S. banks, including Federal Reserve banks, report regularly on foreign shipments and receipts of U.S. currency. However, it is obvious that extremely large amounts must also be carried into and out of the country in the pockets of travelers—both Americans and foreigners—and thus that it is completely impossible to make a reliable estimate of the net movement based on banking transactions. Presumably, even if the incentive to hoard U.S. currency is far less now than it was a few years ago, there must at any time be very large amounts on hand abroad, in banks, in exchange houses, in shop tills, etc. The working group sees no feasible way of coming up with an even reasonably reliable estimate for this item; probably the best thing to do would be to leave it out of the accounts entirely, with a footnote to that effect. It is understood that the Commerce Department is not planning, for the present at least, to change the above mentioned estimate, which has been held constant since 1959.

3. Deposits at banks

The Treasury Department's Foreign Exchange Form B–1, as revised in May 1963, provides for the first time a detailed breakdown of deposits of foreigners in U.S. banks and banking institutions, payable in U.S. dollars, according to demand and time deposits, and according to whether the holders are foreign official institutions, foreign banks, or other foreigners (individuals, partnerships, and corporations). The data are collected monthly and, except for presumably minor amounts not reported because of a minimum reporting requirement, are probably quite complete. The form is described in the annex. Negotiable time certificates of deposit are not included here, but in "money market instruments."

The institutions reporting on Foreign Exchange Form B-1 include firms which are not "banks" within the general meaning of that term as it is customarily used in U.S. financial statistics; for instance, the data on money supply include the demand deposits liabilities of commercial banks only. The working group recommends, therefore, that as part of the national wealth estimates, deposits owned by foreigners be limited to deposits in "banks"; other items reported as deposits on foreign exchange forms B-1 would be included in "other short-term claims"; it is believed that a substantial part of the amount which would be thus excluded consists of current accounts between U.S. branches and agencies of foreign banks and their home offices, and accounts due by U.S. banks to their foreign branches.

The balance sheet proposed for financial institutions by the Working Group on Claims provides for far more detail than Treasury Exchange Form B-1, and would also serve as a check against the reporting on the latter form.

The total amount reported as deposits on December 31, 1962, was \$10.6 billion,[16] and is included in line 31 of the table including deposits at Federal Reserve banks, which amounted to \$247 million.

4. Other short-term claims

(*a*) Money market instruments. We define money market instruments to include publicly offered debt instruments with original maturities of 1 year or less. In the U.S. market, these consist mainly of U.S. Treasury securities, short-term paper issued by commercial and industrial concerns (finance paper), negotiable time certificates of deposit, and bankers' acceptances. Available information on foreign holdings of such paper comes almost solely from the Treasury's Foreign Exchange Form B-1 and, therefore, covers only paper held in custody accounts by reporting institutions. Moreover, while there are separate columns for short-term U.S. Government securities, with the three-way breakdown according to class of foreign holder already described in the case of deposits, foreign holdings of finance paper and bankers' acceptances are included in a column headed "other short-term liabilities" and, therefore cannot be separately identified. It may be noted, however, that a very substantial amount of foreign holdings of this type of paper is represented by accounts for foreign monetary authorities and international institutions at the Federal Reserve Bank of New York. These holdings consist only of U.S. Government securities and bankers' acceptances; the total amounts held for foreign monetary authorities are published regularly in Federal Reserve statements.

A problem arises with respect to the classification of certain nonmarketable U.S. Government securities denominated in foreign currencies and issued to foreign official institutions. While most of these securities have original maturities of more than 1 year, practically all of them are convertible into cash on relatively short notice. Although the securities are not marketable, they are obviously freely available in time of need to cover balance-of-payments deficits of their holders, and thus have been included by the Commerce Department in

[16] Treasury Bulletin, February 1963, p. 95.

the category of "liquid" liabilities, except in those few cases where they have not contained the cash convertibility feature. It is suggested that, in any statement of national wealth, these securities be classified with other short-term government securities maturing in less than 1 year as "money market instruments", although they might also with some justification be included in the next category "other short-term liabilities." [17]

Excluding the latter, total foreign holdings of U.S. Government short-term securities amounted to $9.4 billion, lines 38 and 39 of the table. Not included are non-interest-bearing, nonnegotiable U.S. Government obligations issued to the International Monetary Fund (although these are included on form B–1). The U.S. Government "investment" in the IMF represented by these notes is also excluded from the asset side of the international balance sheet.

The statistics on foreign holdings of short-term securities of all kinds do not include foreign-owned securities not held in custody accounts with domestic reporting institutions. The reporting requirements include a question regarding actual shipments and receipts of short-term U.S. Government securities between the United States and foreign countries, but the amounts reported under this requirement are completely negligible. In view of the short-term nature of these securities it seems likely that in most cases foreigners would hold them in custody accounts with domestic financial institutions; in any event, the working group sees no feasible way of collecting data on any other foreign holdings that might exist.

(*b*) *Other short-term liabilities.*—This category includes a variety of liabilities, the data on which are gathered from different sources. The following paragraphs indicate the main items for which data are presently available.

(1) All short-term liabilities reported on Treasury form B–1, other than deposits at "banks" and money market instruments, would be included in this category. This includes data reported in the columns headed "Other short-term liabilities" on the form as well as all liabilities payable in foreign currencies; the form requires no separation of the latter by type of liability. In addition, of course, all liabilities of institutions reporting on Foreign Exchange Form B–1 which are not "banks" would be included in this category. Presumably, all nonbanking firms reporting on this form fall in the category of other financial corporations. However, it is believed that some small amounts of special deposits with the U.S. Treasury Department are also included on this form; if so, they should, of course, be segregated and shown as a U.S. Government liability.

The total amount of nondeposit liabilities reported on form B–1 as of December 31, 1962, which would be included in this category, amounted to $2 billion (included in line 31). How much of the deposit liabilities should be included here because they are not deposits at "banks" could only be determined by a special tabulation of the B–1 forms.

(2) Short-term liabilities to foreigners reported on the Treasury Department's Foreign Exchange Form C–1/2 are also in-

[17] As of Dec. 31, 1962, there were $251 million of these special issues outstanding, none of which contained the cash convertibility feature (line 36).

cluded in this category. As already indicated the firms reporting on this form include both nonfinancial businesses and financial corporations; it would be necessary to make this separation in order to provide the desirable classification of liabilities by sectors. The total reported as of December 31, 1962, was $0.6 billion (line 32).[18]

(3) Credit balances in foreign accounts as shown on the books of U.S. brokers and security dealers and reported on Foreign Exchange Form S-4 are also included in this category. Presumably, all of the reporting institutions would fall in the category of "other financial corporations." The amount outstanding on December 31, 1962, was $0.1 billion.[19]

(4) Advance payments to the U.S. Government on foreign military contracts. While part of such funds is actually invested in marketable U.S. Treasury securities, the relevant agreements with the foreign governments provide that the money can be used only to make payments on military contracts. For this reason, the movements in such figures have been included in changes in "nonliquid" U.S. Government liabilities in the balance-of-payments statistics, serving, when they rise, to reduce the deficit in the U.S. balance of payments rather than to finance it. They are, however, classified as short term in the Commerce Department's international investment table. It seems appropriate, therefore, in the national wealth estimate to treat the total amount in these accounts in the "other short-term claims" category rather than as money market instruments. In the table, these balances are included in line 41.

5. Long-term debt

Foreign investments in long-term debt obligations of private and governmental American entities are, in principle, carried in the Department of Commerce data at market value, as recommended in this report. These investments are included in the attached table in three categories—line 24, corporate, State, and municipal bonds; line 35, long-term marketable U.S. issues; and line 28, other private long-term investments.

(*a*) *Corporate, State, and municipal bonds.*—The present estimates of foreign holdings of corporate bonds are based on a benchmark study of withholding tax data covering the year 1950, carried forward with data on transactions as reported on the Treasury Department Foreign Exchange Form S-1 (see annex). The data for the benchmark year can be considered relatively complete for those issues the interest on which was subject to tax when paid to foreigners. However, issues on which no interest was paid during that year and all State and municipal issues, the interest on which is not subject to Federal income tax, were, of course, omitted. Moreover, the adjustment of benchmark figures by the use of the S-1 form data over such a long period of time is fraught with possibilities of error, particularly in view of the fact that direct transactions of American residents with foreign brokers are not covered in the data.

[18] Treasury Bulletin, May 1963, p. 90.
[19] Treasury Bulletin, March 1963, p. 88.

The working group strongly recommends that a new benchmark survey, based on the withholding tax records, be made at the earliest possible date. It appears that the use of these records would also be the most feasible method of collecting data on foreign holdings of U.S. corporate bonds in connection with a general national wealth census.

While the Department of Commerce apparently did not classify the benchmark data according to the industry or economic sector of the obligor, such a classification would be possible in any future similar investigations since the data would be available on an issue-by-issue basis.

The absence of any data whatever regarding foreign holdings of State and municipal issues is noted by the working group, and it recommends that steps be taken to remedy this defect in connection with a national wealth census. To the extent that such issues are held in registered form, a survey of the paying agents could be made to determine to what extent interest is paid to foreigners. A survey might also be made of domestic banks, brokers, etc., requesting information on State and municipal long-term securities held in custody accounts for foreign clients. There would remain the problem of coupon issues held directly abroad, the coupons from which are ordinarily presented through commercial banking channels for payment. In such a case, ownership certificates might be required, although some legal, if not constitutional, problems might arise.

(*b*) *U.S. Government bonds.*—Foreign holdings of marketable U.S. Government issues are estimated on the basis of benchmarks of custody holdings with American financial institutions, recently taken at intervals of 3 to 5 years. These data are kept up to date on the basis of information on transactions reported on Foreign Exchange Form S-1; on this report (see annex), transactions in U.S. bonds and notes are shown separately. Recently, a supplemental report, Foreign Exchange Form S-2, has been inaugurated to secure separately information on transactions in U.S. Government securities by "foreign official institutions," information which is desirable for purposes of balance of payments. In view of the relatively stable market for such securities, at least in the short run, the distinction between maturities of over 1 year and those of less than 1 year is less important than in the case of private securities, especially when the securities are held by official monetary institutions. The total amount held at the end of 1962 was $2.1 billion (line 35).

Again, it may be noted that the estimates exclude securities held directly abroad by the owners rather than in custody accounts with domestic institutions. However, the data obtained in the periodic benchmark surveys are remarkably consistent with the transactions data obtained from the S-1 form; from this, it seems reasonable to assume that most foreign holdings of these issues are in custody accounts. That the same is not true of foreign holdings of corporate securities is indicated by the fact that a large number of the ownership certificates filed with the Internal Revenue Service in connection with coupons on corporate bonds give evidence that they were, in fact, executed abroad.

(*c*) *Other long-term debt.*—The only two items in this category for which data are collected on a current basis are long-term liabilities to foreigners of banking institutions, now reported on Foreign Exchange Form B–3, and liabilities with an original maturity of more than 1 year reported by nonbanking institutions on Foreign Exchange Form C–1/2. These two items together amounted to $165 million at the end of 1962 (lines 26 and 27).

Other long-term private debt (line 28) consists of a miscellaneous collection of liabilities to foreigners reported in the Treasury census of foreign assets in the United States, TFR 300, as of 1941. Almost no information has been available that could be used for the purposes of bringing these figures up to date, and it may well be questioned, therefore, whether there is any value in continuing to include them in the estimates. The item includes such things as foreign equities in trusts and estates, the present value of future annuities due to foreigners, miscellaneous debts and claims (most of which, however, would presumably be reportable on Foreign Exchange Forms B–3 or C–1/2), and real estate mortgages.

Obviously, all debt due to foreigners, except nonregistered marketable securities, must be known to the American debtor and, as such, could be reported in any census of foreign liabilities that might be taken, such as the balance sheet survey already discussed. In the absence of such a census, some information could be obtained from the withholding tax returns, since interest paid on private debts is for the most part subject to withholding tax. However, the rate of interest is not usually known; therefore this source would be useful primarily for the purpose of compiling a mailing list for any census of foreign liabilities that might be undertaken.

6. Direct investments

The Department of Commerce conducted a census of foreign direct investment in the United States as of 1959.[20] In general, the coverage of this census and the methods of valuation employed were substantially similar to those used in censuses of U.S. direct investments abroad, already described. The data are presented with sufficient industry breakdown to facilitate the sector classifications recommended in this report. The book value of the foreign investment is also broken down between liabilities and net worth; the former separated between long- and short-term and the net worth shown as to common stock, surplus, preferred stock, and net home office accounts of branches. These figures are brought up to date each year by the Department of Commerce on the basis of quarterly and annual surveys of the companies concerned. The adjustments reflect not only capital movements between the American enterprise and its foreign affiliates, but reinvested profits and other adjustments to surplus. The value in 1962 was $7.6 billion (line 22).

It is evident from what has just been said that the value placed on these investments in the Commerce Department figures is equivalent to book value as that term is ordinarily understood. If, in national wealth estimates, the underlying assets are revalued to a depreciated replacement cost basis, and if the data are available on a company-by-company basis, it would be relatively easy to adjust the estimated book value of foreign direct investments accordingly. Alternatively, if overall ratios are developed between book values and book values thus

[20] U.S. Department of Commerce, "Foreign Business Investments in the United States," a supplement to the "Survey of Current Business," Washington, D.C., 1962.

adjusted, these ratios could be applied to the foreign direct investments in the United States.

It may also be worth noting that the net home office accounts of foreign branches constitute a special kind of liability in that there are no outstanding securities issued by such branches. In any statistical inquiries based on balance sheet data provided with corporate income tax return form 1120, special care should be taken to insure that the balance sheets filed by U.S. branches of foreign corporations reflect only U.S. assets and liabilities of such corporations, and not their total worldwide business.

7. Other equities

Foreign holdings of corporate stocks were estimated for the year 1950 on the basis of an anlysis of withholding tax returns. They have been brought up to date using transactions in outstanding corporate stocks between U.S. and foreign residents as reported on Treasury Foreign Exchange Form S–1, and adjusted for changes in market value using the Standard & Poors index of stock prices. Aside from the reservations already expressed with respect to the accuracy of the transactions data, the following weaknesses in the estimates should be mentioned.

(1) Although an allowance was made for foreign holdings of stocks on which no dividends were paid in the benchmark year, by its very nature such an allowance had to be relatively arbitrary. It would have been better to have made a separate inquiry to all non-dividend-paying corporations, at least those whose stocks are publicly held, asking them for information regarding foreign ownership of their shares. However, to have been complete, such an inquiry would also have had to be addressed to all brokers and other dealers holding stocks in "street" names.

(2) Since the transactions data do not provide information regarding transactions in individual issues, it is not possible to make adjustments for changes in market values on an issue-by-issue basis; nor is it possible to adjust foreign holdings on an issue-by-issue basis. Thus, it is not possible to classify current holdings by industry or economic sector.

(3) A (probably minor) source of error results from the holdings of American citizens permanently residing abroad. The holdings of such persons should be included as foreign investments in United States, but dividends thereon are not subject to tax withholding. However, it is understood that the Commerce Department figure includes an arbitrary estimate of $250 million for such holdings.

Foreign portfolio holdings of corporate stocks, line 23 in the Commerce Department table, amounted to over $10 billion in 1962, half of total foreign long-term investments in United States. It is obvious that a reasonably accurate estimate of such holdings is essential for any acceptable estimate of the national wealth of the United States. It would also be desirable to have this information in sufficient detail so as to enable calculations to be made both on a market-value and a book-value basis, and by country of ownership.

A reasonably accurate estimate could be obtained at any time merely by repeating the analysis of the withholding tax returns. However, the following additional information would be needed:

(1) Holdings of stock on which no dividends were paid in the census year. The balance sheet survey already mentioned would disclose these, if registered as foreign on the books of the issuing corporation. However, brokers and other nominees would also have to file reports on foreign holdings of such issues.

(2) Holdings of U.S. citizens permanently residing abroad, whose income is not subject to tax withholding. Dividends paid to such persons are reported to the Internal Revenue Service on an information return, form 1099; it may be possible to employ these, if they can be centralized at one point in the Service. The balance sheet survey would also include such holdings; but unless the forms 1099 can be used, it would be necessary to make direct inquiries to brokers and other nominees.

The withholding tax returns, information returns, and direct surveys all would have the advantage of providing data by country of ownership; the balance sheet survey could not feasibly be used to obtain this detail. In summary, the working group recommends that the balance sheet and withholding tax data be relied upon except for *nominee* holdings of (1) non-dividend-paying issues and (2) shares belonging to U.S. citizens residing abroad (unless these, too, can be obtained from forms 1099). Separate reports on these two categories would have to be requested.

8. Real assets

Depending on the method used for estimating U.S. residents' holdings of consumer durables, it may be necessary to make an estimate of such assets held by persons living in the United States who would not be considered residents for national wealth purposes. However, the amounts involved must be extremely small and this adjustment could undoubtedly be omitted without any serious detriment to the figures.

Real estate located in the United States but owned by nonresidents, if held primarily as a commercial investment, could well be considered as a "branch" and included in direct investments.[21]

Residential real estate owned by foreigners and held primarily for their own personal use, although it may be available for rental from time to time, has not been included in the estimates of foreign direct investments in the United States prepared by the Department of Commerce nor in any other category in the international investment data. For the sake of completeness, it would appear that such real estate ought to be included in the figures; nevertheless, the amount involved is undoubtedly small, and it may not be worth the trouble of securing data.

The final category of foreign-owned real estate consists of buildings, primarily embassies and embassy residences, but including the U.N. Building and buildings owned by the International Bank and the International Monetary Fund. As far as the working group is aware, no effort has been made to include the value of such buildings

[21] Probably the bulk of foreign-owned commercial real estate is held through domestic corporations and is, therefore, ipso facto included in direct investment.

as a foreign investment in the United States; however, it should not be very difficult to obtain information regarding these assets, together with their approximate current value. The tax records of the District of Columbia could be a source of information, since embassy properties are not subject to property tax in the District and, presumably, some information regarding value is provided when exemption is claimed.

Annex

REPORTING FORMS PRESENTLY IN USE

There follows a list of the foreign exchange forms filed, on a compulsory basis, with the U.S. Treasury Department. In each case, an extensive breakdown by individual countries is obtained. The data are published regularly in the Treasury and Federal Reserve Bulletins. Some of these forms have been inaugurated or revised since December 31, 1962.

Form B-1—Short-Term Liabilities to Foreigners (monthly)

A. Who must report: All banks in the United States, including the branches, agencies, subsidiaries and other affiliates of foreign banks, whose total short-term liabilities to foreigners average $500,000 or more in a 6-month period. Exemption may be applied to each branch of a reporting institution. Brokers also report if they hold in custody reportable liabilities (e.g., Treasury bills) for the account of foreigners.

B. Items reported:

1. Short-term liabilities payable in dollars (under separate headings of liabilities to foreign official institutions, to foreign banks, and to all other foreigners):
   - (a) Demand deposits.
   - (b) Time deposits (excluding negotiable time certificates of deposit issued to foreigners).
   - (c) Short-term U.S. Government obligations: Principally Treasury bills and certificates; also includes short-term obligations of corporations and other agencies of the U.S. Government which are guaranteed by the United States.
   - (d) Other short-term dollar liabilities: Including but not limited to the following:
     - (1) Acceptances of domestic banks held in custody for foreign customers.
     - (2) Negotiable time certificates of deposit held in custody for foreigners.
     - (3) Commercial paper.
     - (4) Bills collectible from U.S. residents.
     - (5) Short-term obligations of States and municipalities, and of U.S. Government agencies which are not guaranteed by the United States.
     - (6) Participations granted to foreigners in loans made to domestic customers.
2. Short-term liabilities payable in foreign currencies (not broken down by type of foreign owner), including but not limited to the following:
   - (a) Deposits held for foreigners.
   - (b) Loans, advances or overdrafts actually granted by foreign banks.
   - (c) Acceptances created for the reporter.

Form B-2—Short-Term Claims on Foreigners (monthly)

A. Who must report: Requirement similar to that for form B-1.
B. Items reported:
  1. Short-term dollar claims:
    (*a*) Loans (including overdrafts, and participations in loans of Eximbank and international lending institutions) to—
      (1) Foreign official institutions.
      (2) Foreign banks.
      (3) Other foreigners (business and individuals).
    (*b*) Collections outstanding for bank's own account and for account of domestic customers.
    (*c*) Liability to the reporter on acceptances made for account of foreigners (but excluding acceptances made by other banks even if held by reporting bank).
    (*d*) Other short-term dollar claims, including but not limited to—
      (1) Dollar demand and time deposits, including negotiable and nonnegotiable time certificates of deposit, held with foreign banks for own and domestic customers' accounts.
      (2) Commercial paper, finance paper, and promissory and other notes.
  2. Short-term foreign currency claims:
    (*a*) Deposits: Demand deposits and time deposits including negotiable and nonnegotiable time certificates of deposit, held with foreign banks for own and domestic customers' accounts.
    (*b*) Foreign government obligations and commercial and finance paper.
    (*c*) Other short-term foreign-currency claims, including but not limited to—
      (1) Loans outstanding.
      (2) Collections outstanding.

Form B-3—Long-Term Liabilities to, and Claims on, Foreigners (monthly)

A. Who must report: Requirement similar to that for form B-1; exemption applicable sparately to long-term liabilities and long-term claims.
B. Items reported:
  1. Long-term liabilities (total only; no dollar—foreign currency breakdown or breakdown by type), including but not limited to—
    (*a*) Participations granted to foreigners in long-term loans made to domestic customers.
    (*b*) Commercial paper.
  Long term securities held in custody are excluded.
  2. Long-term claims:
    (*a*) Payable in dollars.
      (1) Loans (including participations in loans of Eximbank and international lending institutions) to—
        (*a*) Foreign official institutions.
        (*b*) Foreign banks.
        (*c*) Other foreigners (businesses and individuals.
      (2) All other long-term dollar claims, excluding long-term securities.
    (*b*) Payable in foreign currencies, including but not limited to loans.

Form S-1—Purchases and Sales of Long-Term Securities by Foreigners (monthly)

A. Who must report: All persons in the United States who engage in transactions in long-term securities with foreigners, if the average of such transactions for a 6-month period is $100,000 or more. In practice, reports are filed by banks, bankers, securities brokers and dealers, and other business concerns (such as insurance companies, mutual funds, etc.).

B. Items reported: Purchases by foreigners, and sales by foreigners of the following types of long-term securities:

1. Domestic securities:
   - (*a*) U.S. Government bonds and notes including securities issued by corporations and other agencies of the U.S. Government which are guaranteed by the United States).
   - (*b*) Corporate and others (issues of corporations, of States and other political subdivisions in the United States, and of corporations and other agencies of the U.S. Government which are not guaranteed by the United States).
     - (1) Bonds.
     - (2) Stocks.
2. Foreign securities (securities of foreign central governments and political subdivisions, of corporations or similar organizations chartered in foreign countries, and of international and regional organizations, even if securities are payable in U.S. dollars):
   - (1) Bonds.
   - (2) Stocks.

Form S-2—Purchases and Sales of U.S. Government Bonds and Notes by Foreign Official Institutions (monthly)

A. Who must report: All reporters on form S-1 who engage in transactions in U.S. Government bonds and notes with, or for the account of, foreign official institutions.

B. Items reported: Purchases and sales of U.S. Government bonds and notes by foreign official institutions.

Form S-4—Foreign Debit and Credit Balances (semiannual)

A. Who must report: All brokers and dealers in the United States who have debit or credit balances for account of, or with, foreigners, of $100,000 or more on two successive reporting dates.

B. Items reported:

1. Liabilities:
   - (*a*) Credit balances in accounts of foreigners with the reporter.
   - (*b*) Credit balances (as appearing on reporter's books) in accounts of reporter carried by foreigners.
2. Assets:
   - (*a*) Debit balances in accounts of foreigners with the reporter.
   - (*b*) Debit balances (as appearing on reporter's books) in accounts of reporter carried by foreigners.

Form C–1/2—Liabilities to, and Claims on, Foreigners (quarterly)

A. Who must report: All exporters, importers, industrial and commercial concerns, and other nonbanking institutions in the United States, whose liabilities to, or claims on, foreigners average $100,000 or more for two succeeding quarters. The exemption is applicable separately to liabilities and to claims.
B. Items reported:
  1. Liabilities:
    (*a*) Short-term, payable in dollars, including but not limited to the following:
      (1) Accounts, notes, bills, and drafts payable to foreigners.
      (2) Loans and advances outstanding from foreigners.
      (3) Advance payments from foreign customers for future shipment of goods.
    (*b*) Short-term, payable in foreign currencies:
      (1) Same types as those payable in dollars.
      (2) Acceptances made directly for reporter's account by foreigners.
    (*c*) Long-term—total only; no dollar-foreign currency breakdown. Same types as short term, where applicable.
  2. Claims:
    (*a*) Short-term, payable in dollars, including but not limited to the following:
      (1) Accounts, notes, bills, and drafts receivable from foreigners.
      (2) Advance payments to foreigners for future shipments of goods.
      (3) Dollar deposits held abroad in reporters' own name.
      (4) Participations in loans of international lending institutions.
      (5) Acceptance made by the reporter for foreigners.
    (*b*) Short-term, payable in foreign currencies:
      (1) Deposits: Demand and time deposits held abroad in reporter's own name.
      (2) Other, including but not limited to the following:
        (*a*) Accounts, notes, bills, and drafts receivable from foreigners.
        (*b*) Bills purchased from others, if drawn on foreigners.
        (*c*) Advance payments made in foreign currencies.
        (*d*) Investments in short-term foreign government obligations and in other short-term foreign securities.
    (*c*) Long-term—total only; no dollar-foreign currency breakdown—including but not limited to the following:
      (1) Loans and advances.
      (2) Participations in loans of international lending institutions.
C. Exclusions: Form C–1/2 specifically excludes the following:
  1. Liabilities and claims held through banks in the United States (presumably reported on forms B–1 and B–2).
  2. Liabilities to, and claims on, reporter's own allied organizations (covered by Commerce Department direct investment reports).
  3. Long-term securities (transactions covered by form S–1).
  4. Unutilized credits.
  5. Contingent liabilities and contingent claims.

Supplement to Form C-1/2—Short-Term Claims on Foreigners (monthly)

A. Who must report: All reporters on form C–1/2 who report on that form total short-term claims on foreigners of $5 million or more and whose claims reportable on the supplement amount to $1 million or more as of March 31 or September 30 are required to file on the supplement for each of the following 6 months (April–September; October–March).

B. Items reported:

1. Short-term claims payable in dollars:
   (*a*) Deposits:
   (1) Demand deposits.
   (2) Time deposits, including time certificates of deposit.
   (*b*) Short-term investments: Holdings of negotiable and other readily transferable commercial and financial instruments payable in dollars. Reporters are required to exclude claims not regarded as short-term investments, such as loans, accounts receivable, and acceptances made by the reporter for account of foreigners.
2. Short-term claims payable in foreign currencies:
   (*a*) Deposits:
   (1) Demand deposits.
   (2) Time deposits, including time certificates of deposit.
   (*b*) Foreign central government obligations, including obligations issued by instrumentalities of central governments or by local governments, with the guarantee of the central government.
   (*c*) Other short-term investments: Holdings as described under short-term dollar investments; includes obligations issued by instrumentalities of central governments, or by local governments, without the guarantee of the central government.

C. Memorandum columns:

1. Long-term foreign securities within 1 year of maturity, payable in dollars: Holdings of negotiable and other readily transferable foreign government or corporate bonds, notes, debentures, and similar obligations having an original maturity of more than 1 year, which will mature within 1 year of the date of the report.
2. Long-term foreign securities within 1 year of maturity, payable in foreign countries: Same as above, payable in foreign currencies.

(1 and 2 are not included in quarterly form C–1/2 but their acquisition is presumably reported on Form S–1)

3. Interest-bearing deposits and investments held through allied organizations, payable in dollars:
   (*a*) Items acquired by transfer of funds to foreign subsidiaries or branches for investment abroad at reporter's direction:
   (1) Time deposits, including time certificates of deposit.
   (2) Short-term investments, as defined above.
   (3) Holdings of long-term foreign securities within 1 year of maturity.
   (*b*) Proceeds of dividends and other receivables which reporter has directed allied organizations to invest abroad in lieu of payment to reporter.
4. Interest-bearing deposits and investments held through allied organizations, payable in foreign currencies: Same as above, payable in foreign currencies.

(Items 3 and 4 are presumably included in direct investment questionnaires of the Commerce Department)

OBE FORMS

The following forms are used by the Balance-of-Payments Division, Office of Business Economics, U.S. Department of Commerce, to collect data on U.S. direct investments abroad, and foreign direct investments in the United States.

Survey of American business investments abroad, 1957

All persons, corporations, or other economic units with "direct" investments abroad (more than a 10-percent interest in a foreign enterprise) were required to report, except that individuals with reportable assets valued at less than $25,000 were exempt. The basic form, BE–10B, was required for each foreign enterprise in which the reporter held an interest of 25 percent or more; a somewhat simpler form, BE-10C, was required for foreign enterprises in which the reporter held from 10 to 25 percent of the voting stock.

For national wealth purposes, only sections 6, 9, 14, and 15 are of interest, and these are reproduced below. As indicated in the text, this survey provided data on the U.S. equity in the foreign organization, at book value as reflected on the books of the latter. Only a very general description of the real assets was requested; there would be no possibility of using these data to adjust the value of the underlying assets to a depreciated replacement cost basis.

6. If the answer to question 5 is "foreign corporation," give information regarding ownership of the securities of the allied foreign organizations.

Ownership	Percent of voting stock owned	Nonvoting stock, bonds, debentures, and other long-term debt	
		Percent owned	Amount in currency in which payable
a. U.S. reporter			
b. U.S. affiliates: Names:			
c. Foreign affiliates: Names:			
d. Nonaffiliated U.S. interests			
e. Nonaffiliated foreign interests			
f. Total amount outstanding	100	100	

9. Balance sheets: Submit data of the allied foreign organization as of Dec. 31, 1957, and Dec. 31, 1956, or as of the close of the organization's fiscal years ending nearest these dates. Specify the dates of the reports. (Data reported in items 9 through 16 must all be as of the same dates or period covered.)

Item	Dec. 31, 1957 (or date)		Dec. 31, 1956 (or date)	
	In currency used on books of allied foreign organization (specify)	Converted to currency of parent organization (specify)	In currency used on books of allied foreign organization (specify)	Converted to currency of parent organization (specify)
ASSETS				
a. Total current assets				
b. Investments in and advances to branches, subsidiaries, and affiliates				
c. Fixed assets, at cost				
d. Less related reserves				
e. Other assets				
f. Total assets (items a–e)				
LIABILITIES				
g. Current liabilities				
h. Long-term debt				
i. Other liabilities and liability reserves				
j. Total liabilities (items g–i)				
NET WORTH				
k. Capital stock				
l. Surplus (or deficit)				
m. Surplus reserves (specify)				
n. Other [1]				
o. Total net worth (items k–n)				

[1] Show in this item home office account of branches, net proprietorship account, or partnership account.

14. Investment of parent organization in the allied foreign organization:

Item	End of year (or date)				Beginning of year (or date)			
	Percent owned	As carried on books of and in currency of parent organization (specify)	As carried on the books of the allied foreign organization		Percent owned	As carried on books of and in currency of parent organization (specify)	As carried on the books of the allied foreign organization	
			In currency regularly used on such books (specify)	Converted to currency of parent organization (specify)			In currency regularly used on such books (specify)	Converted to currency of parent organization (specify)
a. Current liabilities owed to parent								
b. Long-term debt owned to parent								
c. Common stock owned by parent								
d. Preferred stock owned by parent								
e. Parent's equity in surplus (deficit)								
1. Capital surplus								
2. Earned surplus (deficit)								
f. Parent's equity in surplus and other reserves (specify):								
g. Other (specify):[1]								
h. Total (items a–g)								

[1] Show home office account of branches, net proprietorship account, or partnership account.

15. Investment of allied foreign organization in parent company:

Item	End of year (or date)				Beginning of year (or date)			
	Percent owned	As carried on books of and in currency of parent organization (specify)	As carried on the books of the allied foreign organization: In currency regularly used on such books (specify)	As carried on the books of the allied foreign organization: Converted to currency of parent organization (specify)	Percent owned	As carried on books of and in currency of parent organization (specify)	As carried on the books of the allied foreign organization: In currency regularly used on such books (specify)	As carried on the books of the allied foreign organization: Converted to currency of parent organization (specify)
a. Stock								
b. Long-term debt								
c. Intercompany accounts, notes, and advances								
d. Other (specify)								
e. Total (items a-d)								

Survey of foreign business investments in the United States, 1959

The form used in this survey, BE-145, was substantially similar to form BE-10B, and is not reproduced here. All branches of foreign enterprises were covered, and all domestic corporations, etc., in which a foreigner, or related group of foreigners, held 25 percent or more of the beneficial ownership.

Current reports

Estimates of the value of U.S. direct investments abroad and foreign direct investments in the United States are extrapolated from the benchmark provided by the two surveys just mentioned, using data collected on quarterly report. These reports, mandatory since 1962, cover about 90 percent of the investments involved (on a value basis—about 30 percent of the companies by number). There are several forms, to suit various special situations. However, forms BE-577 and BE-578 are representative of the group and are reproduced below. These forms provide data on capital movements and reinvested earnings, and hence provide a quite reliable estimate for extrapolating the value of the investment.

Budget Bureau No. 41-R620.12; Approval Expires April 30, 1967

FORM BE-577 (1-17-64) U.S. DEPARTMENT OF COMMERCE OFFICE OF BUSINESS ECONOMICS

CONFIDENTIAL QUARTERLY REPORT TRANSACTIONS WITH FOREIGN SUBSIDIARY OR AFFILIATED CORPORATION

Quarter ended

Name of U.S. reporter

Name of foreign company

Country of foreign company operations

Please see Instructions on Reverse Side before Completing Form

TO: Office of Business Economics, U.S. Department of Commerce Washington, D.C. 20230, Routing No. BE-50

Items received or entered into intercompany accounts	Amounts *(in dollars)* after withholding taxes
1. Dividends (a) On common stock (Tax withheld $	
(b) On preferred stock	
2. Interest on bonds, notes, advances, etc.	
3. Royalties, license fees, and rentals	
4. Reporting company's charges for services rendered, including management, allocated expenses, etc.	

	Enter only once a year *(See Instructions)*	
	Amount in foreign currency	Amount in U.S. dollars
5. Reporter's equity in foreign company's annual net income (or loss) for the year ended....... ______		
6. Reporter's equity in the foreign company's earned surplus account at the end of .... ______		

7. Current or short-term intercompany accounts, notes, and advances outstanding *(Original maturity one year or less)*

	Currency Unit *(See Instructions)*	Show this item in the currency in which it is payable	
		Due to U.S. Reporter	Payable by U.S. Reporter
a. Beginning of Quarter			
b. End of Quarter			
c. Do Not Fill In Net Change			

8. Bonds, notes and long-term advances outstanding *(Original maturity over one year)*

	Currency Unit *(See Instructions)*	Show this item in the currency in which it is payable	
		Due to U.S. Reporter	Payable by U.S. Reporter
a. Beginning of Quarter			
b. End of Quarter			
c. Do Not Fill In Net Change			

9. Change in U.S. Reporter's holdings of capital stock of, and/or capital contributions to, foreign subsidiary or affiliate

a.	b. Type of security	c. Amount of transactions	d. Means of settlement	e. Percent of issue owned before transactions ____ % after transactions ____ %
☐ Increase ☐ Decrease				

f. Other parties to transactions *(Check one)*	g. If a newly-acquired foreign enterprise, indicate type of business and principal product or service.
☐ Foreign ☐ U.S. *(Give name and address if U.S.)*	

USCOMM-DC 36220-P64

GENERAL INSTRUCTIONS

Purpose - Reports on this form are required in order to provide reliable and up-to-date information on the foreign investment operations of U.S. business affecting the U.S. balance of international payments. Related information is collected on Forms BE-578 (foreign unincorporated branches), BE-35 (foreign subsidiaries and branches of U.S. motion picture companies), BE-578B (foreign unincorporated branches of U.S. banking firms), BE-578-I (foreign subsidiaries and branches of U.S. insurance companies), BE-577A (foreign associated companies), and BE-577S (secondary foreign corporations). (See definitions below).

The following is a condensation of the applicable set of instructions and regulations; a complete set will be sent on request.

Authority - Reports on Forms BE-577, BE-578, BE-35, BE-578B, BE-578-I, BE-577A, and BE-577S are mandatory under Section 8(b) of the Bretton Woods Agreements Act (59 Stat. 515, 22 U.S.C. 286f). The report has been approved by the Bureau of the Budget under the Federal Reports Act (Public Law No. 831, 77th Congress). All replies will be held in confidence under the provisions of Section 4(b) of that Act and Section 8(c) of the Bretton Woods Agreements Act.

Who Must Report - Separate reports on Form BE-577 are required from U.S. corporations and other U.S. residents for transactions with each foreign subsidiary or affiliated corporation in which they own 25 percent or more of the voting stock, either directly or together with other U.S. or foreign affiliates. In the case of joint ownership, one owner may file a combined report. Reports are also required for direct transactions with secondary foreign corporations (see definitions below), or with companies owned by affiliated U.S. owners.

Filing of Report - Form BE-577 is a quarterly report. A single copy of each report should be sent to the Department of Commerce, Office of Business Economics, Balance of Payments Division, Washington, D.C. 20230, within 30 days after the close of each calendar or fiscal quarter, except for the final quarter of the calendar or fiscal year when reports may be filed within 45 days. Requests for extension of the filing dates, additional forms, or clarifications of the reporting requirements or instructions should be directed to the same address.

Exemption - A U.S. resident otherwise required to report is exempted from filing a report if the aggregate value of his investment, and that of his domestic subsidiaries or affiliates, in foreign branches, subsidiaries, affiliated or associated corporations, including applicable proportion of surplus accounts and debt, is less than $2,000,000, at the beginning of the calendar year, based on the books of the foreign enterprises. Reports for foreign subsidiaries or affiliates which are inactive, or have a book value, including surplus accounts and intercompany indebtedness, of less than $25,000 may be omitted with a note to that effect.

Consolidations - Consolidated reports may be filed covering more than one subsidiary or affiliate in the same country and industry (foreign branch operations should be reported on Form BE-578, investments in associated foreign companies on Form BE-577A, and reports for secondary foreign affiliates on Form BE-577S unless already consolidated in Form BE-577).

DEFINITIONS

U.S. Resident - Any person (including corporations trusts, estates) under the jurisdiction of the United States ordinarily residing in the United States, including its territories or possessions.

Foreign Subsidiary or Affiliated Company - For purposes of these reports, any foreign incorporated company in which a U.S. owner, or affiliated group of owners, holds 25 percent or more of the voting stock, directly or indirectly, as provided below.

Associated Foreign Company - A foreign-incorporated company in which a U.S. owner, or affiliated group of owners, directly holds at least 10 percent but less than 25 percent of the voting stock (see Form BE-577A).

Primary Foreign Corporation - A foreign subsidiary or affiliated company in which 25 percent or more of the voting stock is owned by U.S. residents, either directly or together with domestic or foreign affiliates.

Secondary Foreign Corporation - A foreign subsidiary or affiliated company in which a U.S. ownership of 25 percent or more of the voting stock is held through ownership of at least 50 percent of the voting stock in a primary foreign corporation which in turn owns at least 50 percent of the voting stock of the secondary foreign corporation (see Form BE-577S).

Foreign Branch - An unincorporated foreign business operation conducted by a U.S. resident or group of persons (corporate or otherwise) in a foreign country (see Form BE-578).

SPECIFIC INSTRUCTIONS

Items 1-4 - Enter only amounts actually received or entered into the intercompany accounts during the reporting period. Stock dividends should be reported in item 9 (see below).

Item 3 - Report all royalties and fees including patent royalties, production royalties, copyright royalties, etc., as well as license fees and rentals received, or entered into intercompany accounts, during the reporting period.

Item 4 - Report all receipts or allocated charges of reporter for professional, administrative or management services.

Item 5 - This item is to be filled in once each year on the report **for the quarter during which the relevant figures become available.** The amount entered for this item should be shown in the currency in which the books of the foreign company are kept, and in U.S. dollars if such conversions are ordinarily made, and should represent your portion of the foreign company's net income (or loss) for the year, before provision for (a) unrealized exchange losses and gains; (b) common dividends; but after provision for foreign income taxes and the payment of preferred dividends. Companies whose foreign enterprises are engaged in extractive industries should report net income before depletion charges, except charges representing the amortization of the actual cost of capital assets. If a report is filed which covers transactions with both primary and secondary foreign subsidiaries, the net income given should consolidate the income of secondary companies.

Item 6 - Report your equity in the foreign company's earned surplus account as of the end of the year shown in Item 5. The amount entered in this item should be shown in the currency in which the books of the foreign company are kept.

Items 7-8 - If the currency unit used in accounts reported in Items 7 and 8 is other than U.S. dollars, please specify. Report in these items all accounts between the U.S. parent or its domestic affiliates and the foreign organization regardless of the currency in which these accounts are payable, including accounts which may be blocked or are not regularly carried on the reporter's books. Entries made in Items 7 and 8 should be consistent with entries made in Items 1-4 insofar as they reflect these items. **When there is nothing to report, please state "None" or "0".**

Item 9 - Enter here any changes in the reporter's and/or its domestic affiliates' holdings of capital stock of the foreign subsidiary or affiliated company including preferred stock, and common or ordinary stock. Stock dividends, capital contributions by the parent company, and capitalization of intercompany accounts should also be included but should be identified separately. If a company is wholly liquidated or sold to foreign interests, show the amount obtained in liquidation, or sales price. Report also the amount of profit or loss on the liquidation or sale of the enterprise based on the book value of the reporter's equity as shown on the foreign company's books.

Form Approved; Budget Bureau No. 41-R621.12

FORM BE-578 (1-17-64)

U.S. DEPARTMENT OF COMMERCE
OFFICE OF BUSINESS ECONOMICS

CONFIDENTIAL QUARTERLY REPORT

OPERATIONS OF FOREIGN BRANCHES OR OTHER UNINCORPORATED FOREIGN BUSINESS OF U.S. REPORTERS

Quarter ended

Name of U.S. reporter

Country of foreign operations

If this is a first report, indicate the type of business and principal product or service.

Please see Instructions on Reverse Side before Completing Form

TO: Office of Business Economics, U.S. Department of Commerce, Washington, D. C. 20230, Routing No. BE-50

Item No.	Changes in investment *(See Specific Instructions)*	Amounts *(In dollars)*
1	Net investment in foreign country at book value at beginning of quarter	
2	Home office charges for cash remitted or merchandise, machinery, etc., shipped to branch	
3	Royalties, license fees, and rentals charged by home office to branch	
4	Home office charges for management, services, U.S. expenses allocated, etc.	
5	Interest charged by home office to branch	
6	Net income (or loss) of foreign branch or properties *(Period)*	
7	Other additions *(Please specify)*	
8	TOTAL ADDITIONS *(Items 2 thru 7)*	
9	Cash remittances of income to home office	
10	All other cash remittances to home office	
11	Shipments of merchandise, etc., to or for account of the home office	
12	Other deductions *(Please specify)*	
13	TOTAL DEDUCTIONS *(Items 9 thru 12)*	
14	Unrealized profit or loss resulting from exchange revaluations	
15	Net investment in foreign country at book value at end of quarter *(Item 1 + Item 8 − Item 13 ± Item 14)*	
16	DO NOT FILL IN Net changes	

Please note in this space any comments or qualifications which you feel might be helpful

USCOMM-DC 38212-P64

GENERAL INSTRUCTIONS

Purpose - Reports on this form are required in order to provide reliable and up-to-date information on the foreign investment operations of U.S. business affecting the U.S. balance of international payments. Related information is collected on Forms BE-577, (foreign-incorporated enterprises owned by U.S. owners to the extent of at least 25 percent of voting stock), BE-35 (foreign subsidiaries and branches of U.S. motion picture companies), BE-578B (foreign unincorporated branches of U.S. banking firms), BE-578I (foreign subsidiaries and branches of U.S. insurance companies), BE-577A (foreign associated companies), and BE-577S (secondary foreign corporations). (See definitions below.)

The following is a condensation of the applicable set of instructions and regulations; a complete set will be sent on request.

Authority - Reports on Forms BE-577, BE-578, BE-35, BE-578B, BE-578I, BE-577A and BE-577S are mandatory under Section 8(b) of the Bretton Woods Agreements Act (59 Stat. 515, 22 U.S.C. 286f). The report has been approved by the Bureau of the Budget under the Federal Reports Act (Public Law No. 831, 77th Congress). All replies will be held in confidence under the provisions of Section 4(b) of that Act and Section 8(c) of the Bretton Woods Agreements Act.

Who Must Report - Separate reports on Form BE-578 are required from U.S. corporations and other U.S. residents for each unincorporated foreign branch or business office and other property or direct foreign operations of U.S. reporters, including the development and operations of foreign mining claims, oil concessions held directly or jointly with others, and other property such as real estate, as reflected on the books of the head office in the U.S. Separate reports should be filed for each foreign branch; however a combined report may be filed where the reporter or persons affiliated with him have several foreign branches in the same country and industry. In the case of joint ownership or interests, one owner may file a combined report. Royalties, service fees and interest received from foreign branches by domestic companies affiliated with the reporter should be included in this report. (Foreign subsidiaries or affiliated corporations should be reported on Form BE-577).

Filing of Report - Form BE-578 is a quarterly report. A single copy of each report should be sent to the Department of Commerce, Office of Business Economics, Balance of Payments Division, Washington, D.C. 20230, within 30 days after the close of each calendar or fiscal quarter, except for the final quarter of the calendar or fiscal year when reports may be filed within 45 days. Requests for extension of the filing dates, additional forms, or clarifications of the reporting requirements or instructions should be directed to the the same address.

Exemption - A U.S. resident otherwise required to report is exempted from filing a report if the aggretate value of his investment and that of his domestic affiliates in foreign branches, subsidiaries, affiliated or associated corporations, including applicable proportion of surplus accounts and debt, is less than $2,000,000, at the beginning of the calendar year, based on the books of the foreign enterprises. Reports for foreign subsidiaries or branches which are inactive or have a book value, including surplus accounts and intercompany indebtedness, of less than $25,000 may be omitted with a note to that effect.

Consolidations - Consolidated reports may be filed covering more than one branch in the same country and industry (foreign-incorporated enterprises should be reported on Form BE-577 and 577S; investments in associated foreign companies on Form BE-577A.)

DEFINITIONS

U.S. Resident - Any person (including corporations trusts, estates) under the jurisdiction of the United States, ordinarily residing in the United States including its territories or possessions.

Foreign Subsidiary or Affiliated Company - For purposes of these reports, any foreign-incorporated company in which a U.S. owner, or affiliated group of owners, holds 25 percent or more of the voting stock, directly or indirectly.

Associated Foreign Company - A foreign incorporated company in which A U.S. owner, or affiliated group of owners, directly hold at least 10 percent but less than 25 percent of the voting stock.

Primary Foreign Corporation - A foreign subsidiary or affiliated company in which 25 percent or more of the voting stock is owned by U.S. residents, either directly or together with domestic or foreign affiliates (see Form BE-577).

Secondary Foreign Corporation - A foreign subsidiary or affiliated company in which a U.S. ownership of 25 percent or more of the voting stock is held through ownership of at least 50 percent of the voting stock in a primary foreign corporation which in turn owns at least 50 percent of the voting stock of the secondary foreign corporation (see Form BE-577S).

Foreign Branch - An unincorporated foreign business operation conducted by a U.S. resident or group of persons (corporate or otherwise) in a foreign country.

SPECIFIC INSTRUCTIONS

Items 1 and 15 - Net investment in foreign countries should comprise all assets of the branch located abroad, including those carried only on the home office books, less foreign liabilities.

Item 3 - Report all royalties and fees including patent royalties, production royalties, and copyright royalties as well as license fees and rentals received or credited to the home office during the reporting period.

Item 4 - Report all receipts or allocated charges of reporter for professional, administrative, or management services. Do not include United States income taxes.

Item 6 - Report the net income (or loss) of foreign properties, when taken up on the books of the home office, before provisions for U.S. income taxes and unrealized exchange losses and gains, but after deduction for other expenses incurred in the United States by or on behalf of the foreign branch. (It is assumed that such other expenses would be reflected in Items 2 through 5.) Companies whose foreign branches are engaged in extractive industries should report net income before depletion charges, except charges representing the amortization of the actual cost of capital assets.

Item 10 - If remittances are not segregated as to purpose, report all cash remittances in this item.

Item 14 - Report here the amount for unrealized profit or loss resulting from exchange revaluations. Exclude this amount from item 6, net income (or loss) of foreign branch.