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Recent Developments in United States Portfolio Investments Abroad

There have been indications recently of growing interest by United States private investors in foreign loans bonds, and equity securities. This development is of importance to the world economy since the international movement of long-term capital, by redistributing world savings from capital-exporting to capital-importing countries contributes to more balanced world economic growth.

Throughout the postwar period United States direct investments abroad have been large relative to the 1920's, but other types of investments abroad, termed portfolio investments,1/ have been small relative to the earlier period as may be seen from Table 1. However, because of the almost five-fold increase in the rate at which direct investments have been made abroad in the postwar period, compared with 1920-29, total net long-term foreign investment has been at a rate almost double that of the earlier period; it was at an annual average of $786 million in the early period compared with $1.5 billion in the postwar years.2/

Table 1
United States Long-Term Foreign Investments
(Millions of dollars)

	1920-1929 (Annual average)	1947-1954 (Annual average)
Net long-term investment, total	786	1,490
Net direct investment1/	288	1,317
Other long-term investment	498	173

1/ Includes reinvested earnings of subsidiaries.

1/ Direct investments are those which involve an important voice in management and are usually investments in branches or subsidiaries of domestic concerns. Portfolio investments include purchases of foreign bonds and stocks and also loans by United States banks maturing in more than one year.

2/ Part of this increase of course is attributable to price rises between the two periods; as a measure of price rise the annual average of the unit value of U.S. exports for the period of 1947-54 was almost 30 per cent above the prewar period. Adjusting for this decrease in purchasing power, the real increase in total net long-term investment was less than 50 per cent, from $786 million to $1.1 billion. Similarly the real increase in direct investments would be less than the increase measured in current prices and the real decline in the outflow of portfolio capital would be greater than the decline in current prices.

The relatively small interest of United States investors in foreign portfolio investments during most of the postwar period reflects in part the memory of the broad-scale defaults on foreign dollar bonds during the 1930's, in part exchange control regulations of foreign countries limiting borrowing in this country, and in part adequate domestic outlets for savings. As a result the flow of United States portfolio capital has, in addition to being small, been limited largely to Canada and, to a lesser extent, to Western Europe. Also, this flow has often taken on aspects of short-term capital movements, as funds have moved between capital markets in response to interest rate variations or to expectations of exchange rate fluctuations.

Thus, United States foreign portfolio investments in the postwar period have not principally involved the transfer of United States savings to foreign countries on a long-term basis, thereby furthering economic development abroad. Rather, these investments have in large part been confined to temporary movements of funds in response to financial incentives

Recent developments, however, indicate some revival of interest in portfolio capital and a broadening of the market in terms of the kinds of foreign portfolio investments that are being made. But these investments are not yet of a magnitude to affect significantly the total net outflow of portfolio funds from this country. The recent revival of interest in short, actually is only a small beginning and its effect on the availability of dollars to foreigners is seen not in the aggregate figures but in the component parts of the net outflow.

This paper will describe these recent developments, particularly pointing out the broadening of markets which has naturally accompanied new and revised forms of investment; this broadening leads to investment flows that contribute more to long-term world economic growth.

New developments in recent years

Important new developments during 1954 and 1955 in the investment abroad of United States portfolio capital include the first sales of new issues of foreign dollar bonds (other than by Canada, Israel, and the International Bank) since 1947, greater interest in foreign equity securities, and increased foreign activities of United States commercial banks. These developments, contrasted with earlier years and with other elements in the outflow of portfolio capital, are shown in Table 2.

Table 2
Outflows of United States Private Portfolio
Capital, Selected Components
(Millions of dollars)

	1947-1949 (annual avg.)	1950-1952 (annual avg.)	1953	1954	1955 (first half)
Net outflow, total	66	315	-135	275	66
New issues of dollar bonds	216	344	270	309	77
Canada	112	208	203	167	38
Int'l institutions	81	101	36	88	--
W. Europe	6	--	--	--	21
Other countries	17	35	31	54	18
Redemptions	-153	-160	-139	-124	-154
Canada	-117	- 99	-108	- 89	-128
Other	- 36	- 61	- 31	- 35	- 26
Other long-term capital (net)	3	131	-266	90	143
Investments of U.S banks 1/	27	9	- 64	175	168 3/
Net transactions in outstanding equity securities	(2/)	12	- 51	159	90
Other	-24	110	-151	-244	-115

1/ Net loans by banks maturing in more than one year plus purchases out of the International Bank's portfolio.
2/ Not available separately; included in "Other" during this period.
3/ Include purchase out of the IBRD's portfolio for January-September 1955.

NOTE: Minus represents an inflow. A long-term loan of $200 million made by U.S. commercial banks to France in 1950 and repaid at the rate of $50 million in each of 1953 and 1954 and $100 million in 1955 is excluded from the figures. This loan was related to internal financing procedures in France, and the dollar receipts from the loan were invested in U. S. Government securities and left on deposit with U. S. banks as collateral for the loan.

Over the postwar period, the net outflow of total U. S. portfolio capital has fluctuated widely, largely in response to variations in flows between the United States and Canada, and, to a smaller extent, to movements between this country and Western Europe, caused in part either by interest rate differentials or by speculation on exchange rate movements. For example, the large annual average net outflow of $315 million over 1950-1952 reflects exceptional transactions with Canada in 1950 and 1951. There were exceptionally large net purchases of outstanding Canadian securities of almost $300 million during the third quarter of 1950 as investors were expecting the Canadian exchange rate to rise in terms of dollars, which occurred in the fourth quarter after Canada moved to a flexible exchange rate system.

During 1951, new issues of Canadian dollar bonds floated in the United States were, at $300 million, unusually large, attributable partly to the fact that Canadian interest rates rose relatively more than United States rates from 1950 to 1951. There were large net inflows of United States capital from Canada and Western Europe through transactions in outstanding securities during 1953, concentrated mostly in the middle two quarters of the year and partly in response to the rather sudden rise in United States interest rates at that time; as a result, there was a net inflow of total U.S. portfolio capital in that year.

By 1954 and through the first half of 1955, the increased interest of United States commercial banks in longer-term lending to foreigners (including, in this context, purchases from the International Bank's portfolio) became an important factor in the outflow of portfolio capital as may be seen from Table 2. Compared with the previous year's net inflow, the net outflow of total portfolio capital of $275 million in 1954, which was larger than all postwar years except 1950 and 1951, was attributable largely to the increased long-term lending abroad by commercial banks and to the large net purchases of outstanding foreign equity securities. The continued lending abroad by banks over the first half of 1955 was important in offsetting to some extent the dampening effect on total portfolio capital flows of the decline in Canadian new issues and the rise in redemptions and repatriations of Canadian bonds occasioned by the rise of interest rates in this country relative to Canada.

This long-term lending to foreigners by banks, since an important share of it is on the basis of gold or equivalent collateral, may be less indicative of willingness to take foreign risks than are purchases of foreign securities. During 1954 and 1955, there was increased interest in foreign dollar bonds and equity securities, though in the case of foreign dollar bonds, on a very modest scale, and, in the case of equities, perhaps related to the special circumstance of boom conditions in foreign stock markets. The new issues of foreign dollar bonds (other than Canada, Israel and IBRD) that were taken by U.S. investors in late 1954 and early 1955, though marking an important development, were, at $35 million, small relative to changes that were occurring in other items comprising portfolio capital. However, the increased purchases by United States residents of Canadian and European equity securities caused a larger net flow of dollar funds abroad, amounting to $160 million in 1954[1/] and to $90 million in the first half of 1955.

This gradually rising interest over the past two years in foreign portfolio investments--mostly on the part of banks, investment houses, and other institutional investors--has been accompanied either by the establishment of new or by the re-emergence of old institutions and arrangements

1/ An article by S. Pizer and F. Cutler, "International Investments and Earnings (Survey of Current Business, Aug. 1955, p.13) states that, of the total net purchases of foreign equity securities in 1954, $100 million was invested in Europe and $50 million in Canada.

affecting the structure and functioning of the market. These arrangements, as well as satisfying present needs, point to increased activity in the future and are, perhaps, a better reflection of the interest in foreign transactions than is the actual volume of transactions so far undertaken. A discussion of the more important market developments follows.

Activities of United States banks

The activities of United States banks during the past two years which are considered as long-term portfolio investments (i.e., loans maturing in more than one year) may be discussed from three aspects: operations for their own account and risk; operations at the risk of others, namely the Export-Import Bank; and operations in participation with others, mainly the International Bank. Although the first type of operation includes loans secured by gold or U.S. Government securities, there are also a fairly large number of outstanding loans not so guaranteed, and hence indicative of a willingness to take foreign risks. The second type of operation, which during the past two years has involved a change in the type of Export-Import Bank guarantee, indicates an interest in foreign lending though not a willingness to take foreign risks. The third type of operation, though under the shelter of either the International Bank or Export-Import Bank, has indicated some willingness to take foreign risks.

Operations for own account and risk--Of the total outstanding long-term loans to foreigners by banks for their own account and risk, without the participation of others, amounting to roughly $400 million at mid-1955, only somewhat less than half represents a real risk since the others are secured by gold or U.S. Government securities. A particular example of a gold collateral loan is a $200 million loan to Brazil, which was drawn down over a period of twelve months beginning in late 1954; a small part of this loan was used to reduce short-term claims held by U.S. banks and the remainder was used to repay a gold loan from the Federal Reserve System. 1/ This is the largest single outstanding loan. A variety of small longer-term loans, without such guarantee or its equivalent, are, however, outstanding to a number of foreign countries.

There has been an important development during 1955 which may lead toward increased longer-term foreign lending involving an element of risk by American banks. Five large commercial banks, headed by Chase Manhattan, formed the American Overseas Finance Corporation, an institution with initial capital of $10 million, to supply medium-term financing for United States exporters. It is expected that some part of AOFC's financing will be guaranteed by the Export-Import Bank, but most will be carried by AOFC at its own risk. Being newly organized, its operations so far have been on a limited scale.

1/ The gold loan from the System, which was a short-term loan, had also been used to reduce outstanding commercial indebtedness of Brazil.

Table 3
Long-Term Foreign Portfolio Investments of U.S. Banks, Selected Components
(Millions of dollars)

	1947-1949 (ann.avg.)	1950-1952 (ann.avg.)	1953	1954	1955 (first half)
Investments (net) by U.S. banks, total	27	9	-64	175	168
Disbursements (gross) under Ex-Im Bank loans 1/	--	--	--	82	38
Participations with Ex-Im Bank 2/	32	23	--	1	2
Gross purchases of IBRD loans	2	2	1	24	33 3/

1/ Includes only those disbursements by U.S. commercial banks which have an Eximbank guarantee against default by the debtor; disbursements by commercial banks under agreement by which the Exim may be called upon to take them out at any time are not included.

2/ Unguaranteed participations by commercial banks and others. A breakdown between commercial banks and others is not available, but it is thought that these are largely commercial bank funds. The figures represent gross new participations agreed upon by banks and others during the period and do not necessarily represent disbursements during the period.

3/ January-September, 1955.

United States exporters, who recently have had to meet credit competition from other suppliers in the world market, have reportedly felt that financing facilities for medium-term export credits were inadequate. The AOFC, as well as certain new programs of the Export-Import Bank (described below), may be considered as attempts to broaden the financial market by helping to fill this institutional gap.

Operations at Export-Import Bank risk--During 1954 and 1955, as may be seen from Table 3, there were, for the first time, disbursements by commercial banks under Export-Import Bank loans that were guaranteed only against default by the debtor. Previously, commercial bank disbursements were under agreements whereby the Exim would take out the banks on demand. The guaranteed disbursements of the past two years, however, mostly have been against 12 and 15 month cotton credits to Japan, and in many respects should be considered as short-term lending rather than portfolio capital.

The Export-Import Bank's recently instituted program of exporter credit lines should contribute to the use of commercial bank funds in longer-term foreign lending that is more in the nature of portfolio investment (in this case, credits maturing in from one to five years). Under this program, the Bank will either finance directly or, preferably, will guarantee commercial bank financing of exports of capital equipment under a credit line. This program is relatively new, and through October there had been only four very small payments to exporters, all by commercial banks under guarantee. Allocations under these lines have been mostly for exports to Latin American countries, to Japan, and to Spain.

Operations in participation with others--In addition to guaranteed disbursements, there has recently been a very small amount of unguaranteed participations by banks in Exim loans and larger amounts in IBRD loans. Since these participations are not guaranteed, they indicate some increase in willingness to take foreign risks; the commercial banks' risk is lessened, of course, by the interest of the IBRD or Exim and, hence, by the foreign country's reluctance to impair its credit standing with those two institutions.

Participations with the Export-Import Bank (unguaranteed) had been moderately large in the earlier post-war years, when banks took part of reconstruction loans to Belgium and the Netherlands, and it is expected that they will again become somewhat more active. In addition to other reasons, payment of a guarantee commission to the Bank may appear unnecessary if the willingness and capacity of foreign borrowers to repay promptly becomes clear as commercial banks' experience in foreign longer-term lending broadens. These banks may then tend more toward unguaranteed participations rather than to guaranteed disbursements.

Commercial banks have been more active in participations with the International Bank. As shown in Table 3, commercial banks have made increased purchases of the early maturities of International Bank loans; these have been without IBRD guarantee, although they are guaranteed by the foreign government.

Although the activities of United States banks that have been described are not usually considered as developments in capital markets, since the lending is not of a sufficiently long term, these activities are nevertheless an important aspect of the reviving interest in foreign investments. They indicate, though in a tentative and modest way, a willingness to take foreign risks and are, thus, signs that the excessive caution toward foreign lending and investing, instilled by the memory of the broad-scale defaults of the 1930's, is being modified. This gradual change in attitude--also seen in the recent increase in activity in foreign dollar bonds and equities--is a reflection, among other things, of the increasing freedom of trade and payments in the world economy, the increased consciousness abroad of the need to control inflation, and quite probably, of the lending program of the International Bank. The IBRD, for example, has not made loans unless a country has undertaken to settle its defaulted obligations, and the Bank has also actively attempted to interest private investors in foreign lending.

Foreign dollar bond market

In late 1954 Australia and Belgium "broke the ice" in the foreign dollar bond market by floating issues of $25 and $30 million, respectively, in this market, followed by a Norwegian issue of $15 million during the first half of 1956. South Africa floated a $25 million issue in December of this year, and other foreign issues are expected.

The Belgian and Norwegian issues were in conjunction with simultaneous dollar loans from the International Bank, Belgium receiving $20 million and Norway $25 million from the Bank, while the South African loan was accompanied by a loan in sterling from the IBRD. 1/ The public offering was of intermediate maturities in all cases (from three to ten years), while the IBRD loans were at longer term. A spokesman for the underwriting firm in the Belgian loan stated that the possibility of successful public participation did not become real until the IBRD indicated it would take the longer maturity. 2/

Although issued publicly in the United States, a large part of the Belgian and Norwegian issues were taken by foreigners, $13 million of the former and $6 million of the latter. This--together with the desire for IBRD participation and the shorter maturities of the public issues, considered in conjunction with the good reputation of the borrowing countries--indicates that United States market for foreign bonds is still rather thin and cautious. The $25 million Australian issue, which matures in fifteen years, also was taken to the extent of $11 million by foreigners.

These developments, along with other similar ones that are expected, signify some broadening of the market for foreign bonds, although dealings in Canadian dollar bonds still dominate the market. Compared with the five years 1924 through 1928, when new foreign bond flotations in the United States were at a peak, averaging $940 million per year, the present market (including Canadian issues) is quite small, new issues averaging about $300 million a year during the past five years. Excluding Canadian issues, the comparison of the two periods would show an even greater disparity, since bonds of Latin American and European countries were relatively much more important in the earlier period. As yet, there have been few signs of any significant interest in new issues of Latin American dollar bonds, although there recently was a small Cuban flotation.

The wider interest in foreign dollar bonds is also indicated by the rising price of old issues. In general, there has been increasing demand for these issues, and an index of their prices was, by mid-1955, at

1/ These purchases of new public bond issues of foreign countries, though a parallel operation with the IBRD, are apart from purchases by commercial banks out of the IBRD's portfolio, which were discussed in the previous section.

2/ *Journal of Commerce*, Dec. 15, 1954, p.6.

the highest level since 1931, largely because of the rise in price of German issues. 1/ Outstanding Latin American bonds, mostly issued in the 1920's, also rose in price during the first half of 1955.

Market developments in the purchase of foreign equities

The greater interest in foreign equity securities has been accompanied by two developments in the market. First, a number of investment funds have been formed for the purpose of investing in outstanding and new foreign securities, and, secondly, U.S. banks, by the increased use of so-called depositary receipts, have made arrangements to facilitate trading in foreign securities.

During 1954, a number of United States-owned investment funds were incorporated in Canada, with paid-up capital totaling $100 million, for the purpose of investing in other foreign countries. 2/ In October 1955, formation of the Transoceanic Development Corp., Ltd., was announced; it was incorporated in Canada with a paid-in capital of $5 million, more than half by United States participants, largely investment houses, and the remainder by European and Canadian institutions. The corporation's purpose is to acquire equity securities in foreign countries other than Canada, and it will also promote, finance, and develop new enterprises. Other international investment corporations have been announced in the past months, mostly incorporated in either Canada or Panama.

Tax advantage apparently is the primary reason for incorporating in Canada. Under Canadian law a company incorporated for the purpose of doing foreign business is exempt from Canadian corporate taxes, although dividends distributed to nonresident shareholders are subject to withholding tax.

Investment companies incorporated in the United States that qualify as regulated investment companies within the meaning of the Internal Revenue Code--and companies providing venture capital may qualify under certain conditions--also are exempt from corporate taxes, provided they distribute at least ninety per cent of earnings. Under a new tax provision, if more than half of these companies' assets consist of foreign securities, foreign withholding taxes on their investments may be passed on to shareholders as a Federal tax credit. International Investors, Inc., whose organization was announced in the late summer of 1955, was said to be the first company to qualify under these provisions. 3/

1/ Journal of Commerce, June 13, 1955, p.2.

2/ S. Pizer and F. Cutler, op.cit.p.11. The capital of these funds is shown in the U.S. balance of payments as direct investments in Canada; thus, although actually outflows of U.S. portfolio capital to foreign countries other than Canada, they are not entered as such in the balance of payments.

3/ Journal of Commerce, Aug. 23, 1955, p.8.

Mutual funds are one method of increasing the participation of individual investors in foreign securities. Many investors, however, prefer to deal directly in these securities. With the rapid increase of foreign equity dealings in 1954 and 1955, banks began to issue so-called American depositary receipts for stocks of internationally known companies, largely British, Dutch, and German. The Irving Trust, which began to issue these receipts last summer, and the Guaranty Trust, which had been issuing them for some years, are the most active banks providing this service. These receipts, which note that the stock is on deposit abroad at either the bank's branch or a correspondent, make the collection of dividends and dealings in foreign shares easier for United States investors; they may be bought and sold by investors in the United States without the need for overseas transactions.

As has been mentioned, most dealings in outstanding equity securities are in those of Canadian and Western European countries. This is the case with individual investors and apparently is also true of investment funds, though perhaps to a lesser extent. One investment fund, Inter-American Capital Corp., has recently been set up to invest in new and existing securities of Latin American enterprises; the Transoceanic Development Corp. intends to invest in the British Commonwealth and elsewhere; and others may be willing eventually to diversify their portfolios to include investments in the less developed countries of the world, as these countries grow and establish functioning capital markets.

Conclusions

A broadening of market facilities for foreign investments has naturally accompanied the recent growth and widening of United States demands for foreign investments. As noted, there have been larger net purchases of foreign equities, wider interest in foreign dollar bonds, increased or new forms of participation with the International Bank and Export-Import Bank, and provision of medium-term foreign financing facilities, all forms of investment that had not been of significance in previous postwar years.

These developments lead toward an increased flow of portfolio capital for economic development abroad; this flow, however, has not yet been directed to the underdeveloped countries of the world to any large extent. Equity securities purchased either by individuals or by investment funds have largely been of companies in Western European countries (primarily Britain, Germany, and the Netherlands) or in Canada; investment companies have been set up to make investments elsewhere, however, so that the flow of funds to underdeveloped countries is likely, in the future, to increase to some extent. Also, there has as yet been no important flotation of, and very little interest in, new Latin American dollar bond issues, or, for that matter, in issues of other underdeveloped countries. However, this has to some extent been substituted for by purchases of the IBRD's own issues, these funds in turn being loaned for development projects in underdeveloped countries; by purchases out of the IBRD's portfolio; and by provision of medium-term financing facilities by the Export-Import Bank and private institutions for the export of capital equipment.

In general, the slowly growing interest among American investors in portfolio investments abroad may be expected to continue so long as the world economy maintains its present relative stability. The modification of restrictions on foreign investments by institutional investors in this country, particularly insurance companies, would probably contribute further to this growth of interest. Also, the willingness to invest abroad, and the direction of this investment, would grow and change with further moves toward freedom of trade and payments and as the underdeveloped countries, in their process of growth, establish functioning capital markets and become more attractive places for foreign investments.

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Growth in Foreign Private Portfolio Investment in the United States

Nancy J. Smith

In recent years, the greater availability of dollars to foreign countries and relaxation of restrictions on use of dollar exchange have been accompanied by a tendency on the part of foreign private institutions and individuals to use increasing amounts of dollar funds for long-term investment in the United States. These funds have been directed, for the most part, to purchases of U. S. stocks and bonds, termed portfolio investment. 1/ Foreign direct investments in U. S. enterprises, i.e., investments which involve an important voice in management, on the other hand, have remained at a fairly constant level, and much of this investment has been made out of undistributed earnings of the enterprises. The trend of private portfolio investment in the United States throughout the postwar period, together with certain other related information which may be useful in appraising the domestic and international significance of such investment, will be presented in this paper. 2/

In 1950, there was net private foreign investment in U. S. long-term securities for the first time in the postwar period. In the early postwar years, foreign sales of such securities had been considerably in excess of purchases, but there have been net purchases each year since 1950. Yearly net purchases of corporate securities by private foreigners since that date are shown in Table I, but no similar statistics are available for net purchases of U. S. Government bonds and notes. It is believed, however, that such net investment has been negligible during the period under review, most transactions in long-term U. S. Government securities having been for foreign official institutions.

1/ In this paper, portfolio investment relates to purchases of securities with maturities of more than one year by foreign private institutions and individuals. Private direct investments and acquisitions of short-term securities and credit paper, and all investments of foreign official institutions are not included in this category.

2/ Some of the statistical data in this article brings up to date that which appeared in an article by the same author dated March 1, 1955: "Foreign Investment in U. S. Corporate Stocks."

Table I
Net Purchases of U.S. Corporate Securities,
1950-1955
(In millions of dollars)

Year	Total	Stocks	Bonds
1950	2	3	- 1
1951	98	120	- 22
1952	13	1	12
1953	50	35	15
1954	141	135	6
1955 1/	213	205	8

1/ Annual rate based on 9-months' transactions.

Capital flows and stock market activity in the United States

Recent portfolio investment has been principally in U. S. corporate stocks, and discussion in this paper will be centered on this type of investment. Since 1952, there have been increasing net capital flows to the United States through stock transactions,

Table II
Net Foreign Purchases or Sales (-) of Domestic Stocks,
Monthly - 1951-1955 1/
(In millions of dollars)

	1951	1952	1953	1954	1955
January	3	10	18	1	31
February	5	-11	13	- 4	7
March	9	--	2	1	12
April	14	--	- 6	16	6
May	10	- 9	- 7	16	8
June	3	- 1	4	13	20
July	4	6	4	15	31
August	9	5	4	--	17
September	23	-19	10	15	22
October	28	3	5	2	n.a.
November	--	10	5	40	n.a.
December	12	7	3	20	n.a.
Year	120	1	55	135	205 2/

n.a. Not available
1/ Based on monthly statistics of foreign transactions in U. S. and foreign securities, as reported by U. S. brokers and dealers.
2/ Annual rate based on 9-months' transactions.

as shown in the preceding table, and foreign net purchases reached a peak in November 1954.

Since the latter part of 1954, concern has been expressed from time to time about the possible influence of foreign activity on over-all stock market prices. Such influence might be measured by examining the percentage of foreign net purchases or gross transactions for foreigners to total trading on the stock exchanges. Since most foreign-held stocks are listed on the New York Stock Exchange, total trading on this exchange seems a reasonable basis for comparison. In two months of 1951 and in November 1954, foreign net purchases amounted to as much as 1.6 per cent of the value of stocks traded on the Exchange, but, on the average, the figure is even lower, around .6 per cent, as shown in Table III. Also,

Table III
Market Value of Transactions in U. S. Stocks --
Percentage of Foreign to Total Activity 1/
(In millions of dollars)

	Total trans-actions	Net foreign purchases	Per cent net foreign purchases to total transactions	Gross transactions		
				Total	Foreign	Per cent foreign to total
Calendar years:						
1951	18,212	120	.7	35,424	1,360	3.7
1952	14,761	1	--	29,522	1,299	4.4
1953	14,248	55	.4	28,496	1,123	3.9
1954	24,262	135	.6	48,524	2,095	4.3
1955 2/	33,817	205	.6	67,634	3,069	4.5
Selected periods:						
1951-September	1,445	23	1.6	2,890	118	4.1
October	1,714	28	1.6	3,428	139	4.1
1954-November	2,577	40	1.6	5,154	242	4.7
1955-Jan.-Mar.3/	3,261	17	.5	6,522	267	4.1
Apr.-June3/	2,611	11	.4	5,222	247	4.7
July-Sept.3/	2,582	23	.9	5,164	253	4.9

1/ Transactions on the New York Stock Exchange are used to represent total activity for this comparison since it has been estimated that over 80 per cent of foreign-held stocks are listed on this exchange. While the absolute percentages may be a little high on the basis of such a calculation, the trend should be representative.

2/ Annual rate based on 9-months' transactions.

3/ Monthly average.

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in spite of the fact that the dollar value of gross transactions for foreigners has been considerably higher each year (an increase of 85 per cent in 1954 over 1953, and a further 45 per cent in 1955), all foreign transactions have steadily accounted for no more than 5 per cent of the total value of purchases and sales on the Exchange for any month or year. Thus, the rise in value of foreign transactions merely shows an increase in the turnover of foreign-held American shares somewhat parallel to the increase that occurred in total turnover on U. S. exchanges.

Share of stock holdings in foreign countries' dollar assets

Although the dollar value of foreign transactions in U. S. equities has not yet reached sufficient proportions to make such transactions especially significant from the U. S. viewpoint, from the standpoint of the foreign countries themselves, holdings of U. S. stocks have become an important component of their over-all dollar assets. At the end of 1954, the value of U. S. equity holdings by foreigners was estimated at $5 billion, more than all private short-term dollar holdings of foreigners ($4.4 billion), and almost one-fifth of their total (official and private) gold reserves and dollar holdings. 1/ In the first nine months of 1955, the value of equity holdings rose by an estimated $1.2 billion, while gold and dollar holdings were increased by $1.4 billion.

Table IV
Estimated Changes in Foreign Holdings of Domestic Stocks, December 1945 - September 1955
(Market values; millions of dollars)

Period	Increase or decrease			Holdings at end of period
	Total	Effect of net transactions	Effect of price change	
1945				2,760
1946 - 1949	- 520	-379	- 141	2,240
1950 - 1953	1,160	179	981	3,400
1954	1,604	135	1,469	5,004
1955 - Jan.-Sept.	1,171	153	1,018	6,175
Total - 1946-Sept.1955	3,415	88	3,327	6,175

Sources: 1945-1953 - U.S. Department of Commerce, Foreign Commerce Weekly, August 16, 1954, p. 17;
1954 - Dept. of Commerce, Survey of Current Business, August 1955, p. 19;
1955 - Federal Reserve estimate.

1/ Estimated gold reserves and dollar holdings include somewhat more than $1 billion which represents reported foreign holdings (official and private) of U. S. Government securities with maturities of more than one year.

In noting these comparisons, however, it must be remembered that unlike short-term holdings, equity holdings are subject to rather large price fluctuations. In fact, 85 per cent of the increase in the value of outstanding foreign holdings of U. S. equities during the first 9 months of 1955 was attributable to appreciation of former holdings. As shown in Table IV, in the entire postwar period net appreciation has amounted to $3.3 billion, and actual foreign net purchases to less than $100 million.

Country distribution

While there has been such growth in total foreign holdings of U. S. stocks, relatively few countries have participated in the increase. Most net purchases of our stocks by foreigners in 1954 and 1955 came from the United Kingdom and Switzerland, and by September 30, 1955, over two-thirds of the total outstanding were

Table V
Estimated Foreign Holdings of Domestic Stocks, by Area or Country
(In millions of dollars)

Area or country	Mid-year 1937	Year-end 1946	Year-end 1949	Sept. 1955
Belgium	n.a.	62	68	200
France	237	193	57	200
Netherlands	564	430	312	575
Switzerland	588	505	522	1,750
United Kingdom	1,482	418	450	1,425
Other Europe 1/	160 2/	138	139	350
Total Europe	3,031	1,746	1,548	4,500
Canada	600	460	480	1,050
Latin America	42	174	173	475
Rest of world	137	60	39	150
Total	3,810	2,440	2,240	6,175

n.a. Not available.
1/ Includes dependencies.
2/ Includes Belgium.
Source: 1937, 1946, 1949, - U. S. Department of Commerce, Foreign Commerce Weekly, August 16, 1954, pp. 17-18.
1955 - Federal Reserve estimate.

held by residents of these two countries and Canada. 1/ Table V offers a basis for comparing current holdings -- total and for individual countries -- with one prewar and two earlier postwar dates -- mid-1937, before net liquidation of holdings began; 1946, the beginning of the postwar period; and 1949, the latest year when average stock prices approximated the prewar level.

These estimates indicate that between 1937 and 1949, British holdings were reduced by over $1 billion and the holdings of almost all countries declined somewhat. Since 1949, the holdings of all countries shown in the table except the United Kingdom and France have been rebuilt to above the prewar level, and the United Kingdom has regained almost all of its losses in the earlier period. In most cases increases in value represent net purchases and appreciation over the period. However, the dollar value of the holdings of a few countries -- Canada and the Netherlands, in particular -- has increased by less than the average appreciation, as there have been fairly consistent net sales of stocks by these countries over the period.

Recent developments in international markets

Along with the increased volume of foreign stock transactions in this country, there have also been developments outside the United States indicative of greater potential interest in U. S. securities. American sellers have increased their efforts to market stocks in Europe, particularly in Zurich, London, and Amsterdam. American brokerage firms are establishing additional offices, in some cases, such as in Zurich, where no American firm has previously been located. They have also been instrumental in adding stocks of many companies and of a number of mutual funds to the listings of the European exchanges.

To facilitate sales abroad, the American seller is now offering European investors a type of paper which is commonly used in some of these countries in connection with certain domestic transactions, called a "bearer deposit receipt." This is a marketable coupon-type certificate issued against securities on deposit in the United States. These certificates are attractive to foreign investors not only because they are already familiar with the

1/ It should be noted that the distribution of holdings by country is based on reports of transactions for foreigners. In such reports, transactions are listed on the basis of the country of the dealer effecting the transactions, although the dealer may be acting on behalf of individuals from countries other than his own. This might be true, for instance, with respect to dealers in the United Kingdom and Switzerland.

bearer deposit receipt and use of the receipt will shorten the time required to execute transactions, but also because they presumably may offer the holder a possibility of tax avoidance.

Summary

In the postwar period, net foreign private portfolio investment in the United States is a recent development, concentrated in four years 1951, 1953, 1954, and 1955. This net investment has been almost entirely in U. S. corporate stocks. From the domestic standpoint, it appears that foreign transactions have had little, if any, influence on rising stock market prices, and capital flows from stock purchases have assumed a minor role in the over-all composition of the U. S. balance of payments.

On the other hand, the international aspects of this investment activity appear to be of more significance. Foreign countries have already shown an inclination toward the release of dollar holdings for private investment. Through net transactions and appreciation, mainly the latter, the value of their U. S. stock holdings has been increased by over $3.4 billion in the postwar period, and the total is now estimated at about $6.2 billion. Yearly additions to the value of equity holdings are approaching the high amount of additions to foreign gold and liquid dollar holdings. Continuation of accumulations of foreign private dollar balances, together with added inducement to invest through new institutional arrangements to expand markets for U. S. securities abroad, contribute to expectation of a significant increase in the potential future flow of foreign investment funds to the United States.