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INTERNATIONAL INVESTMENT SURVEY ACT OF 1975

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON

FOREIGN COMMERCE AND TOURISM

OF THE

COMMITTEE ON COMMERCE

UNITED STATES SENATE

NINETY-FOURTH CONGRESS

SECOND SESSION

ON

S. 2839

TO SUPPLEMENT AUTHORITY OF THE SECRETARY OF COMMERCE TO COLLECT REGULAR AND PERIODIC INFORMATION ON FOREIGN DIRECT AND PORTFOLIO INVESTMENTS IN THE UNITED STATES AND ON AMERICAN INVESTMENTS ABROAD, AND FOR OTHER PURPOSES

FEBRUARY 23 AND 27, 1976

Serial No. 94-70

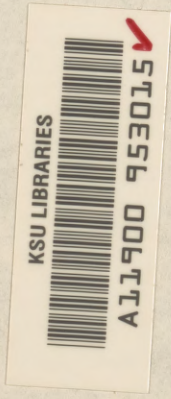
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INTERNATIONAL INVESTMENT SURVEY ACT OF 1975

MONDAY, FEBRUARY 23, 1976

U.S. SENATE, COMMITTEE ON COMMERCE,
SUBCOMMITTEE ON FOREIGN COMMERCE AND TOURISM,
Washington, D.C.

The subcommittee met at 10:10 a.m., pursuant to call, in room 5110, Dirksen Office Building, Hon. Daniel K. Inouye (chairman of the subcommittee) presiding.

OPENING STATEMENT BY SENATOR INOUE

Senator INOUE. This morning the Committee on Commerce will commence hearings on S. 2839, the International Investment Survey Act. of 1975. S. 2839 authorizes the Department of Commerce to undertake periodic benchmark surveys of inward and outward investment and gives that agency unambiguous authority to collect information pursuant to these surveys.

As international investment has grown explosively, the need for data on such investment has likewise increased. However, the flow of useful information to the governmental and private sectors has not matched this expansion. Not only is the amount of information we have inadequate, as well shall see, but the statutory basis for the collection of such information is unclear.

Information is at the very heart of any policy concerning international investment. Without adequate and reliable data it becomes difficult, if not impossible, to formulate a rational and constructive policy on investment. In the end, the unwillingness of the private sector to yield relevant data or of the Government to collect such information is self-defeating since such actions perpetuate public fears about multinational enterprises' activities.

The importance of the data collection function in understanding the development of multinational enterprises has been widely recognized. In several multilateral forums such as the United Nations and the OECD, efforts are well underway to develop extensive data collection programs.

Business firms themselves acknowledge the importance of data. This bill—and indeed this whole issue of information disclosure—has been widely discussed within companies, business organizations, and other groups. While not as dramatic as revelations about corporate misdeeds, this issue has significant ramifications, for the data and analyses developed might be the foundation for further governmental policy and profoundly affect public attitudes toward multinational business.

[The bill follows:]

Staff member assigned to these hearings: Eric H. M. Lee.

94TH CONGRESS
1ST SESSION

S. 2839

IN THE SENATE OF THE UNITED STATES

DECEMBER 19 (legislative day, DECEMBER 15), 1975

Mr. INOUE introduced the following bill; which was read twice and referred to the Committee on Commerce

A BILL

To supplement authority of the Secretary of Commerce to collect regular and periodic information on foreign direct and portfolio investments in the United States and on American investments abroad, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "International Investment
4 Survey Act of 1975".

5 SEC. 2. (a) The Congress finds and declares that—

6 (1) the Secretary of Commerce is presently author-
7 ized to collect limited amounts of information on United
8 States investment abroad and foreign investment in the
9 United States;

VII—O

1 (2) investment in the United States by foreign
2 multinational enterprises and by foreign portfolio inves-
3 tors and investment abroad by United States multina-
4 tional enterprises and United States portfolio investors
5 have increased rapidly within recent years;

6 (3) such investment significantly affects the econ-
7 omy of the United States and other nations;

8 (4) international efforts to obtain information from
9 multinational enterprises have accelerated recently;

10 (5) the potential consequences of foreign investment
11 in the United States and United States investment abroad
12 cannot be calculated accurately because the Federal
13 Government lacks sufficient information on such invest-
14 ment and its actual or possible effects on the national
15 security, commerce, employment, inflation, the general
16 welfare, and United States foreign policy;

17 (6) accurate and comprehensive information on
18 foreign investment in the United States and United States
19 investment abroad is needed by the Congress to develop
20 a policy with respect to the activities of foreign investors
21 in the United States and United States investors abroad;
22 and

23 (7) existing estimates of American investment over-
24 seas are based on outdated statistical bases, reports, and

information which are no longer reliable for policy formulation and decisionmaking.

(b) It is therefore the purpose of the Congress in this Act to provide clear and unambiguous authority to the Secretary of Commerce, acting in behalf of the United States Government, to collect information on foreign investment in the United States and United States investment abroad and to provide analyses of such information to the Congress, the Executive and the general public.

(c) Nothing in this Act is intended to restrain or deter foreign investment in the United States or United States investment abroad.

DEFINITIONS

SEC. 3. As used in this Act, the term—

(1) "United States" means the fifty States, the District of Columbia, the Commonwealth of Puerto Rico, the Canal Zone, and all territories and possessions of the United States;

(2) "persons" means an individual, partnership, association, trust, corporation, or other organization, including the Federal, State, and local governments, and any agencies thereof, corporations, financial institutions, or other instrumentalities thereof, including federally sponsored agencies;

(3) "United States person" means any individual resident in the United States, or any other person organized or created under the laws of the Federal, State, and local governments, and any instrumentalities thereof, including federally sponsored agencies;

(4) "multinational business enterprise" means any business enterprise which conducts business operations in the United States and in one or more foreign countries either directly or through one or more foreign affiliates, or a foreign parent company, or home office;

(5) "parent" means a person in one country who directly or indirectly owns 10 per centum or more of voting stock of an incorporated business enterprise, or equivalent ownership interest in unincorporated business enterprises, located in another country;

(6) "affiliate" means a business enterprise which is directly or indirectly owned by a parent company or home office to the extent of 10 per centum or more of its voting stock for an incorporated business, or an equivalent interest for an unincorporated business, including foreign branches;

(7) "branch" means the operations or activities conducted by a business enterprise in a different country directly under its own name;

(8) "foreign investment" means the ownership or

1 control of stock or other securities, by contractual com-
2 mitment or otherwise, by persons of one country in com-
3 panies or properties located in other countries;

4 (9) "portfolio investment" means the ownership or
5 control of up to 10 per centum of the voting or nonvot-
6 ing securities or any long-term debt obligations issued
7 by a business enterprise;

8 (10) "direct investment" means the ownership or
9 control of 10 per centum or more of the voting or non-
10 voting securities or control of an equivalent interest in a
11 nonincorporated business enterprise; and

12 (11) "secretary" means the Secretary of Com-
13 merce.

14. AUTHORITY

15 SEC. 4. (a) The Secretary of Commerce is hereby au-
16 thorized and directed to periodically conduct comprehensive
17 and timely studies of foreign direct and portfolio investments
18 in the United States and of direct and portfolio investments
19 overseas by United States investors. Studies authorized by
20 this subsection shall be conducted and reports made at least
21 once every ten years and in such a manner that information
22 obtained pursuant to this Act shall be timely and useful in
23 the development of policy with respect to multinational busi-
24 ness activity.

1 (b) In carrying out the studies, the Secretary of Com-
2 merce shall—

3 (1) identify and collect such information as may
4 be required to carry out the study authorized in section
5 4 (a) of this Act;

6 (2) consult with and secure information from (and,
7 where appropriate, the views of) representatives of in-
8 dustry, the financial community, labor, agriculture,
9 science and technology, academic institutions, public
10 interest organizations, and such other groups as the
11 Secretary deems suitable; and

12 (3) consult and cooperate with other government
13 agencies, Federal, State, and local, and to the extent
14 appropriate, with foreign governments and international
15 organizations.

16 SEC. 5. The Secretary of Commerce, in his studies of
17 investment by multinational business enterprise shall,
18 among other things, to the extent he determines feasible,
19 specifically—

20 (1) investigate and review the nature, scope, mag-
21 nitude, and rate of investment activities in the United
22 States and United States investments abroad;

23 (2) survey the reasons foreign persons are under-
24 taking investment in the United States and the reasons
25 United States persons are investing overseas;

(3) analyze and study the effect of transfer of technology to or from foreign affiliates, or to or from foreign parent companies, as regards to productivity, trade and balance of payments, pricing policies, effects, and international competition;

(4) identify the processes and mechanisms through which foreign investment is made in the United States and United States investment is made abroad, the financing methods used by United States and foreign investors, and the effects of such financing on financial markets;

(5) analyze the scope and significance of foreign direct investment in acquisitions and takeovers of existing American enterprises, the significance of such investments in the form of new facilities or joint ventures with American firms, and the effects thereof on domestic business competition;

(6) analyze the concentration and distribution of foreign and American overseas direct investment in specific geographic areas and/or economic sectors;

(7) analyze the effects of foreign and American overseas investment on United States national security, energy, natural resources, agriculture, environment, real property holdings, balance of payments, balance of trade, the United States international economic position, and various significant American product markets;

1 (8) analyze the effect of foreign and American
2 overseas investment on employment opportunities and
3 practices and the activities and influence of foreign and
4 American management executives employed by multi-
5 national business enterprises firms;

6 (9) analyze the effect of Federal, regional, State,
7 and local laws, rules, regulations, controls, and policies
8 on foreign investment activities in the United States and
9 the effect of foreign investment policies and programs on
10 United States investment overseas;

11 (10) compare the purpose and effect of United
12 States, State, and local laws, rules, regulations, programs,
13 and policies on foreign investment in the United States
14 with laws, rules, regulations, programs, and policies of
15 selected nations and areas where such comparison may
16 be informative;

17 (11) compare and contrast the foreign direct in-
18 vestment activities in the United States with the
19 investment activities of American investors abroad and
20 appraise the impact of such American activities and
21 policies of foreign firms in the United States;

22 (12) determine the effects of variations between ac-
23 counting, financial reporting, and other business prac-
24 tices of American and foreign investors;

1 (13) study the adequacy of information, disclosure,
2 and reporting requirements and procedures;

3 (14) study and recommend means whereby infor-
4 mation and statistics on investment activities by multina-
5 tional business enterprises can be improved; and

6 (15) study and report periodically to the Senate
7 Committee on Commerce and the House Committee on
8 Interstate and Foreign Commerce on national and in-
9 ternational developments with respect to the regulation
10 of multinational enterprises.

11 SEC. 6. The Secretary of Commerce, in his study of
12 foreign investment abroad by United States persons, shall
13 also include—

14 (1) the magnitude and scope of total direct and
15 portfolio investment by such business enterprise in each
16 of its foreign affiliates and branches, financial transactions
17 between such business enterprise and each of its foreign
18 affiliates and branches, the consolidated net income of
19 each of its foreign affiliates and branches reported sep-
20 arately, the amount of taxes paid by such business enter-
21 prise and by each of its foreign affiliates with respect to
22 foreign affiliate and branch operations, reported sepa-
23 rately, and information on all mergers, net book value

1 of acquisitions, liquidations, and investments in foreign
2 countries involving such business enterprise;

3 (2) the gross sales by primary line of business
4 (and, whenever possible, by significant product line)
5 of such business enterprise and of each of its foreign
6 affiliates in each foreign country in which such affiliate
7 has significant operations, reported separately, the dollar
8 amount of trade by primary line of business (and, when-
9 ever possible, by significant product line), which such
10 business enterprise carries on with each of its foreign
11 affiliates, reported separately, and the trade by primary
12 line of business (and, whenever possible, by significant
13 product line) of each of its foreign affiliates, reported
14 separately;

15 (3) employment data showing both the number of
16 American and foreign employees of such business enter-
17 prise and of each of its foreign affiliates by country and
18 by level of compensation by type of activity;

19 (4) the total dollar amount of research and develop-
20 ment expenditures by such business enterprise, and the
21 dollar amount of research and development expenditures
22 by each of its foreign affiliates, by country and activity;

23 (5) payments to the parent company from its for-
24 eign affiliates, or by the parent company to its foreign
25 affiliates for transfer of technology or know-how; and

1 (6) the name and location of each foreign affiliate
2 and foreign branch of such business enterprise, the total
3 assets and income of each such foreign affiliate and
4 foreign branch, and a description of the commodities
5 produced by each such foreign affiliate and foreign
6 branch.

7 SEC. 7. (a) The Secretary of Commerce may by regu-
8 lation establish whatever rules he deems necessary to carry
9 out each of his functions under this Act.

10 (b) The Secretary may require any person subject to
11 the jurisdiction of the United States—

12 (1) to maintain a complete record of any informa-
13 tion (including journals or other books of original entry,
14 minute books, stock transfer records, lists of shareholders,
15 or financial statements) which the Secretary determines
16 is germane to his functions in the foreign direct invest-
17 ment and foreign portfolio investment studies to be con-
18 ducted pursuant to this Act; and

19 (2) to furnish under oath any report containing
20 whatever information the Secretary determines is neces-
21 sary to carry out his functions in the studies authorized
22 in this Act.

23 (c) In the administration of this section, reporting re-
24 quirements shall be so designed as to reduce the cost of
25 reporting, recordkeeping, and documentation to the extent

1 feasible consistent with effective enforcement and compilation
2 of data required by this Act. Reporting, recordkeeping, and
3 documentation requirements shall be periodically reviewed
4 and revised in the light of developments in the field of infor-
5 mation technology.

6 (d) In addition to the Secretary of Commerce, the only
7 individuals who may have access to information furnished
8 under subsection (b) (2) are those sworn employees of the
9 Department of Commerce including consultants of the De-
10 partment of Commerce and those persons working on con-
11 tracts awarded by the Department pursuant to this Act.
12 Neither the Secretary nor any such employee, consultant,
13 or contractor may—

14 (1) use any information furnished under subsection
15 (b) (2) except for analytical or statistical purposes
16 within the United States Government; or

17 (2) publish, or make available to any other person
18 in any manner, any such information in a manner that
19 the information furnished under subsection (b) (2) by
20 any person can be specifically identified, except for the
21 purposes of a proceeding under section 8.

22 No agency of the United States or employee thereof may
23 compel (1) the Secretary of Commerce, (2) any individual
24 designated by the Secretary under the first sentence of sub-
25 section (d), or (3) any person which maintained or fur-

1 nished any report under subsection (b), to submit any such
2 report or constituent part thereof to that agency or any other
3 agency of the United States without the prior written con-
4 sent of the person which maintained or furnished any report
5 under subsection (b) and without prior written consent of
6 the customer, where the person which maintained or fur-
7 nished such report included information identifiable as being
8 derived from the records of such customer. Such report or
9 any constituent part thereof may not be produced for any
10 judicial or administrative proceeding, except for a pro-
11 ceeding under section 8 (b) of this Act.

12 ENFORCEMENT

13 SEC. 8. (a) Whoever fails to furnish any information
14 required pursuant to the authority of this Act, whether re-
15 quired to be furnished in the form of a report or otherwise,
16 or to comply with any rule, regulation, order, or instruction
17 promulgated pursuant to the authority of this Act may be
18 assessed a civil penalty not exceeding \$10,000 in a proceed-
19 ing brought under subsection (b) of this section.

20 (b) Whenever it appears to the Secretary of Commerce
21 that any person has failed to furnish any information re-
22 quired pursuant to the provisions of this Act, whether
23 required to be furnished in the form of a report or otherwise,
24 or has failed to comply with any rule, regulation, order, or
25 instruction promulgated pursuant to the authority of this Act,

1 he shall bring an action, in the proper district court of the
2 United States or the proper United States court of any terri-
3 tory or other place subject to the jurisdiction of the United
4 States, seeking a mandatory injunction commanding such
5 person to comply with such rule, regulation, order, or instruc-
6 tion, and upon a proper showing by the Secretary of the
7 relevance to the purposes of the Act of such rule, regulation,
8 order, or instruction, a permanent or temporary injunction
9 or restraining order shall be granted without bond, and such
10 person shall also be subject to the civil penalty provided in
11 subsection (a) of this section.

12 (c) Whoever willfully fails to submit any information
13 required pursuant to this Act, whether required to be fur-
14 nished in the form of a report or otherwise, or willfully vio-
15 lates any rule, regulation, order, or instruction promulgated
16 pursuant to the authority of this Act shall, upon conviction,
17 be fined not more than \$10,000 or, if a natural persons, may
18 be imprisoned for not more than one year or both; and any
19 officer, director, or agent of any corporation who knowingly
20 participates in such violation may be punished by a like fine,
21 imprisonment, or both.

22 AUTHORIZATIONS

23 SEC. 9. There are authorized to be appropriated such
24 sums as may be necessary to carry out the provisions of this
25 Act.

Senator INOUE. This morning we are honored to have as our witnesses Under Secretary of Commerce James Baker, Assistant Secretary of Treasury Gerald Parsky, and Deputy Assistant Secretary of State Paul Boeker. As our first witness, I'm pleased to welcome to our committee the Under Secretary of Commerce, Mr. Baker.

STATEMENT OF HON. JAMES A. BAKER III, UNDER SECRETARY OF COMMERCE, DEPARTMENT OF COMMERCE; ACCOMPANIED BY S. STANLEY KATZ, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL ECONOMIC POLICY AND RESEARCH; MAYNARD S. COMIEZ, ACTING CHIEF ECONOMIST; AND GEORGE KRUE, CHIEF, INTERNATIONAL INVESTMENT DIVISION, BUREAU OF ECONOMIC ANALYSIS

Mr. BAKER. Thank you, Mr. Chairman.

I appreciate the invitation to appear before this subcommittee to present the views of the Department of Commerce on the International Investment Survey Act of 1975, S. 2839.

Mr. Chairman, I recognize that our statement was forwarded to you only this morning and for this I apologize. Normally we take care to have these statements available at least 48 hours in advance of the hearing but the date originally set for our appearance was advanced. We only received the letter inviting us to appear today on Friday, so our statement was just completed over the weekend.

I'd like at this time if I might to introduce the gentlemen at the table with me. On my far left, Mr. Stanley Katz, Deputy Assistant Secretary for International Economic Policy and Research; Mr. Maynard Comiez, the Acting Chief Economist for the Department of Commerce; and on my right, Mr. George Krue, Chief of the International Investment Division of the Bureau of Economic Analysis.

The Department of Commerce and the administration support the substance and objectives of the bill, subject to certain minor modifications. We recognize the need for greater information regarding foreign investment. As you know, we are now completing work pursuant to the Foreign Investment Study Act of 1974. The results of this study will greatly expand government and public knowledge on the subject of foreign investment in the United States.

The Department of Commerce is not currently responsible for the collection of data relating to portfolio investment. We do not believe, therefore, that authority for this aspect of the work required by the bill should be directed to us. Since the bill you have introduced is permanent legislation, we consider it appropriate to mandate only that benchmark surveys of direct investment be done at least once every 10 years. We should remain flexible as to the other surveys and studies included in S. 2839—undertaking them as necessary and feasible—in order to respond to changes in needs and interests of the Government and the private sector. Along this line, we have some reservations regarding the degree of specificity concerning the data to be collected and the studies to be performed pursuant to the bill. Also, we would like to insure that the bill covers our current statistical data collection activities. This would avoid having related work being carried out under two different statutory authorities.

We believe that these and other minor changes can be resolved through discussions between our respective staffs.

We would like to point out that we are not insensitive to the fact that this legislation may put some additional reporting burden on U.S. businesses. The Department of Commerce favors reducing this burden but feels that the need today for up-to-date information on U.S. international investments compels support for the bill, modified as heretofore mentioned. Further the reporting of much of this information has been required in the past, most of it on a regular, recurring basis. Informal discussions with business associations indicate that they too appreciate the need for current information on U.S. investment abroad and indeed would support data collection legislation which contained what they perceive to be proper limitations and safeguards.

I would like to turn now to some of the other matters which we were asked to address in the letter dated February 18, 1976, inviting the Department to testify today.

As you know, present data collection activities relating to international investment are carried out under the authority of the Bretton Woods Agreements Act. That act enables the President of the United States, or his designate, to supply data in such detail as is requested by the International Monetary Fund under article VIII, section 5, of the articles of agreement of the IMF. The pertinent parts of section 5, covering the types of data to be furnished to the IMF, are:

- (vi) International balance of payments, including (1) trade in goods and services, (2) gold transactions, (3) known capital transactions, and (4) other items.
- (vii) International investment positions, that is, investments within the territories so far as it is able to furnish this information.

Executive Order No. 10033 provides that the National Advisory Council on International Monetary and Financial Policy, the NAC, is to determine what information is essential in order that the United States may comply with official requests from the IMF or the International Bank for Reconstruction and Development. NAC clearance is necessary before the OMB can approve the carrying out of the survey on a mandatory basis.

In the meetings of a study group set up by the NAC to consider the most recent survey form, the predominant view was that the census of foreign direct investment as proposed was not authorized under the Bretton Woods Agreements Act. Indeed, it is open to question whether any data except that relating specifically to balance of payments transactions and the international investment position can be justified under the act.

Data on international investment are presently reported to the Commerce Department's Bureau of Economic Analysis (BEA) on a confidential basis. This restriction applies to the benchmark survey being conducted pursuant to the Foreign Investment Study Act of 1974 and BEA's quarterly and annual surveys. The results of the survey being conducted pursuant to the Foreign Investment Study Act are confidential as required by section 7(c) of the act. The only exception is that the act provides that the Secretaries of Commerce and Treasury may exchange such information as is necessary, "to prevent any duplication or omission in the studies conducted by each such Secretary pursuant to," the Study Act. BEA's mandatory quarterly and annual

surveys are conducted pursuant to the Bretton Woods Agreements Act and the data are confidential under the provisions of section 8(c) of that act and of section 4(b) of the Federal Reports Act. All data are published in aggregate form so that information supplied by individual respondents cannot be identified.

We believe that, modified as we have suggested, the "International Investment Survey Act of 1975" can serve as a basis for significantly improving our data collection and analytical capabilities in the field of foreign investment.

Mr. Chairman, this completes my statement. I would be pleased to answer any questions which you or other members of the subcommittee may have.

Senator INOUE. Mr. Secretary, first I'd like to thank you for your statement. It is most promising, and we welcome your suggestions. Our staff will get together and work out and resolve some of our differences. They appear to be very minor.

Your statement points out rather clearly the ambiguities involved in the Bretton Woods Agreements Act. I quite agree that the time has come for some unambiguous authority in your Department to conduct such surveys on our international investment position. I believe they are absolutely necessary if we are to formulate appropriate policies towards multinational corporations.

I have a few questions to ask you relating to the activities of the Office of Foreign Investment in the United States, which comes under your jurisdiction. Since its formation last year, what precisely has the Office done to prepare analyses of reporting procedures, improve the information-gathering programs in the Federal Government, and review ongoing foreign investment activities in the United States?

Mr. BAKER. Sir, the Office of Foreign Investment in the United States has been involved in the performance of the requirements of the Foreign Investment Act of 1974. I believe the report required under that act is scheduled for delivery to the Congress on April 26, 1976. It has been engaged in an analysis of direct investment transactions in the United States in 1974 and 1975. The office is also following closely current foreign investment transactions. Finally, it has been engaged in the establishment of a data system to collect information on an ongoing basis.

Senator INOUE. Do you plan to submit a formal report to the Congress?

Mr. BAKER. Yes, sir, we plan to submit a formal report, as I believe I mentioned, on or before the date required under the act, which I believe is April 26. In the near future, we also intend to submit a report on the activities of the Committee on Foreign Investment in the United States and the Office of Foreign Investment in the United States.

Senator INOUE. Price Waterhouse has conducted two studies and made certain recommendations relating to coordination and consolidation of information collection activities. What has the office done to implement these recommendations?

Mr. BAKER. I'm not personally familiar, Mr. Chairman, with the Price Waterhouse study, but it may be that you are referring to the establishment of the data system which I mentioned earlier. The

Office of Foreign Investment in the United States has, as I said, worked on the establishment of a data system.

Senator INOUE. Could you provide me with a written response to this question?

Mr. BAKER. Yes, sir, we will be glad to.

[The following information was subsequently received for the record:]

The Commerce Department's Office of Foreign Investment in the United States is developing a data collection system in regard to individual investment transactions. Current efforts are concentrated on the information that is collected by various Federal agencies for their respective regulatory and program purposes. These sources of information were identified and catalogued in a report by Price Waterhouse & Co. prepared for the Council on International Economic Policy and the Office of Management and Budget. This report, "United States Government Data Collection Activities with Respect to Foreign Investment in the United States," was published in March 1975. Subsequent to the establishment of the Office of Foreign Investment in the United States on July 7, 1975, a second stage study was undertaken by Price Waterhouse & Co., under a contract funded by the Council on International Economic Policy, in order to evaluate current Federal data collection activities in terms of their suitability and adaptability for an overall data collection system. The resulting "Report on Federal Government Agency Sources of Data on Foreign Investment in the United States" was incorporated in the interim report to the Congress, "Foreign Direct Investment in the United States," which was submitted by the Secretary of Commerce on October 24, 1975.

The design and implementation of a data collection system by the Office of Foreign Investment in the United States is based, in large part, on the findings and recommendations of the Price Waterhouse reports. As recommended by Price Waterhouse & Co., efforts have been concentrated on those key agencies which can make the greatest contribution to the data collection system. These agencies are the Securities and Exchange Commission, the Federal Trade Commission, the Federal Reserve Board, the Federal Home Loan Bank Board, the Federal Deposit Insurance Corporation, the Civil Aeronautics Board, the Federal Communications Commission, the Federal Energy Administration, and the Comptroller of the Currency (Department of the Treasury). Information that is received from these and other agency sources is currently being used by the Office of Foreign Investment in the United States to identify and follow individual investment transactions and trends on a current basis as well as to develop information on historical foreign investment activities.

Senator INOUE. I have a few other questions relating to this Office and I'd like to submit them to you for your consideration and response.

Mr. BAKER. All right, sir.

Senator INOUE. If S. 2839 is enacted with the modifications recommended by your Department, approximately how many persons would be required to staff your portion of the program? I don't know if you have given this any thought, but somebody is going to ask this.

Mr. BAKER. We have given some thought, sir, to the amount of money that would be required to conduct the surveys that would be authorized by the bill were it enacted as modified, and we believe that only some \$200,000 in additional funding over a 3-year period would be required to implement the benchmark survey. I'm not sure that I can answer your question in terms of personnel positions, but I think our answer would be \$200,000 in terms of dollars over a 3-year period.

Senator INOUE. Congress has become accustomed to programs that are very expensive. I'm quite impressed by this \$200,000 figure. What do you expect to accomplish with that money?

Mr. BAKER. Well, this assumes, of course, that the bill would be modified to mandate only the 10-year benchmark survey and this \$200,000 is the additional funding, sir, that we believe would be required over and above the \$1.3 million that has already been budgeted to conduct such a survey. We have budgeted \$1.3 million for this survey, assuming that we would be able to perform the function under the Bretton Woods Agreements Act which, as my statement explains, we may not be permitted to do.

Senator INOUE. Well, I congratulate you, sir. It usually takes much more than that to analyze a study. This bill, as you know, does not contain any authorization of funds. Do you believe that \$200,000 for the next 3 years would be sufficient for the program as currently specified in the legislation?

Mr. BAKER. Yes, sir. That's our estimate of the amount, in addition to the funds already budgeted, that is necessary to conduct the benchmark survey. We have not made an estimate of the resources that would be required to perform the studies required by this bill.

Senator INOUE. What would be the relationship of this program to the ongoing activities within the Department's Bureau of Economic Analysis which participated in the benchmark survey authorized by the Foreign Investment Study Act of 1974?

Mr. BAKER. Well, the Bureau of Economic Analysis would conduct the survey and carry out some statistical analysis required by this legislation, and the Bureau of International Economic Policy and Research would do the studies on the basis of the information collected by BEA.

Senator INOUE. If this bill becomes law, would you foresee the Department becoming the governmentwide clearinghouse for information on the subject of multinational investment?

Mr. BAKER. I think perhaps so, Mr. Chairman, to the extent that we are talking about information collected only for statistical and analytical purposes. However, we don't see the Department necessarily becoming the clearinghouse for all information that might be collected for whatever other purposes.

Senator INOUE. As you know, at the present time the State Department, Treasury, Commerce, and several other agencies are involved in activities related to the multinational corporation.

Mr. BAKER. Yes, sir.

Senator INOUE. If one desires to have any information, he'll have to go to all of them. I was just wondering if you foresee the Commerce Department becoming the focal point for information gathering.

Mr. BAKER. We do see it as becoming the central focal point for information gathered for the purposes of statistical and analytical studies.

Senator INOUE. Are there any additional programs or studies now conducted by your Department which might be included within the broad authority of this bill?

Mr. BAKER. The Department conducts quarterly and annual surveys now pursuant to the authority of Bretton Woods. One of the modifications which we would suggest is that the drafting of this bill be reviewed to make certain we don't have dual statutory authority to carry out related work and that this legislation would provide such authority. In addition, of course, as you have pointed out, we are performing

the duties required of us under the Foreign Investment Study Act of 1974, but those duties are essentially completed.

Senator INOUE. Your statement suggests that the Department of Commerce does not want any part of portfolio investment surveys. Could you tell me why?

Mr. BAKER. Well, sir, we have never done the portfolio survey, since that has always been the province of another department. It's the feeling I think on the part of our staff people that were we to be charged with that additional responsibility we would have to gear up additional personnel and obtain additional resources, by way of funding, to undertake those responsibilities.

Senator INOUE. Are you satisfied with what is being done at the present time?

Mr. BAKER. With what is being done on portfolio analysis?

Senator INOUE. Yes.

Mr. BAKER. Yes. I think so.

Senator INOUE. Can you give this committee your interpretation of the pertinent parts of section 5 of the Bretton Woods Agreements Act, which authorizes the gathering of information on the U.S. international investment position insofar as we are able to furnish this information?

Mr. BAKER. I'd like Mr. Kruer to answer that, please, sir, if that's all right.

Mr. KRUEER. That section of the Bretton Work Agreement Act refers to a statistical series which BEA does publish annually now. It is the international investment position of the United States broken down by several different categories, including direct investment, portfolio investment, short-term investment, including our investment abroad and foreign investment in the United States.

Senator INOUE. How would you interpret "so far as it is able?"

Mr. KRUEER. Well, in discussions with some of the people who were more concerned with this question in earlier days, I think that phrase was included because the drafters of the act were concerned that certain of the less-developed countries would not be able to supply statistical data in as great detail as some of the developed countries such as the United States. Therefore, they wanted to state it so that it could be done by each country according to its abilities.

Senator INOUE. Then this was not intended to be a loophole?

Mr. KRUEER. No.

Senator INOUE. Once again, Mr. Secretary, I thank you very much for your assistance this morning.

The committee is pleased and honored to welcome the Assistant Secretary of the Treasury, the Honorable Gerald Parsky. Mr. Parsky, welcome, sir.

**STATEMENT OF GERALD PARSKY, ASSISTANT SECRETARY OF THE
TREASURY, DEPARTMENT OF THE TREASURY; ACCOMPANIED
BY JAMES GRIFFIN, DIRECTOR, OFFICE OF INTERNATIONAL
INVESTMENT**

Mr. PARSKY. Thank you very much, Mr. Chairman.

I would like to go through my prepared statement if I could, and I'll be glad to answer any questions.

Mr. Chairman, I appreciate the opportunity to present our views on international investment and on the International Investment Survey Act of 1975, S. 2839. International investment has received considerable attention during the past 2 years, both in the Congress and the executive branch, and there are several basic principles that lie at the heart of our policy in this area.

First, we feel we should rely on the private market as the most efficient means to determine the allocation and use of capital in the international economy.

Second, we believe foreign investment in the United States is beneficial, and, subject to limited restrictions, should continue to be welcomed as healthy for our economy.

Third, although we must be aware of not imposing undue burdens on the private sector, adequate information on international investment should be made available to all branches of the Government and to the public.

The basic purpose of the legislation you are considering relates to the third principle, namely, to make sure that our information on U.S. international investment is adequate and to assure that our legal authority to collect this information is clear and unambiguous. The Treasury Department concurs in such objectives. We do not believe that such legislation should be viewed as in any way weakening our commitment to the free flow of investment capital. Rather, we view it as a desire to insure that all the necessary facts are available so that sound policy can be developed.

This morning, I would like to briefly review with you our policy in this area and to assess this legislation in light of that policy. Our basic policy toward foreign investment in the United States and U.S. investment abroad has reflected an "open door" approach. That is, we offer no special incentives for inward or outward investment and, with a few internationally recognized exceptions in the case of inward investment, we impose no special barriers to international investment. Furthermore, foreign investors are generally treated equally with domestic investors once they are established here, and national treatment for our investors abroad is a basic tenet of our policy toward other countries.

In light of certain changes in international economic affairs, including in particular the rapid growth in the hands of a few governments of funds available for investment abroad, some people have questioned our policy with regard to foreign investment in the United States. In part as a result of this concern, the Foreign Investment Study Act of 1974, which was initiated by this committee, was passed, calling for more information. The Treasury and Commerce Departments are now gathering information on foreign portfolio and foreign direct investment and final reports to Congress are due in April.

With respect to foreign portfolio investment in the United States, which the Treasury Department is responsible for, our preliminary findings are that this investment as of end-1974 totaled about \$60 billion, of which \$23 billion was in the form of stocks and \$37 billion in the form of bonds and other long-term debt. These amounts are expected to increase somewhat when we make our final computation but not significantly. Our estimates prior to the benchmark survey were

that foreign holdings of stocks were \$18 billion and holdings of bonds and other long-term debt were about \$38 billion.

We have found that the bulk of these holdings were by persons resident in a few European countries and Canada and were well diversified among various U.S. industries. The holdings of the oil-producing countries accounted for less than 4 percent of the total, or about \$2.2 billion.

In addition to undertaking these studies, the administration conducted a thorough review of our policy toward inward investment and concluded that no change was necessary or warranted. Consequently, we will oppose any new restrictions on foreign investment. This conclusion is based on our findings that: (a) the amounts of investment are not significant in relation to the U.S. economy; (b) there is no evidence that foreign investors are abusing or misusing their investments in this country (c) our safeguards against possible abuses are adequate; and (d) the benefits from an "open-door" policy far outweigh any possible disadvantages.

Senator INOUE. What are some of the possible disadvantages?

Mr. PARSKY. Well, there has been some concern raised that the intentions of potential investors may be contrary to U.S. interest; that, in fact, some may be investing in order to disrupt our economy, to control our industries, and to move certain sectors of our economy in a direction that we would not want. In addition to that, some have expressed concern that because the potential investors are governments, as opposed to private individuals, there are additional dangers of a government having control over our economy.

Senator INOUE. There is a potential for disruption, but do you see any evidence that such disruption is occurring or has occurred?

Mr. PARSKY. No, Mr. Chairman, I have seen no evidence at all of that. As a matter of fact, I have had extensive discussions with the leaders in most of the governments that have the potential to become major investors here, and I'm convinced, having talked to them, that their intention is not to control segments of our industry or to disrupt our economy, but to make sound, safe, long-term investments for their countries.

Senator INOUE. If the Congress of the United States should insist upon changing our present open-door policy and impose restrictions on investment—a course which you oppose—do you think that other countries would respond accordingly?

Mr. PARSKY. It's hard to predict with certainty, but I must say that our Government has advocated this open policy, and in fact has argued with a number of countries about our intentions abroad, and I think it's rather ironical that some would now be contemplating changing that. I think that we could anticipate that some other countries might adopt a reciprocal policy with respect to our investments abroad.

Senator INOUE. I happen to agree with you, sir. I just wanted to know what your assessment was. Please proceed, sir.

Mr. PARSKY. Briefly, the published data on foreign direct investment inflows into the United States show figures of \$2.7 billion in 1973, \$2.2 billion in 1974, and \$0.9 billion in the first three quarters of 1975. However, these figures drop significantly in each year, when one set of transactions—those associated with the foreign purchase of a U.S.-incorpo-

rated company, whose entire operations are abroad—are excluded. Of the remaining amounts, a major part, of course, represented capital inflows into companies that were already foreign-controlled.

The flows of foreign portfolio investment into U.S. securities (excluding U.S. Government issues) fell from \$4.1 billion in 1973 to \$0.7 billion in 1974 and rose to \$3.9 billion in 1975 with the recovery of our stock market.

Although these figures indicate more foreign interest in U.S. stocks, there is no evidence of any trend toward takeover of important segments of U.S. industry by foreign interests. According to reports to the Securities and Exchange Commission and other sources of information, there has been no unusual foreign activity in this regard in recent years.

Senator INOUE. May I interrupt? You have indicated that the investments have been well diversified among U.S. industries. Are you suggesting that there is no greater interest in certain segments of industry?

Mr. PARSKY. Well, I think that you have to take a look at it on a country-by-country basis. Different countries will take a different attitude toward investment. Some countries who have large development programs like Saudi Arabia and Iran, to cite two examples, will be seeking to invest in those entities abroad that can provide benefits to their development. Countries like Kuwait and other of the Gulf states that may not have as large an internal development program will be diversifying investments more and will be interested in investing in such things as real estate and other sectors. I don't mean to suggest that they will not make decisions to invest in individual sectors, but what I do want to emphasize is that I believe those decisions will be based on economic and financial grounds and relate, of course, to their internal development.

Senator INOUE. Thank you, sir.

Mr. PARSKY. Special concern, Mr. Chairman, has been expressed about the OPEC countries and their potential for future investment. I believe such concern is not warranted. Some of the alarming estimates of long-run OPEC financial accumulations made during the last 2 years have been drastically reduced. Our latest estimate of the peak investment accumulation by all the OPEC countries is about \$200 billion in 1980, from which point they would no longer be accumulating an investable surplus. We believe that the peak rate of new investments in any 1 year will be shown to be in 1974 when the accumulated surplus for OPEC as a whole amounted to \$60 billion. For 1975, our figures show a \$42 billion surplus in total accumulations, about \$5.5 billion of which was placed in long-term investments in the United States. Although that was an increase of about \$4 billion over 1974, virtually all of that investment was of a portfolio nature.

Mr. Chairman, I have provided a table which is attached to my testimony and which gives you a breakdown comparing of the distribution of OPEC surpluses and investment pattern in 1974 and 1975. You will note that the percentage of such investment in the United States was slightly less in 1975 than it was in 1974, but still in the range of well under 20 percent, and it was well diversified.

[The table follows:]

CURRENT TREASURY STAFF ESTIMATES OF OPEC SURPLUSES AND INVESTMENT PATTERN

	1974		Preliminary 1975	
	Amount (billion)	Percent of total	Amount (billion)	Percent of total
In United States.....	\$11½	19	6¼	15
In Euro-banking market (including United Kingdom banks, other European banks, and offshore banks).....	22½	37½	7	17
Other to United Kingdom.....	7½	12½	¼	½
Other to developed countries.....	5½	9	7	17
IFI financing and IMF oil facility.....	3½	6	4	9½
Other to LDC's (including grants).....	4	6½	6½	15
All other.....	5¾	9½	11	26
Total.....	60	100	42	100

Looking ahead, we believe that the oil-producing countries will place an increasing proportion of their investments in longer-term debt and equity instruments. Although investments will continue to be placed in the United States, we must take account of the fact that the rate of new investment by the oil producers outside their own countries will decline as they are able to absorb more internally, which I believe will take place to an ever increasing extent as we get to 1980's.

With respect to the policies these countries are pursuing, the managers of OPEC funds have indicated to us that they have no desire to gain or maintain control over major segments of the U.S. economy. Many of these countries have participated in our markets for years, have been responsible investors, and have always sought to abide by our laws. They are following diversified investment objectives similar to any institutional investor, and while there may be some additional cases of major investments, I do not believe that any of the major OPEC investors would consider any moves in this area which would be against the U.S. national interest.

Senator INOUE. May I ask you as to how Japanese portfolio investment shows up in your survey?

Mr. PARSKY. I don't think I have off the top of my head the breakdown of the Japanese investment. I will be glad to provide it, Mr. Chairman. I know that, as I said, the major portion of the portfolio investment is from European countries and Canada, so I wouldn't anticipate that the figure would be large. I have sitting with me Jim Griffin, who is the director of our investment policy office in the Treasury, and works with me, and maybe he could give it to you.

Mr. GRIFFIN. Mr. Chairman, in our preliminary figures on inward portfolio investment, we have a figure of \$1.3 billion for Japanese holdings here as of end-1974.

Mr. PARSKY. That's out of \$60 billion, right?

Mr. GRIFFIN. Yes.

Senator INOUE. What is the picture on the direct investment?

Mr. GRIFFIN. I don't know if the Commerce Department has a figure from their new survey. There is a figure published in their Survey of Current Business for 1974. For Japan it was \$480 million as of the end of 1974 and, of course, that's on the old basis. That doesn't reflect their new survey that they're doing now.

Senator INOUE. Thank you, sir.

Mr. PARSKY. At the same time that our review concluded that no additional limitations on investment were warranted, we did decide to institute certain administrative measures to supplement our existing laws and regulations. Last May a new high-level committee was created to assess the impact of foreign investment in this country and to review investments that might have major implications for U.S. national interests. Also a new office of Foreign Investment in the United States was created in the Commerce Department. We have also advised all foreign governments contemplating a major direct investment in the United States to seek consultation with the U.S. Government on the prospective investment.

I personally have discussed this policy with the major potential governmental investors in the Middle East and found a broad acceptance of the concept of consultations as long as it is applied to all governments on a nondiscriminatory basis, and we view the policy that way. We believe this process of consultations to be far preferable to any legislative proposals for formal screening or prenotification mechanisms. Our approach is much more selective, involving only those few major direct investments that may raise important public policy issues. Our interest is not to raise any new barriers to foreign investments but to provide a mechanism by which a foreign government can learn of the U.S. Government's views on a prospective major direct investment before it is undertaken. Therefore, the process will minimize the possibility of misunderstandings or future investment disputes. Such consultations will thus prove beneficial to the prospective investors as well as to the United States.

Senator INOUE. Is this process now in practice?

Mr. PARSKY. Yes. We have had consultations with such governments as Iran on a potential investment that they were going to make in Pan Am; with Romania on a potential joint venture with a company in the United States for investment in a coal mine; and we have had a series of discussions on each occasion that we visited the Middle East on investment policy. Now I must say that all of these governments indicated to me that they were willing to consult, but if the policy was aimed at significant direct investments in this country there wouldn't be a great deal that they would have to talk about since they aren't contemplating those kinds of investments at this point.

Senator INOUE. Is this open-door policy of the United States a common policy in the rest of the world?

Mr. PARSKY. Well, I think that it is a matter of degree, Mr. Chairman. I think that different countries have different views. Some countries have more extensive limitations on investment and some have formal screening processes. I think that we would be on the liberal side with respect to our policy but, again, I would say that it's an area that the United States ought to be the leader in and not a follower.

Senator INOUE. What about the Western European countries?

Mr. PARSKY. I would be glad to provide you with a specific breakdown. It's my understanding, though, that the Western European countries would range from a formal screening process in some countries—I believe France has a formal screening process at a certain level—to a series of other limitations. But I will be glad to supply the committee with a full breakdown of the approaches they take.

Senator INOUE. We would appreciate that, sir.

Mr. PARSKY. Inherent in this overall approach is a belief that we should not make basic departures from a longstanding and wise policy on the basis of conjecture. Rather, we should make sure we have all the relevant information. S. 2839 is put forward on the same premise; namely, that we must have the basic data on outward as well as inward investment in order to understand the implications of this investment for our current policy. Again, we strongly support this approach to this important area.

The Government has, of course, been collecting data of the kind envisioned in this bill for many years. However, as you have noted, Mr. Chairman, our current authority to collect it is deficient in some respects, and I would like to give the committee some background on this.

Presently, international investment data is collected under the authority of several statutes. There is no single, unified authority for the data collection and studies as contemplated by S. 2839. The present laws relied on by the Departments of Treasury and Commerce are section 5(b) of the Trading with the Enemy Act, section 8 of the Bretton Woods Agreements Act, and the Foreign Investment Study Act of 1974, which expires April 26, 1976.

Of these, the Bretton Woods Agreements Act is the most broadly used as a legal basis for collection of data by the Office of Statistical Reports in Treasury and the Bureau of Economic Analysis in Commerce. However, the authority of the act is subject to an inherent limitation. Under its authority, the President is authorized to collect data only in the detail essential to comply with requests for information from the IMF. Presently, the IMF requests submission of balance-of-payments and international investment position data from member nations and the Bretton Woods Agreements Act has been relied on by Treasury and Commerce for the collection of such data.

Under Executive Order 10033, the National Advisory Council on International Monetary and Financial Policy—NAC—in consultation with the Office of Management and Budget, must approve reporting requirements which are proposed for issuance under the Bretton Woods authority. Since the Bretton Woods authority is strictly limited to the collection of data essential to respond to IMF requests, the NAC cannot approve reporting requirements which go beyond the IMF's stated needs. It was on this basis that, in 1974, the NAC was forced to disapprove a number of items on a Commerce proposed survey questionnaire on direct investment abroad. The NAC expressed no disapproval of the Commerce proposal in substance, it simply could not fairly conclude that all of the information to be sought was necessary to comply with IMF requests.

Section 5(b) of the Trading with the Enemy Act contains broad regulatory and reporting authority over a wide variety of international transactions. The statute, along with the Bretton Woods Agreements Act, is one of the authorities cited for the Treasury foreign exchange reporting system. However, the statute is operative only in time of war or national emergency. While several past national emergency declarations remain in effect, they were not proclaimed for purposes of data collection on international investment. In this regard, the National Emergencies Act presently pending in Congress arises

out of some congressional views that emergency powers statutes should not be used as a legal basis for actions or programs of permanent or indefinite duration. Among other matters, the proposed act would require a study of whether section 5(b) should be retained in its present form as an emergency powers statute. Thus, section 5(b), despite its breadth, is not the most suitable or certain basis for the full range of ongoing collection and study activities called for by S. 2839.

In sum, we are relying on a patchwork of laws to accomplish tasks which could be authorized by a single omnibus measure such as the bill we are considering today. Even more important is the fact that, despite the complementary and even overlapping quality of the existing statutes, deficiencies in our collection authority for certain purposes still remain and should be cured by new legislation. There is, therefore, a clear need for an unambiguous and permanent authority to collect data on international investment.

Given this need, the question is how can we best provide for it? In some important respect, I believe that S. 2839 could be improved, and I would like to offer some general suggestions as to the kinds of changes I feel should be effected.

The bill as now drafted would give the Secretary of Commerce authority to survey and analyze information on portfolio as well as direct investment. As you know, the Treasury Department has been collecting and publishing the data on international investment other than direct investment for many years and is currently doing the part of the inward investment study which relates to foreign portfolio investment in the United States. We see no reason to change this arrangement at the present time. Since this is to be permanent legislation, however, it might not be advisable for particular agencies to be designated to carry out each of the specific tasks. It is certainly our current intention that the Commerce Department and the Treasury Department will continue to collect data on direct and other investment respectively. Nevertheless, I would suggest that either the authority be given to the President or that the Commerce and Treasury Departments be designated to collect and analyze information on direct and other investment respectively but with the proviso that the President can change these designations at a later time if for some reason he finds it desirable.

Senator INOUE. I think this change can be easily made.

Mr. PARSKY. Another point I would like to note is that the bill as it is written is intended to provide authority to collect data on outstanding amounts of investment no less often than every 10 years but it does not appear to give authority to the Government to collect data on transactions. As you know, the Commerce and Treasury Departments have for many years been collecting data on foreign investment transactions on a monthly or quarterly basis, and I would hope the committee would agree that it is desirable to continue these programs. As noted earlier, these data are being collected under the Bretton Woods Agreements Act which probably provides a firmer legal basis than for detailed surveys of outstanding amounts. Nevertheless, there is some ambiguity as to how much information we can collect under this authority, and we believe that this would be an opportune time to clarify this by having the new legislation authorize the collection of data on

all capital transactions, both short term and long term, as well as on outstanding amounts.

Senator INOUE. May we request that your staff sit together with our staff and resolve some of these matters?

Mr. PARSKY. We would be delighted to do that.

The bill as it is now structured would authorize and mandate studies of international investment no less frequently than every ten years, and it spells out with considerable specificity what information should be collected and the kinds of analyses to be done.

The difficulty with trying to be too specific in permanent legislation of this kind is that we cannot foresee precisely what kinds of information will be topical and desirable in the years ahead. Too much specificity can work to our disadvantage in two ways. First, it could mandate the collection and analysis of some kinds of information which would be costly to provide yet not of particular interest at the time the studies are being done. Second, it could raise doubts about the legal authority to collect some kinds of information which may be of great interest at some future time but which were not specified in the act because the need for them was not foreseen at the time the legislation was drafted.

It is also important to bear in mind that the private business community is now required to supply a vast amount of information to the government. The cost to them in supplying this information and the cost to the Government in processing and analyzing it is considerable, and we should seek to minimize such costs. Therefore, I would recommend that the legislation contain strong language to the effect that the information-gathering activities be carried out in a manner which will reduce as much as possible the cost and inconvenience to private firms. I would also suggest that our staffs could work together in seeing whether or not some of the specific items that are mentioned in the bill couldn't be either left open or in some way given some degree of flexibility.

Senator INOUE. I think your argument is most compelling here.

Mr. PARSKY. In this connection, I should point out that a comprehensive survey of U.S. portfolio investment abroad would raise serious problems, both in terms of the cost to the private sector in supplying the information and the intrusion into the privacy of individuals that would be required if a comprehensive census were done as we did in the case of inward portfolio investment. For these reasons, we would recommend against this kind of survey at this time. Instead, we propose that the Treasury Department first do an assessment of the probable validity of our current estimate of the outstanding amount of U.S. portfolio investment abroad on the basis of our data on portfolio transactions and on what we learn from our inward portfolio study as to the processes and mechanisms of international portfolio investment. On the basis of these findings we can then decide whether it would be worthwhile to undertake a limited survey of U.S. financial institutions.

In conclusion, I would emphasize that there is a need to provide for clear and permanent authority to collect a broad range of information on international investment on a continuing basis and assure that information on international investment will be adequate to meet the needs of the Government, the Congress, and the public in this

important area. S. 2839 would provide such authority. We would like to work closely with the committee and its staff on the changes suggested in my testimony as well as other changes which would be aimed at avoiding unnecessary costs to the Government and the private sector.

Thank you.

Senator INOUE. Thank you very much, Mr. Secretary.

What sort of strong language would you suggest that we place in the bill to keep costs as low as possible?

Mr. PARSKY. Well, what I would suggest is that there be a strong caveat that in the planning for these studies consideration be given to the costs that are being imposed, and if it is determined feasible, that some assessment should be made by those conducting the study as to what the costs are. I think the objectives for these studies can be set out, and I think the data should be collected, but I think we should begin to recognize the kind of burdens that would be imposed on the private sector. I don't think that the bill could provide any higher degree of specificity in terms of cost, but I think there should be a general caveat that that factor should be taken into account.

Senator INOUE. I have prepared questions relating to the activities of your interagency committee on foreign investment and to a few technical points presently in the bill. I would like to submit these to you for your consideration and response.

Mr. PARSKY. I will be delighted.

Senator INOUE. Thank you very much, Mr. Secretary. You have been extremely helpful.

Mr. PARSKY. Thank you, Mr. Chairman.

Senator INOUE. The final witness today is Hon. Paul Boeker, Deputy Assistant Secretary of State. Welcome, Mr. Secretary.

STATEMENT OF HON. PAUL BOEKER, DEPUTY ASSISTANT SECRETARY OF STATE, DEPARTMENT OF STATE

Mr. BOEKER. Thank you, Mr. Chairman. I regret that I was a little late this morning. Senator Byrd was working me over on the subject of foreign indebtedness to the United States.

Mr. Chairman, I appreciate this opportunity to present to your committee the Department of State's views regarding S. 2839, the International Investment Survey Act, and to discuss the relationship between this legislation and current discussions in various international organizations concerning international investment.

With direct regard to the provisions of S. 2839, I have a few general remarks to add to those already made by my colleagues from the Commerce and Treasury Departments.

Improved availability of current information as provided in S. 2839 will aid formulation of timely and effective policy in the United States relating to international investment. The executive branch, the Congress, and the public will benefit from the collection and analysis of data on such investment as called for in this bill.

The proposed benchmark surveys on both inward and outward foreign investment will be particularly useful. Public concerns in both areas will, I believe, be substantially allayed by more comprehensive and comprehensible information. S. 2839 is a most constructive con-

tribution in this direction in that it provides for compilation and publication of aggregate investment data of the type that is most useful for purposes of public information and policy formulation.

It is, of course, difficult to foresee exactly what items of data will be most pertinent to policy issues 10 or 20 years from now; therefore, we see advantage in providing some flexibility in the structuring of future surveys. Regarding the other studies called for, the President might be authorized to direct their preparation, as necessary, by various executive agencies.

I believe we all share the objective of minimizing the burdens of new data requirements upon those who must keep the records and do the reporting of the data. We seek to establish a balance between the value of data to be collected and the cost of providing it. In many cases, these objectives may be reconciled rather easily. As Mr. Baker and Mr. Parsky have already explained, we do have a number of suggestions along these lines which we would be glad to discuss with the committee staff.

We strongly support inclusion of section 7(D) in S. 2839 to provide necessary protection for individual company data. It is important that efforts to satisfy the statistical data requirements of the U.S. Government not compromise legitimate concerns of business confidentiality.

This brings me to the relationship between this committee's work on international investment and that going on in various international organizations to which the United States is a party. Throughout the period since World War II and the implementation of the Marshall plan, the United States, joined by most of the other industrial countries, has adhered to the principle of liberalization of international capital movements in the belief that such movements contribute to improved utilization of world resources and thus to increased competition in and efficiency of world production of goods and services. Encouraged by the liberal regime created by, for example, the Code of Liberalization of Capital Movements of the Organization for Economic Cooperation and Development, and an international network of bilateral friendship, commerce, and navigation treaties, foreign investment has expanded rapidly as private enterprises have sought to take advantage of the opportunities for growth and profits offered by access to foreign markets and resources. Today, virtually all of America's largest, most successful corporations are involved in operations outside the United States, and the repatriated income and other benefits of those operations make a large contribution to the continued growth and dynamism of our domestic economy.

Senator INOUE. May I interrupt as we go along, sir?

Mr. BOEKER. Please.

Senator INOUE. We have been advised that the State Department has commissioned a study by Professors Friedman and Frank which covers some of these subject areas. Can this study be made available to the committee?

Mr. BOEKER. Yes, I see no reason why we could not make it available to the committee. That was done under an external research contract from the Department of State. I believe the study is completed. The review of it is going on in the external research branch of the State Department and we may have some comments on the work and

the methodology, but we would certainly be delighted to make it available to the committee.

Senator INOUE. What were their general conclusions?

Mr. BOEKER. I, myself, have not read the study in detail. It was addressed in part to the effects of foreign investment on the domestic economy and it concluded that there were positive effects and some question marks or perhaps even negative effects from foreign investment, but I'm not familiar with the details, Mr. Chairman.

Senator INOUE. When it can be made available, the committee will appreciate it very much if we could get a copy of it.

Mr. BOEKER. Certainly.

Senator INOUE. Thank you, sir.

Mr. BOEKER. We shall do so.

As foreign investment has increased, so has the need to improve our understanding of it. Recognition of this need has inspired both national and international discussions of international investment and the multinational enterprise. The United Nations has created a Commission and an Information and Research Center on Transnational Corporations. The OECD now has a Committee on International Investment and Multinational Enterprises. Most other international organizations have also found reason to examine one aspect or another of the international investment phenomenon.

The purpose of these undertakings has been a dual one: To arrive at an improved understanding of the effects of international investment on national and international economies; and to assist in assuring that those effects remain beneficial for the countries among which such investment takes place. The United States supports these objectives.

Within the OECD a number of related measures regarding international investment and multinational enterprises are under discussion. Together these measures are aimed at supporting a liberal climate for international private investment in a number of ways. First, they seek to establish a broad level of agreement on treatment of foreign investors by governments of the industrial countries. In particular a proposed guideline on so-called national treatment reaffirms the general standard of extending to established foreign enterprises no less favorable treatment than that accorded to domestic enterprises. Second, a guideline on investment aids and restrictions provides for consultations on national measures affecting foreign investment to insure that any adverse effects on other member countries are taken into account and to the extent possible minimized. Third, a set of voluntary guidelines for multinational enterprises sets out those standards for multinational business which the governments of the OECD region agree represent reasonable expectations of good business conduct. It is explicitly recognized that these standards, where relevant, are equally applicable to domestic enterprises.

This set of guidelines for multinational business includes provisions on disclosure of information by individual companies to the public. In general, the draft guidelines include data such as sales, operating results and employment which are disclosed by publicly held companies in the United States under SEC regulations because they are material to investor interests.

There are inherent limitations in company-by-company disclosure when it comes to meeting another objective—that of increasing

general public understanding, and confidence in the benefits of international investment and multinational enterprises. Company-by-company data is difficult to assimilate. It is necessarily incomplete in coverage. When it involves quite specific items such as product line data or operating results broken down by country of operation, such data can run counter to legitimate considerations of business confidentiality. In addition, some company-by-company data can give rise to misleading comparisons among companies which may reflect no more than varying definitions and accounting standards. For these reasons the aggregate and sector data for foreign investment which could be compiled under S. 2839 can better serve the objective of public understanding than most types of expanded company-by-company disclosure, whether nationally or internationally.

In general, the United States has favored collection and publication of improved data on international investment by the industrial countries of the OECD. Within the OECD we have favored work toward harmonization of foreign investment statistics and also would advocate further work on harmonization of accounting standards so that existing company-by-company data disclosed in OECD countries would be more comparable and useful.

Senator INOUE. Excuse me, Mr. Secretary. How far has the work progressed on the harmonization of the company-by-company data?

Mr. BOEKER. Well, not very far at all. It's been a project that we have been very much interested in. The difficulties there are primarily that accounting is a private profession and accounting standards are established in some countries by, in effect private professional groups which have some informal relationship to regulatory mechanisms. Therefore the composition of an international effort on harmonizing standards gets rather difficult. What we would be looking for perhaps would be a working committee within the OECD that would necessarily have to include both Government and accounting profession representatives. There's interest in this from elements of the accounting profession and certainly within the U.S. Government, and it would be a work program of that kind that I think we would have in mind.

Senator INOUE. I ask that question because this matter has haunted me for a long time. I know individual countries differ on accounting definitions, processes, and standards and I was wondering how we can narrow these differences. Sometimes I wonder if we're talking about the same thing.

Mr. BOEKER. Well, it will be difficult, but I think it definitely is worth the effort. It can give rise to significant misunderstanding and I think the tendency will be even greater in the future. You can have, for example, multinational companies disclosing profits in some country of Western Europe that appear quite low compared to what they report to U.S. stockholders, when actually there is no difference in fact; the only difference is in accounting standards. Some European countries allow very significant reductions from operating results for various reserves of one kind or another which make reported profit much smaller than it would be if that were an accounting item comparable to U.S. standards. But I don't think it's hopeless by any means.

One thing that could be done, for example, would be to try to agree to a minimum of commonly defined items that would be included in

normal disclosure in each of the major industrial countries. It would still leave many items that would vary from country to country, but it would create sort of a core of items that would be disclosed on a comparable basis by companies in each of the major industrialized countries. I think efforts in the OECD will inevitably focus on this kind of initial effort.

Senator INOUE. I think this is very important because I can't help but feel that some part of the present concern of the Congress about so-called international bribery payoffs may be due to a misunderstanding of terms. Some may look upon finder's fees as being a type of payoff, contingency fees, consultant fees, etc. It goes on. There is a multitude of definitions. In some countries, I suppose it would be simple payoffs, but in others it might be legitimate business expenses. There's some confusion in the minds of many Americans at the present time.

Mr. BOEKER. I agree with you.

The United Nations Commission on Transnational Enterprises is just beginning its substantive work in Lima in March. It is not yet clear what considerations on improved information on international investment will emerge from the deliberations of the U.N. Commission.

Our general objective in both the OECD and the U.N. has been to promote a more favorable climate for international investment by introducing greater certainty into expectations which enterprises and governments have of one another's behavior. In developing our approach to international investment issues in the OECD and the U.N. the Department of State has made every effort to obtain the views of concerned private parties on these matters. In particular, the Department of State has created an Advisory Committee on Multinational Enterprises, under the Advisory Committee Act, which represents a broad range of private sector interests concerned with international investment issues. This committee was established in June 1975, to provide a medium for exchange of views between private sector—business, labor, consumer representatives, the academic community—and the Government concerning U.S. policy on international investment. The committee has held regular meetings since last summer and has thus far focused primarily on the measures now under consideration in the OECD and the U.N. as to what the U.S. position should be in those various bodies. The views expressed by committee members have proved invaluable in assisting us to develop positions for these discussions which fully reflect broad U.S. interest.

In closing, I would underline the strong belief that sound policy in the area of international investment and the multinational enterprise must be based on a particularly careful assessment of the best information available and a broad consideration of the interests of all sectors of the U.S. economy.

S. 2839 promises to advance greatly our understanding of this complex issue and we welcome it accordingly. We hope that, by so doing, it will permit us not only to respond more effectively to the problems associated with international investment, but also to uphold more successfully the advantages which flow from it.

Thank you.

Senator INOUE. Thank you very much, Mr. Secretary. I have several questions which I shall submit for your response.

I would like to ask one at this time. If this measure is enacted, what would be its impact on information seeking activities of multilateral organizations and individual countries which have made demands on the United States for company data?

Mr. BOEKER. Well, I think it would have some tendency to reduce the drive to get more company data for the type of consideration I mentioned in my statement. Company-by-company data in this country is secured primarily to protect investor interests and its use for other purposes is inherently limited, whereas the kind of aggregate data that would be collected and made available to the public in sensible statistical matrices and studies under your bill would, I think, be far more useful for the purposes of increasing public understanding and advancing academic work on the effects of international investment.

Therefore, I think to the extent that some governments and interests are, I would say rather ill-advisedly, pressing for increased disclosure of some company data for reasons of public understanding and enlightenment, that situation would be improved as far as the United States is concerned by providing more data of the type and in the form that is more specifically addressed to that objective of increasing public understanding.

I think the bill would put the U.S. Government in a better position to pursue such projects as harmonization of statistical standards and requirements among the major industrial countries since it would give us rather broad authority to compile data in this field. I think it would assure that our statistics in the foreign investment area would be among the best or the best among the major industrial countries; therefore, we would have a very strong basis from which to press others to match us in effect in this important area.

Senator INOUÉ. Once again, thank you very much, Mr. Secretary, for your assistance this morning.

[Whereupon, at 11:45 a.m., the hearing was adjourned.]

INTERNATIONAL INVESTMENT SURVEY ACT OF 1975

FRIDAY, FEBRUARY 27, 1976

U.S. SENATE, COMMITTEE ON COMMERCE,
SUBCOMMITTEE ON FOREIGN COMMERCE AND TOURISM,
Washington, D.C.

The subcommittee met at 10 a.m. in room 5110 of the Dirksen Senate Office Building; Hon. Daniel K. Inouye (chairman of the subcommittee) presiding.

OPENING STATEMENT BY SENATOR INOUE

Senator INOUE. This morning the subcommittee will conclude its hearings on S. 2839, International Investment Study Act of 1975.

I am pleased to welcome as our witnesses Mr. Jacob Clayman of the AFL-CIO; Mr. David Devlin of the Emergency Committee of American Trade; Mr. Alexander Vagliano of the American Bankers Association; and Prof. Peggy Musgrave of Northeastern University.

As I stressed on the initial day of our hearings on Monday, the explosive growth of international investment has been the most important economic development of the world economy since World War II. As a result of this expansion, our economy is more closely bound to other countries than ever before in our history.

Every industrialized country, especially the United States, is both the host and source for foreign direct investment. While large-scale foreign direct investment in the United States has been recent, other countries have watched American involvement in their economies grow for many years.

Economic conditions change so easily and rapidly that our policy on international investment requires constant reevaluation and examination. It is the purpose of this bill to provide for the collection of statistics and production of analysis necessary to a rational, constructive policy on international investment. There is, I believe, general agreement on the need for this bill, although further refinement of the details is required.

It is my hope that we shall be able to schedule committee consideration of this bill in the very near future.

As our first witness this morning, it is my pleasure to once again welcome Mr. Jacob Clayman of the Industrial Union Department of the AFL-CIO.

Welcome, sir.

(37)

STATEMENT OF JACOB CLAYMAN, SECRETARY-TREASURER, INDUSTRIAL UNION DEPARTMENT, AFL-CIO; ACCOMPANIED BY PHILIP J. DAUGHERTY, LEGISLATIVE DEPARTMENT; AND BRIAN TURNER

Mr. CLAYMAN. Thank you.

First, Mr. Philip Daugherty, to my left, of the legislative department of the industrial union department; and Brian Turner, to my right, who has been doing special and extraordinary research work in this area which you are concerned with, Senator, and in my judgment, very novel and exciting research that he has conducted.

As you have indicated, I'm the secretary-treasurer of the industrial union department. We are a branch of the AFL-CIO. We number in our midst industrial workers number over 6 million.

I want to take a quick moment to express the appreciation of our organization for the interest of the chairman in submitting this bill that strikes us that the chairman has shown an extraordinary sensitivity to one of the important issues of our time. It appears to be on the surface to some as a kind of research and dull issue, yet it is the stuff out of which the very heart and future of our economy is made.

Senator INOUE. I think I should give you the credit you deserve because, as I recall, it was your suggestion that we should be concerned in developing information about outward investment just as much as inward investment.

Mr. CLAYMAN. If it is so, then we are proud to be designated in that fashion, because we truly feel this to be an unusually significant issue.

For example—and I will soon quickly get into the formal testimony—our research conducted essentially by Brian Turner indicates that, because of the activities of American multinationals in our society, we have lost 1 million, roughly, 1,800,000 jobs, American jobs.

Frank & Freeman, who also have done a study in this area at the behest of the State Department, interestingly enough, have come up with a figure over a period of 7 years of something like 1,062,000, something in that range.

The multinational corporations, of course, have been shouting to the rooftops that, "Indeed we have lost no American jobs, we have made American jobs. We have increased American jobs." There you have this interesting, strange range of 1,800,000 jobs on the one hand and allegations that jobs actually have been created by American multinational corporations. The figure of Frank & Freeman is somewhere between our estimate and that of the multinational corporations; and the Government apparently knowing nothing at all.

That is the heartbreak and the heartache of our problem, that Government, the institution which should be carefully pursuing this issue in terms of statistics, has done relatively little. And this is the history we are trying to reverse, because if our statistics are correct, if Frank & Freeman's statistics are correct, then, Senator, it is obvious that the activities of American multinationals is one of the core problems in our society which needs to be resolved if we are to solve unemployment in our country.

Now, the economists in the main rarely touch on this issue. It has become so much a part of the conventional thinking that we don't even assess it at all in the terms that I'm assessing it now. Per chance

we are right. We think we are. Per chance, we are right on 1,800,000 lost jobs; they are gone. They are gone forever. They have fled the country.

How do we replace 1,800,000 lost jobs? That is why we are grateful to you for raising the issue, so that the economists, researchers on whatever side of the issue, will have some sound facts in front of them to draw their conclusions; and that Congress may be able to more properly and skillfully, intelligently, realistically assess public policy.

Now, if I may turn to the formal testimony.

We thank you for the opportunity to appear before this committee to speak in support of S. 2839, the "International Investment Survey Act of 1975." As we understand it, this bill provides legislative authority to the Commerce Department for expanded data collection and analysis covering inward and outward multinational investments, including both U.S.-based multinational corporations operating around the globe, and foreign-based multinationals operating within the United States.

The concern of the Industrial Union Department, AFL-CIO, for more responsible data collection on multinational activities was expressed before this committee in September 1974, and again through our testimony in May 1975, on the then-proposed Foreign Investment Disclosure Act. In the more recent hearings we underscored the urgency of improved Federal data collection on the operations of U.S.-based multinational firms, and we outlined how the responsible agency of the Commerce Department, the Bureau of Economic Analysis, had been frustrated by the executive branch in its attempts to expand their inadequate data base.

In conjunction with subsequent IUD testimony, the staff of the Senate Committee on Government Operations obtained copies of the documents transmitted between the Bureau of Economic Analysis and the executive branch committee that emasculated their proposed census of U.S.-based multinational corporations. Among the documents included in the record of their hearings of July 22, 1975, are the original BEA questionnaires, the successive cuts imposed on them, and the companion correspondence between BEA and the executive branch committee.

If anyone still questions the need for new legislation requiring data gathering on multinationals, reference to the BEA controversy as described in our earlier testimony before this committee and as now publicly documented in the records of the hearings of the Government Operations Committee should be sufficient to dispel their doubts. It may prove useful for this committee to include these documents in the record of today's hearings.¹

Last May we urged this committee to authorize and require responsible Federal data coverage on the global operations of U.S.-based multinational companies. I am pleased to note that such provisions have now been written into S. 2839, although we feel that the language of the bill needs strengthening in certain areas.

The urgency of getting improved data on U.S.-based multinationals has increased even since our testimony here 9 months ago.

¹ Refer to pp. 7-78 in "Information Management by Federal Regulatory Agencies," Hearings before the Committee on Government Operations, Subcommittee on Reports, Accounting and Management, July 22, 1975, part. I.

Thanks in large part to what we see as misguided U.S. economic and tax policies, American businesses have continued to move more and more of their new capital investments, vital technology, plant and equipment, production, and ultimately their jobs out of the United States. The overseas growth of U.S. multinationals has dramatically dwarfed growth in the domestic economy by every broad measure presently available.

Since 1960 the foreign expenditures of U.S.-based multinationals for new plant and equipment in manufacturing have grown at an annual rate of 16.4 percent. Astounding, isn't it? We have been creeping along on our own domestic growth while our American multinationals have blossomed out with such speed and with such strength as to create an annual rate of 16.4 percent abroad.

Since the multinationals overseas expansion is heavily slanted toward vital high-technology industries, the rate of their new foreign investments is now threatening to surpass domestic investment rates in our most advanced manufacturing industries. In the sophisticated nonelectrical machinery industry, for example, the level of plant and equipment spending abroad by U.S. multinationals had reached 76 percent of new domestic capital investments by all firms in the same American industry in 1973. In 1960 the figure was only 15.4 percent.

If anyone wants to test the question why American labor is disturbed, here is a statistic which makes the obvious point. While the U.S. share of world manufactured exports has been falling since the late 1950's, foreign production by U.S. multinationals has been easily outstripping American export production. In 1973, the last year for which data are available, aggregate sales of our multinationals foreign subsidiaries were more than four times the size of U.S. exports. We estimate that the sales of the foreign affiliates of U.S. multinationals now considerably exceed \$350 billion annually.

On the question of multinationals and the export of U.S. jobs, which focuses the deep concern for the labor movement and which profoundly affects the health of this Nation, there are only very limited direct statistics. The few available statistical facts, however, speak for themselves. In the 4 years between 1966 and 1970, the overseas employment of U.S. multinationals grew at a rate of 3.5 times as fast as their domestic employment. Their foreign jobs for production workers increased 10.8 times faster than their production jobs in the United States. The last figure I have seen—it has probably changed since I saw it—was that U.S. multinationals employ more than 5½ million workers in foreign countries.

When you look at our recession now, one has to pause and wonder where the loyalties of some of our multinationals are located.

These few examples indicate the scope of the expanding multinational phenomenon, but the statistics presently estimated by the Commerce Department give us little more than the bare outlines of answers to most questions, and not even a decent outline in other important areas. In spite of the staggering size achieved by the foreign operations of U.S.-based multinationals, we have almost no details on their present structure or their historical development. No information is presently collected comparing the foreign and domestic operations of U.S.-based multinational firms.

Since a voluntary survey of 298 firms in 1970, not one single questionnaire has been sent out to discover the employment performance

of the multinationals, either at home or abroad, and these are 6 vital years, 6 years of either approaching or wallowing in recession. And we haven't even sent out a single questionnaire plumbing the depth or the extent or the significance of the problem. Forgive me for saying this, but this is foolhardy.

If this happened in a business firm, we would say it was miserable management; we would say it was faulty management; and the board of directors might very well remove the chief managers of the organization, corporations.

Since the last benchmark survey conducted in 1966, no data have been collected breaking down the broad industrial sectors into the component industries in which the multinationals actually operate. We have estimates for some multinational activities in the nonelectrical machinery sector, for instance, but nothing for computers, office machinery, air-conditioning, machine tools, mineral exploration machinery, and the other basic industries that make up our industrial sector.

We say today, as we have been saying for some years now, that economic developments of this magnitude cannot remain in the uncertain realm of speculation and guesswork. The multinationals' effects on American life are simply too great to be ignored any longer.

Senator INOUE. May I interrupt at this point, sir?

Mr. CLAYMAN. If you please.

Senator INOUE. I believe many will agree with you that the available statistics would suggest that American investments abroad serve to export job opportunities from the United States. I note that the AFL-CIO has adopted, as part of its policy, a resolution against foreign direct investment in the United States.

Isn't this a bit inconsistent?

If our investment abroad exports jobs, it would appear that investments from abroad here would create jobs.

Mr. CLAYMAN. My understanding is not quite the same as yours on that score, unfortunately. AFL-CIO has not come out broadly against foreign investments, but that we should be made aware of them, that we know what they are so that we can judge their significance, their impact on our own society.

Our basic policy is that we approach foreign investments in our society with care and with caution.

But nowhere have I seen anything that indicates that we are against any investment. As a matter of fact, we have some foreign companies that have come in; I know a steel company down south, German ownership, they have a contract with the steelworkers. The relationship started out to be a very rocky one, but they soon adjusted to the American style, and the relationship is sound.

We are not against that. The autoworkers, for example, have not been against assembling foreign cars in this country in many situations. As a matter of fact, for quite obvious reasons they prefer to have them assembled here rather than have our own material sent abroad and assembled elsewhere.

Senator INOUE. I am referring to a resolution I recall adopted at the annual AFL-CIO convention in San Francisco, which suggests the organization is against foreign investments in the United States.

I may be wrong.

Mr. CLAYMAN. If I may, Senator, I think I can relieve your mind on this. Let me take a look at that situation, because I'm fully confident that it is perhaps misinformation or misinterpretation.

I remember, for example, maybe this is the situation you talk about, I remember the steelworkers were exercised because a French company wanted to take over Copperweld Steel, where the steelworkers have an excellent relationship with the company. The men in the shop were apprehensive because the same French company made the same kind of products back in France, and they were desperately worried: Does this mean that they will play the French products against the American products? Will we finally find ourselves in the middle?

And there was some concern there, and there was some public concern expressed. But that doesn't mean that they were against it simply because it happened to be a foreign corporation.

Notwithstanding, I think our attitude is clear that we would want to carefully look at what impact such investments may have. It could, for example, have the effect that some of our investments have in other countries. It could develop serious kinds of political controls in their country, and it might very well happen here. It could engender, and we would worry about it, a bribing of some of our officialdom as has happened in other countries on the part of American corporations.

But I will check that more thoroughly, and we will make you aware of our findings.

Senator INOUE. Fine, sir.

Please proceed, sir. Thank you.

Mr. CLAYMAN. Perception of the need for responsible data collection, without which rational economic policy cannot be fashioned, is not found only in the labor movement. A host of analysts have pressed this demand, in academia, in research institutions, in various branches of Government from the executive agencies to Capitol Hill. The multinational has become such an overwhelming factor in our economic and social and, I might add, in our political, life that the most diverse investigators find themselves in accordance on the issue of improving Federal data gathering.

With your permission, I would like to read from a sample of observations on multinational data inadequacies. Without in any way claiming to speak for these various authors, the very breadth of their backgrounds should underline the importance of the issue before this committee.

Senator INOUE. Since I have read those quotes, may I suggest that they be placed in the record in toto?

Mr. CLAYMAN. It shall be done.

Without objection, they will be made part of the record.

[The information follows:]

From the Harvard Business School we hear Professor Raymond Vernon tell us that scholarship on multinational corporations "has been inhibited by the paucity of elementary facts." On the subject of multinationals and international capital movements, Vernon's views are echoed by his Harvard colleague Robert Stobaugh and by Sidney Robbins of Columbia University: "analysts may have been discouraged (from formal analysis) by the admitted absence of suitable data."

Guy Stevens, the well known economist of the Federal Reserve Board, has written eloquently on several occasions about the urgency of the multinational information gap: "Because we are sure that the activities of multinational firms affect many of the most important goals of every nation—for example,

economic growth and distribution, balance of payments equilibrium, national independence—we want to be able to explain, predict and control the key variables associated with these activities. . . . Some of the problems preventing this are theoretical. It is felt, however, that the major roadblocks will be empirical—in the realm of data availability.”

In commenting on the analytic utility of the most detailed statistics yet turned out by the Commerce Department, Catherine Bedell, then Chairman of the U.S. Tariff Commission, noted that even those data “impose significant limitations both with respect to their nature and the scope of the analytical uses that can be made of them.”

In concluding a lengthy study of *The Employment Impact of Multinational Corporations* prepared for the Labor Department, Alan Madian of the Institute of Public Administration indicated that the lack of suitable data made it difficult to reach definitive conclusions:

The principal impediment to this effort has been paucity of data. Data do not exist, or are not available in usable form, for many of the variables essential for sure-footed analysis.

Thomas Horst of M.I.T. ran up against the same problem in his attempt to study the linkages between U.S. production for export and the multinationals' foreign product. “If the right data were available,” he notes, analysts could try to match export and foreign investment parameters in appropriate mathematical equations. “Unfortunately, the data we have are far too crude to permit such an exercise . . . (For multinationals) neither our export nor our subsidiary sales data are broken down into the comparatively fine product classes necessary. . . . No statistical inference can be any more reliable than the data on which it is based, and the data employed (in this study) are easily the dirtiest this author has ever worked with.”

Recommendations for improved multinational data-gathering have been emphasized by the Williams Commission on United State International Economic Policy and by the Commerce Department itself. The Williams Commission urged the Commerce Department “to develop a sophisticated and comprehensive data system looking toward a major improvement in the available information on foreign-investing enterprises. The Department should be assured of the funds necessary to carry out this project. We believe that investing enterprises should be required to provide appropriate information to the government on their controlled foreign operations . . .”

The Commerce Department staff study on *Policy Aspects of Foreign Investment by U.S. Multinational Corporations* likewise insists on the necessity for a sound data base in the rational formation of public policy:

In assessing and developing public policy approaches in the international investment field, one must first become better informed about the multinational corporation and its impact on the domestic and international economy. But it is in this area that researchers are most handicapped. For while considerable information is currently available and a good deal of research is underway, much more current factual data are needed if informed policy judgments are to emerge. The most comprehensive data now available are from the census of international investment which covers only the year 1966. Data dealing with the effects of international investments on exports, imports, employment and technology transfers are still unavailable. If the impact of the multinational corporation is to be studied, a continuous flow of data covering a period of years is necessary.”

We could go on with such citations, but these various authorities—none of them from the labor movement—should be sufficient to make the point.

Mr. CLAYMAN. I think that is a wise decision on your part.

I just want to make the point—it should be underscored—that some of the names are attached to people who do not share authorities, some of the names are attached to people who do not share our point of view, our trade union point of view on what multinationals mean for America and for American jobs.

But even they, even they are aware of the paucity of information, the scarcity of information. What we have is of relatively poor quality.

What about the specifics of our current needs for data on multi-

national corporations? While recognizing the need for flexibility in any legislative mandate for improved multinational data collection, we feel that there are glaring gaps in the present information that this bill should close unambiguously. We are sure this can be done without tying the hands of the Commerce Department. What is needed is an appropriate description of essential minimum coverage accompanied by language that would permit the Commerce Department to pursue those and other goals as it sees fit.

Many of the specifications included in S. 2839 are vital and definitely ought to be put into law. The inclusion of employment data, the mandating of coverage for both U.S. parent firms and their foreign subsidiaries, improved detail in sales and trade data, precise identification of research and development expenditures in each location, all these provisions of section 6 are absolutely vital. Likewise putting multinational data reporting on a mandatory rather than a voluntary basis will prevent statistical uncertainties in future sample surveys. And I underscore, it must be mandatory or else it will become relatively worthless.

There are some areas in the present bill where further specification would be desirable, and further crucial areas where no specification is now provided. In section 6(5), for instance, detailed reporting is indicated on financial payments for technology transfers between multinational parents and their foreign subsidiaries. Yet a disturbing recent development for U.S. multinationals has been the proliferation of technology transfers to unrelated foreign firms or state enterprises. We know that multinationals dominate such arrangements for licensing U.S. proprietary technology to independent foreign producers, yet we have virtually no hard information about such transactions.

For all technology transfers we need data that covers more than simple financial flows. For example:

In what industries is technology being transferred, both out of and into the United States?

How much production of what specific products is enabled by such transfers?

And what if, as is the case in so-called coproduction arrangements with nonmarket economies, the payments are not in dollars but in future flows of products?

What are the economic effects and the financial value of cross-licensing and technology swap arrangements, where there may be no financial or product flow?

What about U.S. technology licensed to unrelated foreign producers by the foreign subsidiaries of an American multinational?

The growing importance of technology transfers dictates that we must be able to give precise answers to these questions, and the Commerce Department should be specifically mandated to collect the data that will provide those answers.

Senator INOUE. I gather from your statement that you would be opposed to the position taken by the administration that we should grant the executive flexibility in determining what areas should be studied.

Mr. CLAYMAN. Absolutely. We feel this is a congressional prerogative, and that Congress should carefully set out the necessary guidelines.

You see, in part, our problem now in relation to the paucity of information in part is due to the administration. Here we have agencies that are empowered to do some serious research in these areas, reporting and factfinding, and they haven't.

The reasons I am not prepared to comment on, because some of them may indeed be subjective from my point of view.

But the information, for example, that we will be submitting to the committee at a later date will indicate that, whereas those who do the real substantive research, for instance, in the Department of Commerce, wanted to start to do some probing because it is obvious to a researcher that this is necessary, and yet seemingly we are forestalled by those in higher position in the administration. So we want Congress—

Senator INOUE. What would you say to the contention that requiring too detailed reporting requirements would impose unreasonable burdens upon industry?

Mr. CLAYMAN. I suspect this involves some kind of an additional load on industry, but industry has mastered all kinds of technologies and computers, all the rest. They have all kind of sophisticated book-keeping systems and all kind of sophisticated personnel, and this will not be a burden that will be too onerous.

However, even if it were to be a bit onerous, the overall public interest is so terribly important in this area that they should gracefully accept that burden, and if not gracefully, then Congress in any event should insist that it be imposed on them.

Senator INOUE. It's been suggested that because of the wide differences in accounting practices and standards, reporting standards and practices, tax laws, commercial practices, et cetera, that it would be an unreasonable imposition to require them to transpose one law into another and match accounting practices where they do not or could not match.

Mr. CLAYMAN. Senator, this, I must confess, isn't quite my field. I am going to ask if you will permit Brian Turner to respond to that question.

Mr. TURNER. I should think, Senator, that regarding both foreign multinationals operating in the United States, which would conform to U.S. accounting principles, and the foreign affiliates of American multinationals which would have accounting principles that would conform to the domestic parent, that in either case the problem of incomparability would not be severe.

I would like to add that we are not suggesting in this testimony that Congress spell out the specific question that might go into survey forms, but, simply to delineate the areas where vital information is necessary.

Senator INOUE. Thank you, sir.

Mr. CLAYMAN. Let me hasten, I know you have several people who want to be heard, too, yet this subject is relatively complex.

A problem area in multinational statistics not addressed by the bill involves joint ventures and overseas liquidations, divestitures and nationalizations. At present, foreign affiliates which are less than 50 percent owned by a U.S. firm are not counted at all, yet joint participation with foreign companies and governments is becoming a more and more common practice. And in present reporting procedures

the apparent diminution in the multinational's foreign sales, investment, or trade brought about by liquidation or nationalization is not revealed in separate statistics.

In fact, they appear as real shrinkages in the statistical totals, as if the multinationals were doing that much less overseas, as if their other operations had ceased to expand. These peculiar statistical illusions caused by liquidations or nationalizations should be corrected.

The issue of the multinationals and taxes is of great interest and, unfortunately, of great perplexity. IRS statistics on the multinationals' taxes paid in the United States and in foreign jurisdictions are typically at least 6 years out of date; they are always incomplete in their coverage; and the IRS system of industrial classification is inconsistent with other Federal statistics. The Commerce Department has given limited coverage to multinationals' taxes in past benchmark questionnaires, and there are good grounds for expanding such reporting in future benchmarks and in ongoing surveys.

Questions:

How much of their foreign income tax payments go respectively to foreign national, regional and local tax authorities?

How much of a U.S. foreign tax credit do they claim, and what reserve of surplus tax credits do they maintain?

What is their effective rate of taxation, in the United States and abroad?

To what extent do their foreign investments benefit from special tax holidays and tax incentives?

These are questions which obviously require answers.

The Bureau of Economic Analysis currently conducts both periodic benchmark censuses of multinational corporations and quarterly, semi-annual, and annual sample surveys which are projected onto benchmark structure to provide estimates of ongoing multinational activities. We feel it is important to indicate explicitly that the Commerce Department's authority to pursue expanded data-gathering applies to both benchmarks and ongoing surveys. It would be paradoxical if, for lack of precise wording in this bill, their broadened authority were interpreted as applying only to the infrequent benchmark censuses. If we had the relevant data on the multinationals' employment, production, trade, technology transfers, investments and so forth only once in every 10 years, would policy be helped very much? We need such data on an ongoing basis, covering both the foreign and the domestic operations of U.S.-based multinational firms.

Senator INOUE. How often do you think we should have these benchmark studies?

Mr. CLAYMAN. I defer to one who knows better about that answer than do I.

Mr. TURNER. I think the spacing of the benchmarks on a 7- to 10-year period is adequate. The point Mr. Clayman was just making refers to the filling in of the gaps between the benchmarks, the estimates of ongoing activities by multinationals. We feel there is definite room for improvement here.

I see no objection to having benchmarks as infrequently as 7 to 10 years.

Senator INOUE. Thank you, sir.

Mr. CLAYMAN. Beyond the statistics collected in the benchmark censuses and ongoing multinational surveys, this bill calls for in-depth economic research on multinationals. Section 5 details 15 particular problem areas that require such research investigation, covering the effects of multinational activities on U.S. international competitiveness, productivity, employment, financial markets, energy independence and so forth.

Such studies are clearly a necessary complement to the collection of basic statistical information.

The listing in No. 5 may be made more open-ended and streamlined in some ways, but we feel that at least one addition is in order: To assess the effects of what is known as "transfer pricing" by multinational corporations. Since transactions between the multinational parent and its foreign affiliates are not at arm's length, the transfer prices that the companies may assign on their books can bear little or no relationship to actual costs. Tax or cash flow considerations dominate in such flexible pricing arrangements.

Indeed, informed observers have pointed out that some multinational firms maintain up to five different sets of books for different purposes in different tax jurisdictions. Presumably only one accounting record, if that, reflects anything like market prices.

Transfer pricing practices immediately affect Federal data collection on multinational corporations. Which set of books is or should be used for reports to the Commerce Department? How accurately do transfer prices reported to the Federal Government reflect real movements of products and services?

Today such questions can only be answered by speculation. If our statistics on the multinationals' production, trade and physical investment are to be made more comprehensive, it is important that they be made economically realistic at the same time. An in-depth study of transfer pricing practices based on the multinational benchmark census would provide needed guidelines for removing this fundamental statistical bias.

Senator INOUE. If your contention is that these multinational corporations maintain several sets of books for different purposes is correct, how would this bill or any other bill have the authority to go into a company or require this company to produce all these books?

In any study, it would appear that we would have to depend upon the companies' integrity to provide us with the information.

Mr. CLAYMAN. I assume that Congress has the authority to require this. Indeed, if it didn't, it might be somewhat derelict in its duty. I think what we are trying to do is to get at the honest facts.

Senator INOUE. What would you do if the company submits book B instead of book A? And they can swear under oath that this is the correct book.

Mr. CLAYMAN. Well, if indeed it is not, if indeed it is subterfuge, indeed, if it is partial, if it is dishonest, then I note your bill has some penalties. Yes.

Mr. Turner will add to this response of mine.

Mr. TURNER. I would like to suggest, Senator, that intracorporate pricing evaluations are going to be a larger reality in the American economy and in the world economy. If we can't address this problem,

we certainly cannot choose to foldup our tents. The point raised in this paragraph just concluded in the testimony is that this question of recordkeeping and transfer pricing as it relates to the Federal data collection should be studied and that we should find a way to correct for whatever biases may be introduced by the reporting practices of the firms so that we can assess the systematic bias of reporting and attempt to correct our statistical totals and thus confront reality as best we might.

Senator INOUE. I am certain we will be conducting studies and oversight. However, I thought you might want to put a new section in the bill which would somehow give the Congress or the Executive authority to subpoena records and books.

Mr. CLAYMAN. The bill does not provide that, of course. I'm not certain that perhaps you are not suggesting a pretty good idea.

Senator INOUE. I do not think it would pass.

Mr. CLAYMAN. Now you have got another point. You may be 100 percent right. But the Government has got the right to know the truth, and subpoena, if it relates to achieving the truth, is not so wild a dream.

Politically it may be, and I bow to your political judgment.

Another aspect of improved data collection that should receive explicit attention is the importance of regular time-series data. As the Commerce Department staff study emphasized :

If the impact of the multinational corporation is to be studied, a continuous flow of data covering a period of years is necessary.

Where data collection is now being belatedly expanded, we will not have such time series, until it is too late, unless it is explicitly mandated that retrospective data should be collected wherever possible.

And so, Mr. Chairman, I think we have made our point at least reasonably clear.

We thank you very much for having given us the opportunity to appear.

Senator INOUE. Thank you, Mr. Clayman and your associates, for your assistance this morning.

Our next witness is Mr. David T. Devlin, of the First National City Bank of New York, who will testify on behalf of the Emergency Committee for American Trade.

STATEMENT OF DAVID T. DEVLIN, A VICE PRESIDENT, FIRST NATIONAL CITY BANK, NEW YORK, N.Y.

Mr. DEVLIN. I would like my entire testimony in the record, sir, but I won't read it all.

Senator INOUE. Without objection, Mr. Devlin, your full statement will be made part of the record, sir.

Mr. DEVLIN. I am David T. Devlin, a vice president in the Economics Department of First National City Bank. I am here to testify as an expert witness for ECAT on S. 2839.

While my comments on the bill do not necessarily reflect the views of all the members of ECAT, I did benefit from the advice of a group of economists representing ECAT companies and I believe my comments are generally representative of most members.

I am an international economist. After working at the New York Federal Reserve Bank for 7 years, I spent 4 years at the Department of Commerce in the Bureau of Economic Analysis. While there, I was in charge of the compilation, analysis and publication of the U.S. balance of payments and the official data on economic activities of U.S. multinational companies and of foreign multinationals in the United States.

Since late 1973, I have been at First National City Bank concentrating on international finance. As an economist, I am a extensive user of the statistics that this bill is concerned with I also work for a bank that must spend considerable money to fill out the forms that will be required by the bill. And I have been in charge of the collection and analysis of such data for the U.S. Government. My underlying feeling is, I like good numbers.

As was noted by Assistant Secretary Parsky, the Government has been collecting data of the kind envisioned in this bill for many years. However, the current authority to collect it is deficient in some respects. There is, therefore, a clear need for an unambiguous and permanent authority to collect data on international investment.

Generally, we agree. It is necessary for good data to be systematically collected on U.S. direct and portfolio investment abroad and foreign direct and portfolio investment in the United States.

Existing legislation is not adequate to do the job. And it is necessary that it be done, so that the public—and this includes business—is adequately and objectively informed on such activities, and so that public policy can be based on sufficient information to properly judge the interests of the United States. By and large, this bill focuses on the appropriate means to do that, although a more generalized approach, as suggested by Administration witnesses, would be more efficient.

I might add, that as a former compiler of such data, I heartily approve of section 9 that calls for sufficient money to do a good job. My experience, when in Commerce, was that the necessary funds were not always available to do the job that is really desired and required.

It might strike some people as surprising that, even given my professional interest—since I am a representative of multinational corporations here and they will be the ones who will fill out all the forms—that I am in favor of collecting so much data.

It should not be surprising. Most often the multinationals have in fact benefited from objective statistical analysis of their activities. Many misconceptions and uninformed judgments about multinationals have become insupportable as more data has become available.

Thus, ECAT, amongst others, would be happy to work with your staff and implement any suggestions in this testimony which you might find useful.

Of course, creation and collection of the data is very expensive for the corporations and the Government. It is important to design the survey questionnaires efficiently and competently. Questions that are badly designed or are too ambitious just produce piles of figures, not useable data.

I might say that sometimes an attitude can develop in statistical agencies, that amounts to saying, "collect all we can, and if it doesn't work out, we'll just throw it away." Of course, I do not believe that

responsible leaders of the agencies accept such an attitude. To include questions that can't be adequately answered is an expensive waste of time for the reporters and collectors. Even worse, such bad data can get published and mislead unwary users.

Senator INOUE. Mr. Devlin, by this statement, are you suggesting that the Executive Office should be given flexibility in determining the scope of the questions?

Mr. DEVLIN. I would imagine that the bill should include some general areas of interest, of the nature that I list later in the paper: Balance sheet data, net income data, sales, sources and uses of funds, trade data, et cetera. I would let the specific questions be determined in the negotiating process that occurs as the forms are being designed.

Senator INOUE. Please proceed, sir.

Mr. DEVLIN. I have three general issues I would like to talk about: Confidentiality, reporting on U.S. minority-owned affiliates abroad, and the quality of the data that will be collected.

In respect to the first issue, the bill requires individual companies to send in reports on their activities, here and abroad.

The purpose of the data is statistical, to help us understand general economic relations and the activities of multinationals in general. The purpose is not regulatory where the government is trying to determine whether the behavior of individual companies complies with existing laws and regulations. To assure confidentiality of such reports, I think that it is important that the individual reports be kept confidential within the agency that collects them as is now the case in BEA and the Census Bureau—although the Census Bureau is not involved in this particular bill.

The people in such agencies generally support such procedures because it helps them get the fullest cooperation from the reporters and the best possible data.

Since no survey form is perfect—and the data on U.S. affiliates abroad is some of the most difficult to collect properly—some errors or ambiguities inevitably creep into a questionnaire.

If the report is to be kept confidential and used only for statistical purposes, it tends to be routinely filled out by professionals and any problems that arise can be negotiated between them and the statistical agencies.

For a regulatory report, you have to have your lawyers in to look at it, and for a report that is to be made public, you have to have public relations people in to look at it. Not so with statistical reports. The only exception I would make to keeping a Chinese Wall around the collecting agencies would be to allow statistical agencies to exchange data on individual companies where it would reduce the reporting burden on the companies by avoiding duplication. For instance, the Census Bureau, in its census of manufacturers, collects an extraordinary amount of data on U.S. activities of foreign-owned companies in the United States. To link that up with some of the BEA data is a very efficient way to collect information.

It might be useful to review the reasons for confidentiality. One reason is that companies do not want to give their competitors information that would or could be used against them. Another is that some of the data collected may include information about third parties—especially when affiliates are not wholly-owned—that com-

panies might not want known. Banks, for instance, usually and quite reasonably, keep dealings with their depositors and borrowers confidential. A third reason is that not everyone loves multinationals; and somewhere in the enormous amount of data reported in these surveys, there may be something which is perfectly proper, but which unfriendly people could use to attack a particular company. It may take a good deal of resources for the company to clarify the matter publicly. Companies wish to avoid this kind of hassle, if they can, so they fill out the questionnaire, much easier if they know it's going to be kept confidential.

Senator INOUE. Mr. Devlin, it's been demonstrated, I believe, quite adequately in recent months, that there are secrets that are secret and secrets that are not secret. I would assume that certain juicy information from some multinational company might well have been leaked out by some ambitious staff members or some department or agency.

Would it be better to receive information through this source or an open public source?

Mr. DEVLIN. Thinking in terms of this bill, what we are talking about is basically statistical-type information, not information that would be published about a specific company. The statistics on a particular company may be processed by both the company and BEA with no one looking at them in an analytical way.

Maybe no human mind really looks at the company statistics and tries to make sense out of it until all the statistical data is put together.

That is what the statistical process is. This is an entirely different thing than somebody getting facts and leaking them to the press and saying, "look at the bad thing this company is doing" or something like that.

I am not sure this focuses exactly on what you are asking.

Does it answer your question?

Senator INOUE. No. You were saying that some of the data collected could be unnecessarily embarrassing to certain companies. What would stop this potentially embarrassing information from being leaked? Would it be better to have it leaked out under those circumstances or to have it published publicly?

Mr. DEVLIN. I am puzzled by the question. If companies do things that people think are wrong, then when it is made public one gives the company a chance to explain whether it is right or wrong.

But there is so much data in one of these statistical exercises that you don't know what is there that someone would think was improper. That is why companies want to keep it confidential.

Senator INOUE. I understand that. I am just trying to strengthen your position, sir. There have been some who have been suggesting that everything should be made public. I can understand the massive resistance by industry if total publication were required.

Mr. DEVLIN. I think there are things that are private matters for individuals and private matters for companies, and that is one of the reasons there are provisions for confidentiality—not necessarily that anything is being hidden.

Senator INOUE. Thank you, sir.

Mr. DEVLIN. In order to assure the necessary confidentiality of returns I append to the end of my testimony some rewording of section

7 that would make the provisions for confidentiality more similar to title 13 of the census requirement.

Senator INOUE. It will be made part of the record.

Mr. DEVLIN. The second general issue I would like to address is the amount of data to be supplied by affiliates abroad in which the direct investor has a minority interest.

Direct investment in an affiliate is defined as one in which you have at least 10 percent equity. A minority-owned affiliate would be 10 to 49 percent, a majority, 50 to 100 percent. What I suggest is that operational-type data, such as sales of the affiliates as a whole be limited to majority-owned affiliates, while balances-of-payments-type data be supplied by all affiliates, minority and majority owned. I don't know whether it's worthwhile here to go into the question with much detail, as I have in the paper. The basic idea is that for balance-of-payments purposes, you want to get all the flows of funds between U.S. residents and foreign affiliates and all other foreigners. That includes direct investment capital flows, from which you also get the cumulative direct investment position the share of the earnings of the affiliate that belongs to the U.S. parent, et cetera.

All of this is balance-of-payments-type data and has to be collected from everyone; it is mandated under the Bretton Woods act anyway. This bill, on the other hand, focuses upon the activities of affiliates as a whole, including those in which the parent owns only a small percentage.

Such data would include the balance sheet of the affiliate, an asset and liability statement, full income statement, et cetera. The major reason why we suggest that this data on the affiliate as a whole be collected some minority-owned affiliates and it's very difficult to get it from other ones.

A second reason, and I elaborated on this issue in my statement, is that it's not clear what some of this minority-owned affiliate data would mean. For instance, if you want to know what the sales of foreign affiliates are, say there is one affiliate of which you own 100 percent, and it has \$1 billion worth of sales; and another affiliate, of which you own 10 percent and it has \$1 billion worth of sales. Should you say sales of foreign affiliates are worth \$2 billion when the U.S. interest in those sales is only \$1.1 billion?

I think this is one of the reasons that has motivated BEA, in fact, to move very far along collecting and publishing plant and equipment, sales of foreign affiliates, and sources and use of funds, only for majority-owned affiliates. This reflects both the ability to get the data and because such data represents the U.S. interest in such operations. In majority-owned affiliates the U.S. interests at least control the plant and equipment or sales.

Senator INOUE. What if there were a number of minority interests forming a consortium, which would constitute a majority if combined?

Mr. DEVLIN. Then I would call that a majority-owned affiliate. I don't necessarily want to limit the definition to majority owned by one U.S. company, but majority owned in a broad, U.S. sense.

Incidentally, this does not leave out an awful lot of affiliates. Last time we had some information on the subject, there were something like 23,000 affiliates in the 1966 BEA benchmark survey, and 20,500

were majority owned. The minority-owned direct investment position reflected only some \$3 or \$4 billion of investment out of a total of \$52 billion.

A third broad point I wish to make is, I guess, a bit philosophic. I think a lot of people believe that companies have total information on their operations and they just don't want to tell anyone. That is just not the case. Information even within a company is expensive to collect, and even more expensive to organize into a form that is useful.

There is lots of data that is not collected and organized because the expense would be greater than any conceivable increase in profitability that would result. It is a rational decision by a company or a government not to go to the trouble of finding out some things, because the data would be so bad as not to be useful or so expensive as not to be worth it.

Even the data that has and will be collected on the operations of U.S.-owned affiliates will have flaws and must be used very carefully. Take for instance the net earnings and rate of return on equity of affiliates by country. Some countries in some industries will show very high rates of return, and others low. Sometimes it means something, sometimes it really doesn't, but simply reflects the accounting convention you follow in all the various countries in which a company operates.

I should say, that the affiliate in its direct relationship with its parent has to conform with the parent's system of accounting. But that only includes a limited amount of information, mostly about balance-of-payments type flows. For the rest, as long as the affiliate is making a profit, the parent says, "Well, keep your books according to where you are," you are subject to the sovereignty of that foreign country, and the tax people there, when they inspect your books, will expect you to follow the setup there.

Senator INOUE. Who should determine what data is useful and important and what data is not useful?

Mr. DEVLIN. Some data that would be very useful if you could get it, can't be gotten in a way that is anything but mush—I hit that point a little later in respect to some of the employment data—it's very hard to get certain kinds of data, no matter how useful it would be.

Senator INOUE. A bit more specifically, if certain data is important to the United States for the purposes of formulating policy, but the acquisition of this data by the companies would be "expensive," as you have speculated, what interest should dominate?

Mr. DEVLIN. That is a hard choice. I can think of some data that companies would really like to know and that I think the U.S. Government could benefit from. But collecting it could eat up half the profits of the foreign affiliate. Obviously, that is too much.

There is other data the company would prefer not to collect, because the data doesn't really mean very much to the company, but it is important to the efficient policy decisions of the U.S. Government. A small extra expense would, in this case, be worth it for the sake of policy. There is a whole spectrum in between.

Senator INOUE. Thank you, sir.

Mr. DEVLIN. Unfortunately, all data collected on multinationals of the type we are discussing are subject to flaws. Even such good estimates as the U.S. GNP, or balance of payments, have major flaws.

They are necessarily subject to large revision as more data come in. The revisions stop when no more historic data come in. But we are still not sure really of how much reality we have captured and how much we have missed. The numbers stand, but you see a reality very darkly, sort of through a statistical probe. It's like trying to figure out what is happening in the universe by sending out radio waves.

I could urge that some provisions be included in this bill requiring that when data are published, the problems and quirks in the statistics be explained as well. I don't urge it because I trust in the integrity of the people of the collecting agencies who will do so anyway, in the future, as they have in the past. I wish, personally, that some of the users of the data would read such qualifications carefully.

I would now like to comment on a few more specific points:

Section 4, as presently drafted, required that these benchmark surveys be made at least once every 10 years. That is probably the right formulation. It gives some flexibility to the people taking the surveys and does not force more frequent surveys if they are not needed, thus avoiding unnecessary work.

I might also suggest that adequate warning to the companies be given, including details of the forms, before any of the surveys are taken in order that the accountants and computers can be given adequate instructions to select and save the data required and thus avoid the need to reconstruct it from partial records.

Consultation on the various provisions with business, labor, et cetera, is certainly a good idea.

Senator INOUE. How much time would you suggest would be sufficient to provide companies with adequate notice?

Mr. DEVLIN. If one is going to collect data for 1976, one should probably have warned the companies at the beginning of 1976 to get their records ready to report.

For instance, almost inevitably, if the Government takes a benchmark survey in 1976, it will ask for end of year 1975 and end of year 1976 position data. If the Government does not alert companies about the survey until after they are into 1976, the data at the end of 1975 may not be just what is wanted. In fact, even a few months before the end of 1975 would have been a good time for alerting companies for a 1976 survey, so that the reprogramming of the computers and that sort of thing could be done adequately. Certainly to set a date after that date has passed could lead to disaster. A lot of computer systems are continuous. They have position data and they add and subtract as the information comes in, and just lose the history.

Senator INOUE. Thank you.

Mr. DEVLIN. Section 5 is very ambitious in its aims. Despite the enormous amount of data that would be collected and the increase in our knowledge that would result, it would be very hard to go from such data to firm conclusions about economic relationships.

For instance, data on fees and royalties paid by affiliates to their parents, and vice versa, would improve our knowledge of the "effect of transfer of technology" but it would only be the beginning of our understanding of the impact of such transfers on productivity, trade,

balance of payments, pricing policies, and effects on international competition.

After many special staff studies, Department position papers, Ph. D. dissertations, uncountable regressions and correlations, and special task force reports, many of the critical economic relations remain obscure and the policy implications ambiguous. Not that such studies should not be done, but rather such knowledge comes slowly; data are only the beginning.

Similar comments can be made about the other parts of section 5, that it's ambitious. Perhaps a more modest mandate for section 5 would be appropriate.

We would be pleased to help formulate such a mandate, if you would like.

Section 6 details some of the statistics to be collected. I think a more general statement in section 6 is really more appropriate, using some of the terms I have used in talking about operational and financial data.

I should say that reading section 6 has scared some people. It requires financial transactions between business enterprises and each of their foreign affiliates and branches. You could read that as if every single transaction had to be reported, so applied literally in City Bank, it would require miles and miles of computer printouts and it would be very hard to make any sense of them.

In section 6.2 the approach of the bill is to focus on the primary line of business of the affiliate. That seems, I guess, the right angle. But it's very hard to collect this type of business data. There is a great diversity of nomenclature and practice even within the United States. Aboard, it's even worse. So a good deal of consultation would be required to get useful data by line of business.

Employment data are to be collected for each affiliate, by country and by level of compensation by type of activity, as the bill is now written. Again, I suggest that type of activity be interpreted fairly broadly, perhaps just distinguishing in some formal way between hourly and salaried workers, or something like that.

One can understand the great interest in much more detailed breakdowns, but this data are very hard to make sense of. The problem seems to be that affiliates keep their books—to the extent they keep any books on the subject at all—according to the classifications used in the country of operation.

These classifications vary a great deal from country to country. Very few of them have as good and sophisticated a system as is used in the United States. Unless we sent the Bureau of Labor Statistics to reclassify those jobs, when you try to get too much detailed data, you just tend to get unusable figures.

That completes my verbal presentation.

I would be glad to answer any questions.

[The attachment follows:]

Section 7 might be rewritten as indicated below in order to improve the confidentiality of the result:

Sec. 7 (a) The Secretary of Commerce may by regulation establish "whatever" such rules "he deems" as are reasonably necessary to carry out each of his functions under this Act.

(1) to maintain a complete record of any information (including journals or other books of original entry, minute books, stock transfer records, lists of

shareholders, or financial statements) which "the Secretary determines is germane to his functions in" *is essential to* the foreign direct investment and foreign portfolio investment studies to be conducted pursuant to this Act; and

(2) to furnish under oath any report containing "whatever" information "the Secretary determines is necessary to carry out his functions in" *essential to* the studies authorized in this Act.

(b) In the administration of this section, *record gathering, recordkeeping, and reporting requirements* shall be so designed as to reduce the cost . . . (text of bill is OK until last paragraph of subsection (d)).

No agency of the United States or employee thereof may compel (a) the Secretary of Commerce, (2) any individual designated by the Secretary under the first sentence of subsection (d), or (3) any person which maintained or furnished any report under subsection (b), to submit any such report or constituent part *or copy thereof, or any source data specially created or collected by such person for the sole purpose of complying with this statute or the regulations of the Secretary thereunder* to that agency or any other agency of the United States without the prior written consent of the person which maintained or furnished any report under subsection (b) and without prior written consent of the customer, where the person which maintained or furnished such report included information identifiable as being derived from the records of such customer. Such report or any constituent part *or copy thereof, and such specially created or collected source data* may not be produced for any judicial, legislative or administrative proceeding, except for a proceeding under section 8(b) of this Act.

Senator INOUE. Mr. Devlin, I thank you very much for your assistance and I will accept the offer made in your statement to provide us with assistance in developing the final bill. We expect to have some committee action on this. Within 2 weeks or so my staff will be calling upon your staff for some assistance. Thank you very much.

Our next witness is Mr. Alexander Vagliano, representing the American Bankers Association.

STATEMENT OF ALEXANDER VAGLIANO, AMERICAN BANKERS ASSOCIATION; ACCOMPANIED BY ROBERT BEVAN, ASSOCIATE FEDERAL LEGISLATIVE COUNSEL

Mr. VAGLIANO. Good morning.

Senator INOUE. Do you wish to introduce your associate?

Mr. VAGLIANO. Yes. My associate is Mr. Robert Bevan, associate federal legislation counsel of the American Bankers Association.

Senator INOUE. Welcome, sir.

Mr. VAGLIANO. With your permission I will not read the statement but merely comment on a couple of points.

Senator INOUE. Without objection your full statement will be made part of the record.

Mr. VAGLIANO. Thank you.

The first point we would like to emphasize is that the banking industry is distinguished from other industry. First of all, the banking industry provides a considerable amount of reports to various regulatory authorities. Second of all, the transactions we handle involve transactions of customers as well as our own transactions. This is a point alluded to by Mr. Devlin, that the bill is a little ambiguous in the sense that it might be deemed to include vast amount of data on customer transactions, which clearly would not be relevant to any statistical study of this kind.

But because we are geared up to provide a great deal of information to ourselves and the regulatory authorities, we are very anxious to be able to cooperate in setting forth the type of information and

the form in which it's to be reported. By doing that we can fit it into our own reporting needs and those of the regulatory authorities with the greatest ease, greatest promptness, and also the least expense.

The timing, of course, is important as has already been suggested, that presumably any such report would cover both the year-end status of the bank, but also the profit and loss during the year, so that we should know what will be required of us several months prior to the beginning of the reporting period. I think that the banking industry can be a real help in getting this form to be useful.

But in order to do that, I think we have to be involved in it. Also the form should be quite different in many respects from that required of industry without, of course, sacrificing the necessary statistical consistency.

Senator INOUE. Are the forms presently used by BEA the result of advice from your industry?

Mr. VAGLIANO. I don't know the answer to that, sir. Mr. Bevan may. But in any event, they contain a great deal of information which is not relevant to the banks.

Mr. BEVAN. We did have conversations, Senator, prior to their being made final.

Senator INOUE. So are you satisfied that it would meet your needs?

Mr. BEVAN. These are the forms they ran the 1974 survey on is the one I am referring to.

Yes, we had very little problems with the one we used in the 1974 study, both the portfolio and the incoming commerce direct investment study.

Senator INOUE. I would assume that, if this measure should ever become law, the administration will call upon the affected sectors of the economy for advice and assistance to draft the details of the questionnaires and forms. I think that would be a rather natural thing to do.

Mr. BEVAN. We had some problems with the outgoing survey that the Commerce Department was putting together which, from our comments this morning, when compared to that form which they were developing, questionnaire, you can tell the problems that we were having last year on that.

Mr. VAGLIANO. I think what I had in mind, Mr. Chairman, is really the provisions of section 6, where there are several types of information which are not applicable to banks.

Senator INOUE. Would you just point out a few?

Mr. VAGLIANO. On page 10, for example, "Gross sales by primary lines for business," "Research and development expenditures," "Transfer of technology."

Now, it may be that this can be resolved merely by their being not applicable. But the problem is more with the form of the bill because to the extent that this is a legislative mandate, we may be more closed in on discussions on what can or cannot go into the form.

Senator INOUE. Than, are you endorsing what the administration has suggested, namely, that the Executive be given greater flexibility in determining the scope and areas to be studied?

Mr. VAGLIANO. That is correct, sir. The next thing I would talk about is the question of reporting from minority affiliates. I have had a considerable amount of experience in this field. I have been involved

in negotiations for acquisition on the part of my own bank of both minority and majority interests.

I have been chief executive officer of a foreign bank in which my own bank had a 51-percent interest and in which there were public and other shareholders.

I am involved in our own present investments of minority and majority affiliates.

There is a tendency to think that because one has a significant stock interest by standards of a largely traded public company in the United States that a 15, 25, or 35 percent automatically gives one the opportunity to obtain all of the information that one wishes. In fact, this is not correct.

First of all, the structure of ownership is different. And even where one has a 51-percent interest, it takes time, it takes several years sometimes to get the local accounting capabilities up to the standards that we ourselves need.

I am not of course, suggesting that these reports not cover 51 percent, but I am saying that even in the case of 51 percent, you have practical problems at the beginning of your takeover of control. The records may be kept in different languages, accounting principles are extremely varied. The accounting capabilities are not up to the standards of those of the United States. So, it takes time and education.

If you do control through a 51-percent ownership, you can reach the stage where you are satisfied with these accounting standards. However, when you get below 50 percent, and you do not, in fact, control through a majority ownership, the banks continue to be under the direction of the local board of directors. Even though they may welcome the technical assistance and participation of the American bank, they by no means in the instances where I have had experience are willing to be dictated to in detailed matters. Our position does not mean that with minority affiliates we cannot obtain the type of information with respect to our holdings and share of earnings, and other information generally given to shareholders. But we believe we would be put in an awkward and difficult position, if we were to be mandated by the U.S. Government to provide detailed information not available to all of the stockholders of a particular foreign bank.

In some instances, in fact, it is a legal requirement, in others it is a policy requirement, that all shareholders receive the same information. While we might have no objection ourselves to having such information distributed, the local board of directors, which does manage these banks, might have some. It might also be at variance with local regulation. We don't really believe that, in order to obtain useful information for the purpose of this bill, this is necessary.

We believe that the form of investment by American banks and foreign banks through minority participations, even significant minority participations where one may have a role, more or less, important in the management are very useful. In some instances legally we are not able to obtain a branch. In other instances it is a management decision that in that particular country there are many advantages to working with an existing institution which knows the market, which is particularly important in banking, and to have the benefit of a local board of directors that is independent and is considered as such in the particular country. So, basically, our plea is that we not be put in the

position of seeking information that may be difficult, improper, or even illegal to obtain.

Senator INOUE. Some have suggested that this measure is an anti-multinational bill. I think it is the opposite. Many of use in Congress have long felt that, because of the paucity and scarcity of information and data, the real story is probably not being provided to the public, resulting in, for the most part, a very negative image of multinationals in the Congress. Certainly, if one took a poll in the Congress today, multinationals would receive a negative vote. If that is so, I am afraid that when decisions are made, decisions are made on the basis of the public image, and such decisions may not be in the best interest of the United States, its economy and its dealings with peoples abroad.

It was with that idea of giving the multinationals an opportunity to provide hard and clear data that this bill was drafted. I want to assure you that this bill was not introduced to undermine business abroad.

In fact, a similar measure I introduced, which is now law and which authorized the first benchmark study of foreign direct investment in the United States in about 17 years, was designed to provide information to the people of the United States that foreign investment, *per se*, in the United States is not bad. In fact it may be in our interest.

So, it is in the same spirit that this measure was introduced; namely, to dispel the band image of multinationals by providing clear information about multinational's activities.

In recent years multinationals have garnered a poor reputation, as you know, in other areas. Nineteen seventy-five and 1976 are just not the years for them.

I hope this type of measure may be of some assistance in setting the record straight.

Mr. VAGLIANO. Mr. Chairman, we have been looking at this bill in that spirit. In fact, on the question of banking, I think that any real analysis of American banking activities abroad, particularly when it comes to employment, will show that the only effect that American bank activities can have on employment is to increase U.S. employment, because by participating in foreign banks and by having branches abroad, the number of transactions, banking transactions that take place between the United States and such foreign countries can only be increased. Banks' activities in the local countries are not activities that could be carried on here. It merely increases the flow of transactions between the United States and abroad, and as you know, clerical employment in the banking industry is very much a function of volume of transactions.

Certainly, the development over the last several years of the American international banks has shown a very large increase of international transactions, and hence, activity with their head offices here in the United States.

Senator INOUE. In your statement, are you also suggesting that banking and related financial activities abroad should be treated differently than other industries?

Mr. VAGLIANO. Not with any particular favoritism, Mr. Chairman. Only to have the information that we report be to the maximum extent possible consistent, (A) with the type of activity we conduct; and, (B) the type of reporting we already do.

Senator INOUE. Thank you.

Pleased proceed, sir.

Mr. VAGLIANO. Well, Mr. Chairman, really those were the only two points I did want to stress.

We would like to point out in the statement that we submitted, unfortunately that is a transmission error on page 3, a negative was dropped which affects our position. Third line, last paragraph, where we say, "we do quarrel," what we meant to say was "we do not."

Thank you very much.

Senator INOUE. That correction will be noted, sir.

Mr. VAGLIANO. Thank you for the opportunity to appear, Mr. Chairman.

As I say, we think we can be helpful and are certainly prepared to be helpful.

Senator INOUE. Mr. Vagliano, on behalf of the committee I thank you for your assistance this morning.

We shall accept your offer for assistance. We consider this measure to be one of some importance. We do not want to take the wrong steps. We are hoping the step we take will be the right one. With your assistance and that from labor, the administration, and academics maybe we will take the right steps.

Thank you.

Mr. VAGLIANO. Thank you, sir.

[The statement follows:]

STATEMENT OF ALEXANDER M. VAGLIANO ON BEHALF OF THE
AMERICAN BANKERS ASSOCIATION

Mr. Chairman, my name is Alexander M. Vagliano, I am a Senior Vice President of Morgan Guaranty Trust Company of New York. I appear today on behalf of the American Bankers Association. I am accompanied by Robert Bevan, Associate Federal Legislative Counsel, American Bankers Association.

The American Bankers Association is a trade association composed of some 14,000 banks which represent about 96% of the banks in the country. Approximately 4,000 of these banks exercise fiduciary powers and hold securities in various fiduciary capacities. A number of banks maintain foreign operations. Thus, the Association is deeply interested in S. 2839, the International Investment Survey Act of 1975.

International investment to and from the United States affects the economy of the United States and we agree that the Federal Government should maintain reliable information on the subject. We also urge that the government should have adequate statutory authority to collect such information. We believe that accurate knowledge of capital movements into and out of the United States will be helpful to public and private entities both here and abroad.

American banks already provide a considerable part of the information which the bill is seeking to obtain for purposes of balance of payment statistics for the Treasury Department and for reports required by our regulatory and supervisory authorities. In order that maximum utilization can be made of the banks' existing information gathering system and data, we strongly recommend that they be allowed to participate in the initial development of the form and manner in which the data is to be submitted. For operational reasons, it is also essential that the data required and form of presentation be specifically defined well in advance of the reporting date to enable the banks to establish the necessary procedures and capabilities. It is frequently impossible and invariably costly to reconstruct data after the reporting date has passed. To illustrate the scope of the problem, the three largest U.S. bank networks have nearly five hundred branch offices abroad, without including subsidiaries, from which information may be required.

We respectfully suggest that Section 5 of the bill calls for an excessively demanding and ambitious program to be mandated by statute and may result in

an extensive reporting burden on American business and an unrealistic analytical burden on the Secretary of Commerce. Hence, we share the concern expressed by the executive branch's witnesses on Monday about the bill's excessive specificity.

Consideration should be given to providing distinct reporting forms for banking in order to make the data more meaningful and precise without sacrificing consistency. To illustrate, the requirement in Section 6(1) to report financial transactions between a business enterprise and each of its foreign affiliates and branches is meaningless in the context of an international bank which conducts thousands of such transactions daily in the normal course of its business. The bulk of such transactions relate to third parties and in no way to the investments of the bank itself. Further, many of the points of inquiry to which Section 6 addresses itself, such as research and development, transfer and pricing of technology, breakdown of sales by primary lines of business, have little or no application to banking.

We are also concerned by the apparent inconsistency in Section 6(1) which refers to "consolidated net income of each of its foreign affiliates and branches reported separately". We urge that where a bank operates several similar facilities in a single country, reporting should be done on an aggregate basis for each such country. Breaking the reporting down on a branch by branch or unit by unit basis within a single country would appear to serve no public purpose and often be at variance with established accounting and reporting procedures.

For all these reasons, we urge that it be left to the Secretary of Commerce, after consultation with the banking industry, to determine, under procedures established by law, what information is relevant to the survey.

Section 3(9,10) of the bill defines portfolio investment as ownership or control of up to 10% of the foreign entity and direct investment as ownership or control of 10% or more. We do not quarrel with that definition insofar as it applies to the reporting by the American entity of its overseas holdings. However, it does not follow from the fact that an investment is defined as "direct" rather than "portfolio" for statistical purpose, that the U.S. investor has in fact the control or influence over a foreign company necessary to obtain the information required to be reported. It is true that in the United States, where shares of public corporations are widely and actively traded, control may be wielded with as little as a 10% stock ownership, but this would be exceptional in the case of investments abroad. Therefore, minority interests would not normally constitute control over foreign entities. The latter could refuse to provide the information for such reasons as local law, a requirement or policy that information be given equally to all shareholders, or a mere unwillingness to cooperate. Thus, we could be faced by the foreign company's assertion that the request for a report, or for the information needed to compile it, is improper, impertinent or even illegal.

For these reasons, detailed separate reports covering foreign entities should be required only where the American investor has a majority ownership of the voting shares of the foreign company. We think this distinction is important in the context of our *international relations*. It would avoid the type of international confrontation that could occur if the requested information is not made available by the foreign company. We believe that the surveys can be carried out without such confrontation, particularly as other countries could not reasonably object to the purpose of this legislation. In fact, many of them maintain extremely detailed data on foreign investments relating to their own country.

In our opinion, the question of which executive department will conduct the surveys can best be answered by giving the authority for the portfolio survey to the Treasury Department and for the direct investment survey to the Commerce Department, a division which proved effective in the Foreign Investment Study of 1974.

Confidentiality of the data submitted is essential and it appears that Section 7(d) provides the necessary safeguards. However, if questions are raised as to the adequacy of the protection, we urge the Committee to take whatever action is necessary to insure maximum confidentiality.

In summary, the American Bankers Association is confident that the American banking industry can be responsive to the executive departments charged with collecting and analyzing the desired data. By actively cooperating with such agencies in formulating the manner and form of assembling the information, we believe we can help to reduce the reporting burden on private industry and make more effective the consolidation and analysis of such data without creating international ill will from foreign business and governments.

Senator INOUE. Our final witness today is Dr. Peggy Musgrave, professor of economics, Northeastern University, Boston, Mass.

Welcome to the committee, Professor.

I note the professor has testified before several committees. Welcome to ours.

**STATEMENT OF DR. PEGGY MUSGRAVE, PROFESSOR OF ECONOMICS,
NORTHEASTERN UNIVERSITY, BOSTON, MASS.**

Dr. MUSGRAVE. Thank you.

As an economist who has been involved in research on U.S. direct investment abroad, I am keenly aware of the data deficiencies in this area. Therefore, I applaud your efforts and the efforts of this committee in trying to provide more adequate information on foreign investment.

I also appreciate the opportunity to share my views with you here today. The data base for foreign operations of U.S. corporations is woefully inadequate, especially in view of their magnitude, their significance for the U.S. economy and for foreign economies and their implications for U.S. economic and foreign policy. By operating abroad under foreign incorporation, U.S. corporations can largely escape the reporting requirements to which the domestic corporation is subject. Because of inadequate reporting requirements, the U.S. public is denied a proper assessment of the scope and effects of investment abroad, while policymakers are without the data resources necessary to the formulation of informed policy in the area of foreign investment.

The two major official sources of information on the nature and extent of foreign investment are the Commerce and Treasury Departments. In a recent study of U.S. investment abroad, which I undertook for the Senate Foreign Relations Committee, the Subcommittee on Multinational Corporations, I have reported on the major deficiencies of these published sources, and I refer the committee to appendix A(1) of that report. With regard to Commerce data, I should like to summarize these deficiencies as follows: First, the annual series on capital and income flows of U.S. direct investment abroad are heavily balance-of-payments oriented, with insufficient data on the full range of operating, balance sheet, trade and financial items to permit analysis based on time series. This deficiency is further reflected in the U.S. national income accounts, which, in my opinion, do not adequately make allowance for foreign investment. If more adequate information were available, this would provide the opportunity to review the inclusion of foreign investment in the national income accounts.

Second, annual data are frequently discontinuous, noncomparable, and presented with inadequate breakdown by industry and location.

Third, more comprehensive bench mark surveys are made too infrequently to provide up-to-date checks on the data presented on a more limited sampling basis for intervening years.

Fourth, the material provided in the special surveys has been subject to such a high degree of suppression to preserve anonymity of reporting firms that it has proved to be of only limited value to researchers in the field.

And finally, the material does not allow any time series evaluation of the behavior of particular groups of firms. Neither does it reveal the behavioral relationship between the domestic parent corporation and its foreign affiliates. This is not the place to develop in detail the statistical series which are needed, but in order to rectify the above shortcomings, I believe the following three steps need to be taken:

First, the setting up of a committee composed of experts in and out of government to report to Congress within, say, a period of 6 months precisely the information which is needed and the frequency and method by which it should be obtained. The data required of respondents should be such as to allow assessment of foreign investment in its many aspects, such as trade, balance-of-payments, employment, growth, and taxation; and the committee should, accordingly, consist of a broad range of experts who have these various interests and concerns.

Careful attention should be paid to the feasibility of obtaining such information by consulting with industry representatives.

Senator INOUE. Professor, is it your suggestion that this bill be amended so that a committee of this sort would be authorized by Congress?

Dr. MUSGRAVE. Well, I would prefer to see such an action taken as a prelude to the bill such as we are considering today.

Senator INOUE. Before its final consideration?

Dr. MUSGRAVE. That would be the order in which I would prefer to see developments go.

Senator INOUE. Are you further suggesting that the final consensus of this committee be incorporated in the bill as the specific subject areas to be studied?

Dr. MUSGRAVE. Your question is, should the bill incorporate the specifics of the material?

Senator INOUE. Yes.

Dr. MUSGRAVE. My answer is "yes" to that.

But I think in order to include the specifics there has to be an interagency committee with experts both in and out of government in order to specify exactly what material should be collected and the frequency with which it should be collected.

Senator INOUE. Thank you, ma'am.

Dr. MUSGRAVE. Second, the Secretary of Commerce should be given the necessary statutory authority to require regular annual, and in some cases, quarterly, as well as periodically comprehensive survey information from business respondents with operations abroad, as would be suggested by this committee's recommendations.

Third, the Secretary of Commerce should be required by Congress to compile and publish this annual, quarterly and benchmark statistical information and to enforce the reporting requirements within the statutory authority as laid down by the Congress.

S. 2839 would be helpful in providing the Secretary of Commerce with specific authority to secure a more adequate reporting of foreign investment activities on a periodic survey basis. I have the following comments to make with regard to the bill: While the bill goes some way toward step two that I mentioned previously, I believe that a necessary accompanying step, or, indeed, a first step, is to reach an

expert agreement on the scope and nature of the statistical information, which is needed for research and policy purposes.

I would therefore urge an interagency committee be set up, including outside experts, to assess the data needs and to design the questionnaires and reporting procedures necessary to meet them.

As to the bill's requirement that the Secretary of Commerce submit analyses and reports on foreign investment, I believe these analyses will, in any case, be forthcoming from a number of directions both in and out of government once a more adequate data basis is provided. Strong emphasis, therefore, should be placed on the Department's responsibility for information gathering and publication.

Third, as the bill is presently formulated, it appears to be strengthen and broaden the Secretary of Commerce's authority to collect information on the foreign affiliates of U.S. corporations on a periodic, up to 10-year survey basis. While it is desirable that this authority be given to replace the unsatisfactory and ambiguous authority provided under the Bretton Woods agreement, I believe it should be considerably extended to provide for more frequent, regular and consistent reporting procedures if a satisfactory standard of published data in terms of both coverage and quality is to be achieved.

Thank you.

Senator INOUE. Thank you very much.

I would like to know if Mr. Vagliano and a representative of the AFL-CIO are here.

Would you like to comment on Professor Musgrave's suggestion that a report be submitted to this committee after consultation with all interested sectors on the scope and nature of the study and the specific data to be collected before final action.

MR. VAGLIANO. Mr. Chairman, I think this goes to the question of this bill. In other words, the structure of the bill as presented, with its extreme detail. I do agree that a great deal of thought and study should be given to achieving a clear definition of exactly, not only what is, what may be desired, but also what can be obtained in a convenient and recurring fashion and in a manner that is feasible.

Now, a lot of the points that have been mentioned today are extremely subtle, extremely sophisticated. I think that I agree with the chairman's remark that the more information that is obtained on the multinational activities, at least in my industry, will be beneficial.

I can only say in that respect that it might be desirable. I am not quite sure what the composition of this group would be. But to have a further evolution of how you can tie in desires with specific statistical input would be useful.

Senator INOUE. Mr. Devlin, would you like to comment, sir?

MR. DEVLIN. I don't see anything wrong with having an expert committee before or even after the bill is enacted. It doesn't make much difference. The problem of the committee would be to recommend the type of data in broad terms that really should be collected. But for the committee to actually design the forms strikes me as very complicated. Form design and that kind of thing is an enormously technical job.

Senator INOUE. I don't think the professor suggested that. She felt that the details we have in the committee bill may be in some

areas inadequate and in some other areas overly ambitious, and possibly not feasible. The suggestion, if I am correct, was to have a committee of experts look this over and design a feasible program.

Dr. MUSGRAVE. Yes.

One of my thoughts here, Senator, was that there is such a broad range of interest in the subject that I think we have to have inputs from more than one agency in government and preferably, to include interested parties outside, as well.

Mr. TURNER. I was certainly struck by the questions of feasibility raised by the representatives from industry here this morning. It seems that without a step such as or similar to the one proposed by Professor Musgrave, we could be caught between the desire for specification, which we feel is urgent, because we could well be thrown back in the position we were in the proposed benchmark of 1972, where there was an administration decision that certain essential data could not be collected. And in the future it might be decided such data was not relevant, decided by the administration. So, the need for specification then has to be balanced against questions of feasibility and as Professor Musgrave mentioned, questions of relevance of the need for a national system for both academic research and for policy formation.

We hate to see the delay, still further delay, that might be brought about by the formation of such a committee and it's not clear whether it would have to operate before the bill were put in or afterwards. But I think it could provide a solution, the formation of such a committee could solve the problem of falling between the over and perhaps mis-specification on the question of data feasibility.

Senator INOUE. I can assure you, Professor, that this matter will be brought to the attention of the subcommittee immediately. And the subcommittee may well, on its own initiative, call upon members of the industry, labor, the academic world, and government to fill up the blank areas.

We intend very seriously to consider this measure favorably.

If not in this session, I can assure you it will be early in the next session. This is one of the very few measures introduced by this subcommittee, which seems to receive the general support of every group—something which not only surprises me but I also begin to wonder if something has gone wrong somewhere.

But seriously, Professor, your suggestion will be taken into consideration and acted upon immediately. I think this little panel here shows that we have a consensus as to the necessity for relevancy, feasibility and availability of data. As I have said on several occasions, the intention of this bill is not to overburden industry with unnecessary or impractical requirements. That I can assure you. I think an exercise of this sort should be very helpful to us. Unfortunately, we who are not experts must make decisions that will affect all of you. The only thing we have on our side is the hope that it will be the proper decision. Perhaps with this committee we will have the expert advice to make the proper decision.

I would like to thank all of you this morning for your assistance.

Before adjourning, I am pleased to place into the record a statement by the chairman of the full committee, the distinguished Senator from

Washington, Warren G. Magnuson. With this we shall close our hearings.

[The statement follows:]

STATEMENT OF HON. WARREN G. MAGNUSON, CHAIRMAN, SENATE COMMERCE COMMITTEE, AND U.S. SENATOR FROM WASHINGTON

The establishment of a carefully integrated global economy has been the principal economic development since the end of the Second World War. The vehicle for the construction of this intricate structure has been the multinational corporation, which has come to symbolize this phenomenon.

The growth of the multinational corporation and international investment has been nothing short of explosive. For the last two decades, our attention has been focused on the outward investment by American firms. Beginning in 1973, we Americans discovered that we are not immune from investment from abroad. Nothing illustrates the global scale of international investment more than the fact that we have become both a host and a source country for direct investment. Capital and product markets are now conceived of in international—not national—dimensions.

At year end 1974, the latest year for which figures are available, American direct investment amounted to \$118.6 billion, according to official United States Government figures, up from \$31.9 billion in 1960. In addition, long-term overseas portfolio investment at year end 1974 was about \$29 billion for a long-term foreign investment total of more than \$147 billion. It has also been estimated that foreign production by U.S. affiliates in 1973 was \$291 billion, four times our exports for that year.

Figures for reverse investment in the United States showed that foreigners had assets here of approximately \$81.7 billion, of which \$60 billion represented portfolio investment and \$21.7 billion direct investment. Moreover, it is quite probable that the final report of the Foreign Investment Study Act of 1974, which originated in this Committee, will revise these figures upward.

The sheer size of these statistics indicates the power which international investors wield. There are minutely documented records of attempts by both private investors and governments to use this coercive power to achieve political ends, as in Chile or the boycott of Israel.

American policy toward international investment has traditionally endorsed an "open door" approach. We have considered foreign investment beneficial. We offer no special incentives for outward or inward investment. With a few internationally recognized exceptions in the case of inward investment, we impose no special barriers to such investment. Moreover, we have extended to foreign investors "national treatment", that is, treatment equivalent to that given to domestic investors, and have, wherever possible, sought such treatment for our own investors.

I have long been an advocate of free trade. Free trade can, I believe, raise the living standards of most peoples of the world. By the same token, we have seen that international investment can have both adverse and beneficial consequences. A multinational corporation or a government may be tempted to use its power to undermine the sovereignty of another country. The same result may occur inadvertently through the movement of capital or administrative decisions taken by a distant headquarters. Our assessment of multinational activity should proceed on a case-by-case basis and not from dogmatic assertions.

There have been many arguments for and against international investment. The record is full of examples which support both sides, and it is clear that this phenomenon has good and bad aspects. To the maximum extent possible, we should seek to reinforce the positive potential of international investment.

Given the history of multinational corporations, the United States should subject its investment policies to constant scrutiny. As circumstances change—and the current global economy guarantees that they will change—conventional wisdom shifts. It is for this reason that I strongly support S. 2839, the International Investment Survey Act of 1976, of which I am a co-sponsor. This bill would authorize the Department of Commerce to undertake continuous surveys of in-

ward and outward investment and to provide data and analyses to the Congress and the public. It seeks to keep our information on international investment current and comprehensible, so that our policies can be rational and well thought-out.

This legislation is seriously needed since existing statutory authority appears to be inadequate. Information obtained pursuant to the bill could, I believe, resolve some of the controversies which surround the issue and dispel the uncertainty which undermines our policy. Sufficient and reliable information is an absolute necessity if we are to develop and maintain a coherent, comprehensive policy on inward and outward direct investment.

The objective of this bill cannot be faulted, and I wholeheartedly endorse this legislation. I pledge the support of this Committee in expediting consideration and enactment of the bill.

[Whereupon, at 11:50 a.m., the hearing was adjourned.]

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This legislation is seriously needed since existing statutory authority appears to be inadequate. Information obtained pursuant to the bill could, I believe, resolve some of the controversies which surround the issue and dispel the uncertainty which undermines our policy. Sufficient and reliable information is an absolute necessity if we are to develop and maintain a coherent, comprehensive policy on inward and outward direct investment.

The objective of this bill cannot be limited, and I wholeheartedly endorse this legislation. I pledge the support of this Committee in expediting consideration and enactment of the bill.

[Whereupon, at 11:50 a.m. the hearing was adjourned.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF GUY V. G. STEVENS, CHIEF, QUANTATIVE STUDIES, DIVISION OF INTERNATIONAL FINANCE, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

I appreciate the invitation of the Subcommittee to present my views on S. 2839, the International Investment Survey Act of 1975. I am speaking on my own behalf as a research economist who has devoted a considerable part of his professional life to empirical studies on direct investment and the multinational firm. In so speaking, I should like to distinguish my view carefully from any official position the Federal Reserve Board might take on this bill.

As a researcher I have worked with most of the data that has been created by the United States on the operations of U.S.-based firms abroad; these data, as you know, are gathered primarily by the Bureau of Economic Analysis in the Department of Commerce (BEA). My work includes a paper based on the aggregate, time-series statistics that are published by BEA and, as a consultant to BEA and other agencies, studies based on the confidential micro-economic data that are not published, the data that are collected from individual foreign affiliates.¹

A summary view

I should first like to summarize my views in the aims of S. 2839 as I see them, and on the means whereby the bill attempts to achieve these aims. Then I will go into detail on a few of the more important points on which my conclusions are based.

The first goal of this bill is to provide "clear and unambiguous" legislative authority for the collection of data on international investment, both portfolio and direct. I support this goal in the strongest terms possible. The provision of a strong legislative mandate is now imperative. It is gratifying, I might add, to find that this opinion is shared by virtually every witness that appeared before this Subcommittee, including the representatives of the Executive Branch,² the AFL-CIO,³ and international business.⁴

The most immediate and visible reason compelling the above conclusion was the 1974 ruling that much of the data requested in the proposed Census of Direct Investments could not be collected under the authority used traditionally for such Censuses, the Bretton Woods Agreements Act.⁵ However, as I try to detail below, it is my view that a clear and unambiguous legislative mandate has been needed for many years.

From sections 2 and 5 of S. 2839, it is clear that the framers of the bill have much more in mind than the collection of data: they also want to ensure that the data will be used to answer pressing policy questions concerned with the effects of multinational firms. As a researcher I naturally espouse the goal that the data collected under this Act and those collected in the past be put to maximum use—to attack the questions listed in section 5 of the bill and, it is to be hoped, many more. My experience in this field has convinced me, however, that it is a difficult task to insure that the data will be made available in the form

¹For the use of the aggregate data, see "Capital Mobility and the International Firm," in Fritz Machlup *et al.*, editors, *The International Mobility and Movement of Capital*, New York: National Bureau of Economic Research, 1972. Studies that are based on the micro-economic data include: "Fixed Investment Expenditures of Foreign Manufacturing Affiliates of U.S. Firms: Theoretical Models and Empirical Evidence," *Yale Economic Essays*, Spring, 1969; and (with Michael Adler), "The Trade Effects of Direct Investment," *The Journal of Finance*, May, 1974.

²Statement by the Honorable Gerald L. Parsky, Assistant Secretary of the Treasury before the Subcommittee on Foreign Commerce and Tourism, Senate Committee on Commerce, Feb. 23, 1976.

³Statement of Mr. Jacob Clayman, Secretary-Treasurer, Industrial Union Department, AFL-CIO, before the Subcommittee, Feb. 27, 1976.

⁴Statement of Mr. David T. Devlin, Vice President, First National City Bank, before the Subcommittee, Feb. 27, 1976.

⁵The background and details of this ruling are set out in the statement of Assistant Secretary of the Treasury Parsky, pp. 7-10 (see footnote 2, above).

necessary and to a sufficiently wide body of researchers so that the questions listed in section 5 will be answered adequately. This guarded conclusion stems from the consideration of such issues as access to the data, confidentiality requirements, and the funds and facilities that are likely to be available for researchers. I will return to them in more detail below.

Long-standing problems caused by a weak legislative mandate

Long before the crisis of 1974 the narrow scope of the Bretton Woods Agreements Act was hurting both the collection of data and the research on foreign investment.⁶

First, because of the narrowness and ambiguity of the legislative authority, much of the important data collected annually was collected on a *voluntary* basis. This included, and still includes, all data on foreign affiliates' plant and equipment expenditure, sources and uses of funds and (when it was collected) trade flows. These data are important because they contain many of the determinants of such important effects as the balance-of-payments flows and employment impacts associated with direct investment. Voluntary reporting causes unnecessary and unknown errors in the published aggregates, because firms—often important ones—frequently drop out of the BEA sample. It leads to an inequitable sharing of the burden of reporting. Finally, voluntary reporting is one reason why BEA has often been very reluctant to collect new data or collect existing data more frequently; there is always the justified fear that an additional request not only might be refused by the reporting companies, but also might lead to a general withdrawal from the voluntary samples. As a concrete example, I have argued elsewhere that plant and equipment expenditures of foreign affiliates could usefully be collected on a quarterly basis as is done for domestic firms⁷; whatever the merits of the proposal, it is unlikely that BEA would or could collect such data on a quarterly basis given the voluntary nature of present reporting.

Second, the weakness of the existing authority has been at least part of the reason for BEA's failure to correct weaknesses in the data base. Very little data has been collected on the domestic operations of our multinational firms, and none of this has been collected on an annual basis; without such data it is impossible to study the interactions between the domestic and foreign operations of the multinational firm. For a few years, from 1963–67, BEA collected annual data on the trade flows between parent firms and affiliates; this voluntary sampling was abandoned and with it the hope of studying the trade effects of direct investment using time-series data.

Other problems exist with the data that are being collected. All data are collected in value terms; there are no price indices available to separate real from nominal changes in sales, plant and equipment expenditure, inventory changes and the like. For financial decisions, we have never had any data on the interest rates or terms being paid by foreign subsidiaries in foreign financial markets. BEA has never collected data on the currencies in which foreign affiliates' liquid balances or other assets are denominated.

Naturally the benefits to be derived from any expansion of the data base must be compared to the added costs to be incurred by the reporting firms. I would agree that certain useful data might be prohibitively expensive to collect. However, valid considerations of cost do not nullify the argument that we should change a system where the voluntary nature of reporting, itself, inhibits the improvement of the data base.

For the above reasons it has long been my position that the type of strong legislative authority built into S. 2839 is a necessary precedent to adequate data collection in this field. In case there is an ambiguity in the proposed bill, this authority should extend not only to the comprehensive Censuses of Direct Investments, but also to all other data on direct investment that is now or might be collected; this includes the quarterly and annual data, such as sources and uses of funds, that is collected at present; as well, the authority should be broad enough to cover special surveys that might be undertaken on a limited or even one-time basis.

⁶ I reported this view as far back as 1972, and then it was not new. (See "The Multinational Firm and the Determinants of Investment," in John Dunning, editor, *The Multinational Firm and Economic Analysis*, London: Allen & Unwin, 1974, p. 82.)

⁷ See the reference in footnote 6, p. 81.

Problems of access, confidentiality, and funding

Let me make the justifiable assumption that S. 2839 will solve all problems related to past weaknesses in the legislative authority. Despite this great stride forward, it is my view that severe problems remain which may prevent the satisfactory completion of the types of analyses mandated by the bill. These problems are caused by a combination of factors related to (1) the shortness of the published time-series for much of the data, (2) the confidentiality requirements that justifiably surround the unpublished data for individual foreign affiliates, and (3) the limitation of BEA's funds and staff for in-house research and provision of facilities for researchers from outside agencies and universities. For one whose conviction is that good research is best promoted by good data and easy access to it, the above points are matters for great concern: all of these factors undermine the ease of access to the data.

Section 7 (d) of the bill imposes strong confidentiality requirements on the access to the underlying data that is to be collected. This parallels the present system and I accept it as a necessary fact of life. In many areas of study, in fact, the confidentiality of the underlying data has virtually no effect on researchers; they are usually more interested in time-series of aggregate data that are published. However, in this field, the existing time-series are quite short and often unusable.⁸ The result has been a more than average interest on the part of researchers in using the data for individual foreign affiliates that underlie the aggregates. But because of the confidentiality requirements and the way these have been interpreted, working with these micro-economic data has been very time-consuming and costly; even though great progress has been made by BEA in promoting cooperative research with economists in other Federal agencies and private institutions, the problems are still great. Researchers using the underlying data have been forced to do their work in Washington, on computers that are not their own, and at costs that for most are high.⁹ Although the situation has improved considerably in the past few years, the result still is that only a few analysts have been able to make use of the micro-economic data.

It is not hard to write down in general terms some of the things that will improve the existing state of affairs: a strong commitment to research, especially by outsiders; the ample funding of research on direct investment; the devising of a system whereby confidential data could be safely used on outside computers, at least other government computers—or, possibly, the creation of a time-sharing computer system within Commerce that could be easily and cheaply used by all classes of researchers; a strong commitment to the improvement of the published aggregate data.

Although it is relatively easy to state what ought to be done, it appears to me to be much more difficult to ensure the desired result by drawing up the proper law. The present bill attempts to promote the desired analysis by commanding the Secretary of Commerce to produce a number of studies. Certainly this is pressure in the right direction. On the other hand, the list of studies in section 5 of the bill can easily become outdated; further, it is not clear to me that section 5 will promote the degree of research activity, particularly by outside economists, that is needed to make progress on the important questions identified in that section. In summary, the method adopted by the bill would work well, in my opinion, only in a world where the questions of interest are

⁸ Except for actual balance-of-payments flows, the best published time-series one can hope for are for annual observations from 1957 to 1975. On the face of it, a series of 18 to 19 observations is of sufficient length to work with; however, for a number of reasons, few series reach this maximum length now, and none have been close to it until very recently. First, very few series as now published are on a comparable basis throughout their length; the benchmark for the early part of each series is the 1957 Census, and for the latter part, the 1966 Census; so far, few, if any, series have been benchmarked to the same Census throughout their length. Further, some important series such as the trade between parents and affiliates were discontinued; others were started much later than 1957. Finally, until 1974 when the 1966 Census was completed, virtually no time series went unbroken, beyond 1965.

⁹ These are just the facts of life of using confidential data, but they make research difficult. BEA has required, as part of its regulations to protect the confidential data, that all work on the data be done by BEA employees, on local computers. Although the charges by BEA have been reasonable, the costs of working through BEA employees and paying commercial rates on computers have been more than most researchers can afford. Moreover, the capacity of BEA to handle research requests, although improving, is still quite limited.

unchanging and where all the necessary research resources are to be found within the agency collecting the data.

I wish I could say that I have the ideal legislative formula, but I cannot. The goal of promoting analysis and research in this field is an important one, so I sincerely hope that this Committee will be able to use its demonstrated expertise to create the legislative solutions for any problems that remain.

I congratulate the Committee and its staff on the International Investment Survey Act of 1975. If I can be of any further assistance with this important legislation, please call on me.

STATEMENT OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

The National Association of Manufacturers, a voluntary, non-profit organization of over 13,000 companies, large and small, located in every state, welcomes this opportunity to comment upon S. 2839, the "International Investment Survey Act of 1975". The growing interdependence of the United States with the world economy makes policies regarding both the inflow and outflow of capital investment a major concern to NAM member firms, which account for the production of nearly 85% of American manufactured goods and employ approximately 15 million persons.

We believe that policies supporting the freest possible international movement of capital in response to market forces will lead to the most efficient allocation of productive resources for worldwide economic growth. For this reason we support the bill's objective of providing sufficient information on capital movements to allow knowledgeable public policy decisions in this area. We are convinced that analysis of such investment data will continue to substantiate the benefits arising from free capital movement and argue for the reduction of governmental and other barriers to market-based investment flows. With some modifications to allow flexibility in dealing with future information needs, assure confidential treatment of commercial transaction data, and to minimize the costly reporting burden placed upon affected companies, this proposed legislation could foster in a responsible and effective manner more informed public policy deliberations on international investment issues.

Background

Recent U.S. government data collection on international investment has been based primarily on the Bretton Woods Agreement Act which authorizes information gathering essential to comply with International Monetary Fund (IMF) data requests. Currently, the IMF requires submissions from member nations on balance-of-payments and international investment. The U.S. National Advisory Council on International Monetary and Financial Policy (NAC) must, in conjunction with the Office of Management and Budget (OMB), approve Executive Branch surveys issued under this Act. Recently the NAC rejected a number of Commerce Department survey items on investment data which appeared to go beyond IMF requirements. This decision highlighted the lack of specific statutory authority to gather information which is deemed necessary to permit informed U.S. Government policy decisions on international investment issues.

A somewhat similar situation prevails in regard to data-gathering on foreign investment in the U.S. Over the last several years there has been public concern expressed in the media regarding the prospect of massive foreign capital inflows and take-overs of American firms. These concerns have proved to be exaggerated, both in terms of actual volume and in the implied fear of such investment. One of the most positive contributions toward placing discussions of inward investment policy on more objective grounds and avoiding hasty, ill-considered restrictive measures is the information gathering effort now being completed under authority of the Foreign Investment Study Act of 1974. The interim reports of this survey, and the expected final results due in April, 1976, should, we believe, provide factual support for a policy of continued free investment flows into the U.S., subject to certain national security and other internationally-recognized regulatory criteria. Passage of the Act was supported by the NAM in a written statement to this Subcommittee in March, 1974. However, the Act's authority will expire on April 26, 1976.

Many of the same reasons which led NAM to support the original Act now lead us to support a more permanent authority for essential information gathering on both inward and outward flows of capital. The data provided by such surveys will allow informed and responsible public discussion and policy decision-making regarding international investment issues—which constitute the basis for sound action in a democratic society.

International Investment Survey Act of 1975 (S. 2839)

In light of the above objective of supporting informed public policy decisions on international investment issues, NAM endorses the "International Investment Survey Act of 1975" (S. 2839), while suggesting the following modifications.

Flexibility, scope and objectivity

NAM supports the recommendations made by the Administration and other witnesses before the Subcommittee that more flexibility be granted in the conduct of authorized surveys. We believe that the Congress should mandate only that a benchmark survey be conducted at least every ten years, leaving greater flexibility on the issues to be analyzed and the specific data to be sought by reducing the number of specific detail items listed in Sections 5 and 6. Since the bill is proposed as permanent legislation, it should recognize the difficulty of projecting into the future which issues will be important public policy questions or what specific corporate data would be essential to informed policy judgments on those issues. Sections 5 and 6 should be modified to provide general framework guidelines for Executive Branch conduct of the surveys in a manner that seeks only corporate data essential to an informed public opinion on identifiable public policy questions of major importance.

Additionally, we would support provisions which would grant Presidential discretion to select the departments to conduct the surveys, seeking efficient utilization of available expertise and avoiding duplicative program efforts. We note that the Treasury Department spokesman cautioned against mandating a comprehensive survey of U.S. portfolio investment abroad without at least some initial feasibility tests and measures of the validity of the current estimate technique. This deliberate and studied approach appears wise in view of the enormous and complex nature of a full portfolio survey.

We would also like to emphasize the complex, dynamic nature of the overall investment process which is the subject of this bill. The diversity of multinational business, together with the varying established procedures and customs in different countries, makes certain types of sophisticated technical analysis of investment effects extremely difficult, and cross-national comparisons nearly impossible. Factors such as different accounting practices, tax laws and regulatory requirements, along with historical growth patterns of local industries, can converge to make interpretation of one area's operating results quite distorted if measured against standards set in terms of another region's practices.

Another element of the complexity in investment issues lies in the nature of the questions asked concerning an investment's impact. Survey data are not likely to give clear answers to such questions as the effect of foreign investment on the environment, the significance of joint venture operatives, and impact on domestic financial markets. Other questions such as domestic employment effects can be illuminated but hardly dealt with in completely definitive terms. Assumptions, such as "what would have happened if the investment had *not* taken place also significantly affect the validity of analytical work. These cautionary notes are made not to oppose conducting the investment survey, but rather to argue for an explicit recognition of the complexity of the issues involved. While some objective facts will be provided by the survey, alternative assumptions, standards of measurements, and other such considerations add a very subjective nature to the analyses called for in Section 5. We would urge that the section be redrafted to reduce as much as possible highly subjective items, while further requiring that when subjective judgments are called for, this fact should be noted, with assumptions clearly stated.

Private sector consultations

One way to help improve the effectiveness and reliability of the survey data is to assure that the data sought (1) can be collected and (2) will accurately portray the information desired. The bill's provisions for consultation with private sector individuals and organizations should materially assist the development and implementation of an effective survey procedure. We further note the open and cooperative posture of the Subcommittee as expressed by its Chairman in the hearings regarding solicitation of expert private sector opinions during further mark-up of this bill. Such an approach will surely enhance the prospects for refining this legislation into a realistic and practical grant of authority, which will attract broad-based support for passage and later cooperative implementation.

While many incongruities can be worked out in such consultations, one problem is broad enough to deserve a special separate mention. Data gathering and submission on foreign operations can present a significant problem to U.S. firms which

have less than full ownership of a foreign facility, particularly when their proportion drops below fifty percent. The bill as currently drafted would place the same reporting requirements on companies whose ownership may range between 10 and 50 percent of a foreign affiliate as it does upon majority or fully-owned subsidiaries. This broad-brush approach ignores the practical and sometimes legal constraints upon the ability of U.S. firms to control affiliate policies and operations. While equity ownership levels over 10 percent in the U.S. may imply a rather high degree of influence within a company with dispersed public stock ownership, the same conditions often do not hold abroad where control is more concentrated. A minority U.S. interest may thus not provide the control necessary to assure that all information called for in this bill can be obtained and submitted for that foreign affiliate.

One alternative way to help resolve this problem is to group minority affiliates under a separate category for analysis of some operational data, recognizing that their ability to submit certain information may be more limited. The Administration should be given the flexibility to work out the exact reporting requirements in consultation with private sector representatives affected by this problem. This approach is more realistic and also fairer to companies which could otherwise be placed in the untenable position of being required to do something which they in fact cannot accomplish.

Minimizing the reporting cost burden

NAM supports the directive in Section 7(c) which seeks to minimize the administrative and cost burden this Act will place upon companies. Consistent with this provision we would suggest some further language revision in paragraphs (a) and (b) to grant the Secretary of Commerce *reasonable* regulation authority where it is *necessary* to collect data *essential* to accomplish the survey's objectives. Such a change would clearly signal the Subcommittee's concern with administrative and cost burdens while maintaining a sufficient grant of authority to accomplish the specified goals.

Confidentiality of corporate information

A final area where NAM would suggest some revision of Section 7 regards the confidentiality provisions for corporate information contained in paragraph (d). We note the comparable nature of the statistical, information-gathering surveys proposed in this bill and the type of data collection done by the Census Bureau. Since the confidentiality provisions of the latter have proven quite effective, we would urge their adoption in this bill. Specifically, the provisions of Section 9 of Title 13 of the United States Code could be incorporated explicitly into S. 2839. We believe that the best confidentiality guarantees available should be accorded this data, both because much of it would be commercially damaging if obtained by business competitors, and also because the recognized non-comparability problems with cross-company and cross-national information could lead to unfair and distorted charges against reporting firms by corporate critics.

Conclusion

The NAM supports S. 2839 with the modifications proposed above. This legislation provides the appropriate authority to gather information on capital flows which is both appropriate and necessary to assure an informed public and to facilitate government policy decision-making on international investment issues. We are confident that the facts will continue to demonstrate the benefits derived from capital movements which are responsive to competitive market forces. The increasing interdependence of the world economy makes it all the more important that the United States maintain its traditional leadership role in fostering the freest possible international movement of capital in the interest of the U.S. economy and the worldwide economic growth generally.

STATEMENT OF J. JEFFERSON STAATS¹

CHAMBER OF COMMERCE OF THE UNITED STATES

The Chamber of Commerce of the United States appreciates this opportunity to discuss S. 2839, to oppose it as written, and to recommend improvements.

¹ Staff Associate, International Group, Chamber of Commerce of the U.S.

Our membership comprises a broad cross section of this country's commercial sector. We represent approximately 53,000 firms—from large corporations to single proprietorships—as well as more than 3500 local, state and regional chambers of commerce, American Chambers of Commerce Abroad, and trade and professional organizations.

The most recent "benchmark" survey of investment by American international businesses was conducted by the Commerce Department's Bureau of Economic Analysis in 1966 and updated in 1970. Data was published in aggregate form. In 1974, however, the National Advisory Council on International Monetary and Financial Policy questioned whether the basic authority for those studies, previously assumed to be granted by the Bretton Woods Agreements Act, actually existed.

This uncertainty was reduced by the Foreign Investment Study Act of 1974, authorizing studies of incoming investment which are now nearing completion. We supported the Act because a thorough study of foreign investment in the United States was "necessary to a firm base for rational policy development." But, we questioned whether the two-year time frame provided for in the Act would be sufficient for the proposed overall and thorough survey. S. 2839 addresses this concern by creating permanent authority for benchmark surveys of foreign investment.

It is necessary to clarify the Executive's authority to collect limited information on outward and inward investment activity. Publication of some such information, in aggregate form, can be of great value to business. We agree with Senator Inouye's comments on December 17, 1975, upon introduction of S. 2839, when he stated that "the unsophisticated and emotional character of much recent discussion (about foreign investment in the United States) can be attributed largely to the paucity of reliable data." In the past, investment information collected for public policy purposes has, in the aggregate, tended to support the positive and constructive role of foreign investment. Future studies of investment—inward and outward, direct and portfolio—will yield similar results.

However, the Chamber cannot support S. 2839, unless it is amended to include these four improvements:

(1) Subjective analysis of data collected should not be required. Section 2(b) and several subsections of Section 5 of S. 2839 authorize the Secretary of Commerce to analyze the effects or significance of inward investment and American overseas investment on, for example, productivity, United States national security, the United States international economic position, and domestic business competition. Judgment of the ultimate desirability or undesirability of specific investments should not be the intent of fact-finding legislation.

(2) The legislation should not include blanket authorizing clauses such as, "whatever information the Secretary determines is necessary" (as appears in Section 7(b)(2)). It should specify the type of information needed to serve as a data base for the government to develop policy on investment into and out of the United States. Also, firms should not be required to provide data which is already supplied to the federal government under, for example, the Census of Manufactures. Wherever possible, the considerable burdens of complying with the data requests of S. 2839 should be substantially reduced; business is already being buried under a mountain of costly federal paperwork.

(3) Requirements for reporting by "primary line of business (and, whenever possible, by significant product line)," as required by Section 6(2), should be eliminated from S. 2839. Any data should be requested only if it is clearly necessary for a meaningful statistical product, if the data are not elsewhere available within the federal government (or from other organizations), and if firms will not encounter major additional expense in producing information not otherwise needed for the conduct of business. To collect statistics which could be used by business to demonstrate the valuable function of United States investment overseas, other business data must, of course, be provided in response to reasonable requests. However, assurances of confidentiality contained in Section 7 must be made explicit, as recommended in (4) below, equivalent to assurance of confidential treatment provided to suppliers of data submitted to the Census Bureau. We would, of course, oppose any uncontrolled legislative efforts or administrative actions which would remove the individual data submissions from Bureau of Economic Analysis custody, or which would in any way disclose either information valuable to competitors or information concerning third parties.

(4) All individual and corporate data submissions should be exempted explicitly from the Freedom of Information Act.

(5) We agree with the rewording of Section 7 proposed to the Subcommittee on Foreign Commerce and Tourism on February 27, 1976, by David T. Devlin in testimony on behalf of the Emergency Committee for American Trade. The provisions of Section 7 should prevent the release of any individual report to any judicial, legislative or administrative proceeding, except for a proceeding under Section 8(b) to enforce the provisions of the Bill.

Summary

S. 2839 has a laudable purpose: The development of meaningful information on American international business. But, as written, we must oppose it. In its present form, S. 2839 could be used as a backdoor to obtain information for which neither Congress nor various regulatory agencies have any valid use. The objectives of meaningful information development, without overburdening business with unreasonable and costly requests for superfluous information, will be well met by modifying S. 2839 as we have outlined.

CENTER FOR MULTINATIONAL STUDIES,
Washington, D.C., March 1, 1976.

HON. DANIEL INOUE,
Chairman, Subcommittee on Foreign Commerce and Tourism, Committee on Commerce, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The Subcommittee on Foreign Commerce and Tourism has been conducting hearings on S. 2839, the International Investment Survey Act of 1975. This bill would update and regularize the Department of Commerce statistical analysis of inward and outward foreign investment. As a regular user of the Department of Commerce data on Foreign investment, the Center for Multinational Studies would like to go on record as supporting the principle of periodic "benchmark studies" embodied in this bill.

The Center for Multinational Studies is affiliated with the International Economic Policy Association, a nonprofit, business-supported, research organization established in 1957. The Center was founded in 1971 in order to conduct and publish research on the effects of the multinational corporations upon production, employment, trade, economic growth, and international finance and development. Since that time the Center has published seven occasional papers on various aspects of the MNC, and together with IEPA, it has provided analyses of MNC policy issues to the Congress and the Executive on request.

From our standpoint, the multinational corporation and the process of productive foreign investment on balance make a significant contribution to the U.S. economy and global economic growth. Regardless of the perspective of the observer however, most students of the subject agree that the available "universe" data on U.S. foreign investment abroad is becoming quite out of date. Since the last "benchmark" study, the two devaluations of the dollar, the U.S. inflation performance (which is good relative to some of our trading partners), the drastic increases in the price of petroleum, and many other factors have changed the underlying economic environment in which international business must operate. Thus, in order to consider the merits of public policies dealing with aspects of foreign investment, a base of accepted and impartial data is needed.

The bill before your subcommittee, S. 2839, provides the framework for new and permanent authority for the Commerce Department to gather such data. Given the high cost of gathering, arraying and analyzing the data from all U.S. parents and affiliates, the proper interval for such benchmark studies should be every five years. More frequently would run the risk of having the data skewed by short-term movements in the exchange rate, business cycles, commodity prices, or other such factors which move so sharply internationally. It also runs the risk of subjecting companies to the considerable costs of furnishing data more often than needed.

A vital element of S. 2839 is the confidentiality provisions of Section 7(2)(d). The information gathered under this legislation should be limited to that necessary to provide statistics for public policy purposes, and to that which can be aggregated without the disclosure of individual reporters. The safeguards in Section 7(2)(d), therefore, should be retained and strengthened as necessary in order to affirm that the data gathered under this bill is used solely to provide information for Congress, the Executive and the general public on an aggregate basis.

As you know, the issue of the appropriate public disclosure of information relating to international investment is currently under intensive negotiation in the OECD in the context of a draft, "Guidelines for Multinational Enterprises." This is the proper forum for agreement on an international standard, as unilateral information disclosure requirements impose serious competitive handicaps. A multilateral agreement will tend to minimize the competitive disadvantage (although it is expected that U.S. firms will be more complete in complying with any standard than their competitors) and recognizes the international character of multinational investment.

With regard to the information to be gathered by the Commerce Department in the course of its periodic studies, we urge the subcommittee to keep in mind what is "do-able" and "useable." In areas such as "transfer of technology," "pricing policies," "productivity," and others, objective data are not available, and subjective judgments of policies are necessary. This should not be the purpose of the Commerce Department benchmark study, and judgments on these subjects are properly made elsewhere in the Congress and the Executive. We suggest that the subcommittee work with the Bureau of Economic Analysis and representatives of the American business community to set forth the data which can be reasonably and objectively gathered and published at five-year intervals and that the bill before you should give leeway to the Department of Commerce in this matter.

Finally, we believe it to be important for the Secretary of Commerce to maintain a separation between the functions of gathering and arraying the data, and the analyses, including policy judgments, based upon the data. We believe that such impartiality between the two functions is important especially in carrying out such programs as Section 5(7) requiring analyses of the "effects" of foreign investment on national security and the broad range of issues concerned with the U.S. international economic position. This separation would be similar to the policies now in force with regard to the division of labor between the Bureau of the Census and the Bureau of Economic Analysis within the U.S. Department of Commerce.

Subject to these concerns, therefore, the Center for Multinational Studies is pleased to record its support for legislative authority for the Commerce Department to resume studying foreign investment on a periodic and comprehensive basis, fulfilling a need for complete and impartial data in the public arena.

Sincerely,

RONALD L. DANIELIAN,
Director.

AMAX,
March 10, 1976.

Hon. DANIEL K. INOUE,
Chairman, Subcommittee on Foreign Commerce and Tourism, U.S. Senate,
Washington, D.C.

DEAR SENATOR INOUE: I am writing to you in my capacity as Chairman of the United States Council of the International Chamber of Commerce to comment on the International Investment Survey Act of 1975 (S. 2839) now under consideration by your Subcommittee. The U.S. Council membership includes most of the major business firms in the United States engaged in foreign trade, operations, and investment. It represents American business interests within the International Chamber, which in turn represents the international business community in approximately sixty countries.

The members of the U.S. Council are vitally interested in maintaining the free flow of investment both to and from the United States, because we are convinced that benefits will accrue to the American economy as well as to world economic welfare as a whole from a healthy flow of investment in both directions. We are concerned at the unwarranted attacks on multinational corporations in recent months too often based on biased and incomplete data. The United States Council vigorously rejects the contentions that U.S. foreign investment abroad is a net drain on our economy in the form of jobs and taxes or that unrestricted foreign investment in the United States will lead to the foreign take-over of our most important and strategic industries.

There is obviously a vital need for the continued and improved collection by an impartial source of raw data on investment made by those entities engaged in international investment activities. We are aware that the U.S. Government

has been collecting statistics on the investment activities of American firms abroad for many years, based on legislation which is about to expire or which is not altogether sufficient for present day needs. Thus, we recognize that new legislation is in order and that S. 2839 is a valuable step in this direction.

However, we agree with many of the public and private representatives who have testified before your committee that, whereas the general intent and thrust of your bill is commendable, there are serious problems concerning the amount and type of detailed information which would be required to be collected from private firms. As the specific types of information needed for the purpose of providing an accurate picture of direct and portfolio investment are constantly changing in the light of political and technical developments and improved statistical techniques, we question whether it is wise to include in legislation an exhaustive list of the specific types of information to be collected, as is done in Section 6. We agree that S. 2839 should be designed to provide the authority for data collection for many years to come, but surely the interests of all concerned would be better served by introducing a greater degree of flexibility into this aspect of the bill and limiting the description of the types of information required to more general categories. Not only would this tend to reduce the tremendous costs to both industry and government involved in the collection of unnecessary, unwarranted, as well as data that probably would never be used, but it would lessen the possibility of breaching accepted prerogatives of commercial confidentiality.

Without going into too many specifics, I would like to mention the special difficulties we see in collecting data by primary line of business as mentioned in Section 6.2 or employment data by each affiliate by country and by type of activity as called for in Section 6.3. The problem here is the lack of standardized nomenclature and practice, both within the United States and abroad, for identifying lines or types of activities. The absence of generally recognized categories, not to mention the distorting effects of differing accounting systems, would result in statistics which could be seriously distorted and self-defeating. We also question whether it is not overly ambitious and even unrealistic to charge the Department of Commerce in Section 5 with the production of analytical reports on such a variety of subjects, some of which, such as the effects of investment on U.S. national security, it would have limited capacity to judge.

We note that in Section 4.2 there is provision for the Secretary of Commerce to consult with representatives of industry, the financial community, labor, agriculture and other groups as appropriate to aid him in the carrying out of his duties under this Act. We support this provision and hasten to assure you of the desire of the United States Council to participate fully in any such consultations the Secretary of Commerce might hold.

It is in this spirit that we urge your Subcommittee to hold similar consultations in the immediate future, *prior* to the enactment of S. 2839, for the purpose of redefining the types of information required by the bill and for other measures to make it more practicably responsive to its basic aims. You may be assured that the United States Council will respond eagerly to your call in this respect.

Sincerely yours,

IAN MACGREGOR,
Chairman.

NATIONAL FOREIGN TRADE COUNCIL, INC.,
New York, N.Y., March 12, 1976.

Hon. DANIEL K. INOUE,
*Chairman, Subcommittee on Foreign Commerce and Tourism,
Senate Committee on Commerce, U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: The National Foreign Trade Council appreciates the opportunity to express its views regarding the "International Investment Survey Act of 1975", (S. 2839), and requests that this communication be incorporated in and made a part of the record of the hearings.

The membership of the National Foreign Trade Council, which was founded in 1914, comprises a broad cross-section of United States companies engaged in all major fields of international trade and investment, including manufacturers, exporters, importers, bankers, insurance underwriters and companies engaged in sea and air transportation.

Underlining the views expressed herein is the Council's consistent support over the years of policies which would encourage the freer international flow of investments and private capital and the concomitant wider use of private

technology, organization and management skills which are essential for more efficient production and economic progress both in the United States and in other nations. Private international investment has not only strengthened the U.S. economy but has also contributed to the economic development of host countries.

We agree with your statement to the Senate on the introduction of S. 2839 that U.S. economic policy towards foreign investment "must be based on adequate knowledge of investment activities" as well as current and accurate statistical information. In principle, we do not dispute the fact that there may be a need for new legislation to authorize the collection and analysis of data on foreign investments, both inward and outward. However, we do have certain serious reservations regarding the bill.

We are concerned that the sweeping and unrestricted authority granted to the Secretary of Commerce by S. 2839 is much broader than is necessary and desirable to carry out the purposes for which the bill has been introduced. Information could be demanded which would be of marginal use or interest either to the U.S. Government or to the business community, and could have little relationship to foreign investments. To overcome our concerns about the granting of open-ended authority and to achieve the objective of collecting data which is necessary and feasible, the Council recommends that the authority granted to agencies be limited so that data collected under this authority would not generally exceed in scope the information received under the mandatory benchmark survey of 1966 on U.S. direct investments abroad and the Foreign Investment Study Act of 1974 covering foreign direct and portfolio investments in the United States.

From experience gained under the 1966 benchmark survey and the Foreign Investment Study Act of 1974, government agencies responsible for the collection of data are better equipped when developing future questionnaires to eliminate many earlier problems they had to deal with and are clearly better informed about questions considered to be no longer feasible or necessary. Importantly, also, these agencies know the extent to which data is accessible; and the experience of respondents to the 1966 benchmark survey and the Foreign Investment Study Act of 1974 will enable them to respond to new surveys more responsibly and quickly and with greater facility.

S. 2839, as currently drafted, authorizes the Secretary of Commerce to conduct all studies called for under the proposed bill. As you know, there has been a division of authority between the Secretary of Commerce and the Secretary of the Treasury in conducting studies on direct and portfolio foreign investments. We suggest for reasons of efficiency that this division of responsibility be continued, namely that the Secretary of Commerce be authorized to conduct surveys on foreign direct investments, while the Secretary of the Treasury be authorized to conduct those surveys relating to foreign portfolio investments.

In commending you for having authorized your staff to work closely with agency representatives in developing modifications to the bill, we would reemphasize the importance of not granting any broad open-ended authority for collecting data and information which might not be constructive or which would not achieve the purposes contemplated by the legislation under consideration.

We will be most pleased to work with you and your subcommittee and with members of your staff and others in a coordinated effort to resolve our concerns in this matter.

As a matter of convenience, we are sending a copy of this communication to each member of your subcommittee. Three copies are also being sent to your staff counsel, Mr. Eric H. M. Lee.

With my very best wishes.

Sincerely,

ROBERT M. NORRIS,
President.

APPROACHES OF SELECTED COUNTRIES TOWARD SCREENING OF INWARD INVESTMENT

BELGIUM

Belgium does not screen inward direct investments if they are financed on the "free market" tier of the foreign exchange market. Investors may also seek to finance their investments on the more favorably priced "official" tier of the foreign exchange market, but such investments are subject to individual licensing. Licensing is granted in these latter cases if an investment is considered in keeping with general economic policy of the authorities.

CANADA

Canada screens inward investment to see if it will be of "significant benefit to Canada." The Foreign Investment Review Agency is empowered to negotiate with prospective foreign investors to obtain a "better deal" for Canada. The principal criteria applied are (1) effect on level and nature of economic activity, including employment, capital investment and export growth; (2) degree and significance of Canadian participation; (3) effect on productivity, industrial efficiency, technological development and product innovation and variety; (4) effect on completion; and (5) compatibility with national industrial economic policies.

FRANCE

With a few exceptions, France normally requires prior authorization of foreign direct investment, whether by non-residents or by French companies under foreign control. In practice, this power to restrict investments appears to be used only in a few special instances. All direct investors must file a subsequent report with the authorities. In addition to investment controls *per se*, France also maintains exchange controls over the financing of direct investment.

GERMANY

Germany has no formal screening or monitoring procedures for inward direct investment. German banks (in their stock broker capacity) voluntarily report to the government cases where non-resident investments in domestic enterprises exceed ten percent of the shares of these enterprises. The German Government encourages major oil producing countries to engage in bilateral consultations prior to making sizeable direct investments in Germany.

ITALY

Italy does not screen inward investment. Furthermore, foreign investment is unrestricted except within a few sensitive sectors such as banking, shipping and air transport. All inward investment transactions must be carried out through authorized credit institutions which report them after the event to the exchange control authorities. The authorities provide an official transfer guarantee to certain investments considered by the Ministry of the Treasury to be "productive."

JAPAN

Japan requires inward investors to obtain the approval of both the Minister of Finance and also the Minister in charge of the industry concerned. Investment in an existing enterprise is approved where consent of the enterprise concerned is obtained. One hundred percent foreign investment may be approved in all but a few sensitive industries.

NETHERLANDS

Foreign direct investors in the Netherlands need to obtain prior approval from the Netherlands Bank. Applications must be made in writing and must contain a brief description of the proposed activities, the name of non-resident shareholders and the paid-up share capital. Requests are dealt with speedily, within about a fortnight; permission is normally granted. The decision is made by the Netherlands Bank alone.

SWITZERLAND

Switzerland does not screen inward investment. Foreign investors are treated the same as domestic investors, except in the special cases of banking and real estate where special restrictions apply to foreigners.

UNITED KINGDOM

In the United Kingdom, direct investors need to obtain exchange control permission from the Bank of England before acquiring control of a U.K. company. The Bank of England consults with the U.K. Treasury and any other interested Government department before authorizing a particularly large transaction or one which affects the public interest. Exchange control rules seek to ensure that a foreign investor finances his acquisition of fixed assets from non-resident sources.