Research Department
Federal Reserve
Bank of
San Francisco

May 2, 1975

Invest in the U.S.A.?

The great Arab take-over of the American economy failed to materialize during the first year of the Petrodollar Age. Many analysts, having second thoughts about this problem, now believe that the accumulation of petrodollars will be considerably smaller than first suggested, and that the investment of these OPEC funds in American enterprises will also be considerably smaller than originally feared—or hoped for. (Still, by pre-embargo standards, the amounts involved remain phenomenal.) In the long run, the large sums now parked in short-term deposits throughout the world may be directed increasingly into long-term investments here and abroad, but from last year's evidence, comparable sums may also go into current purchases of American goods and services.

Last summer, an internal World Bank study estimated that the cumulated surpluses of petrodollars available for investment might exceed $650 billion by 1980, and might rise even further in the following decade. A later World Bank study lowered the 1980 estimate of surplus petrodollars to $300 billion, largely by stating the total in constant prices rather than current prices, a more valid statistical procedure. More recent analyses have suggested even lower totals and an earlier end to the buildup of these surpluses.

The very high original estimate tended to ignore the capability of all nations—even the lightly-populated Arab states—to spend rather than save their current income. Again, the higher estimate tended to ignore the basic lesson of 1974-75, that high cartel-imposed prices can lead, through consumption cutbacks by importing nations, to greater surpluses of petrol than of petrodollars.

Flows to date

Better estimates should develop after the experts analyze what happened during the first year of the Petrodollar Age. According to Treasury figures, the thirteen OPEC nations accumulated about $60 billion for investment abroad during 1974. They received about $90 billion from oil exports, or roughly four times the amount they earned in 1973. Counting in other exports, their total receipts amounted to $95 billion, and of this total they spent about $35 billion for imports, leaving them with their $60-billion surplus.

Less than one-fifth ($11 billion) of last year's surplus found its way to this country. Over one-third of the total went into the Eurocurrency market, basically in the form of bank deposits, and more than one-fifth went into various investments in Great Britain and other developed countries. The remaining one-fourth of the $60 billion surplus represented OPEC investments in the obligations of international institutions such as the World Bank and the IMF, loans and grants to developing nations, and certain residual accounts.

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Of the $11 billion flowing directly to the United States, roughly $6 billion went into U.S. Government securities of various maturities, while some $4 billion went into bank deposits and money-market paper. Thus, less than $1 billion was placed in corporate stocks and bonds or real property—probably no more than half what the recession-beset Japanese invested here last year. Of course, the potential for such investment is much greater, since the vast amounts of short-term funds now invested here and abroad could find their way into U.S. industry if the investment climate appears favorable.

Appetite for goods

To date, however, the OPEC nations have shown a greater appetite for current goods and services than for equities and real property. Last year, they managed to spend more than one-third of their sharply expanded receipts in this fashion—a considerable part here in this country. (U.S. merchandise exports to OPEC nations almost doubled last year, to $6.7 billion.) One way has been through conspicuous consumption; "gas-guzzling monster" is much less of a pejorative on the banks of the Persian (Arabian) Gulf than it is on the banks of the Potomac. Another way has been through arms purchases; in the past decade, Iran and Saudi Arabia alone have accounted for almost $9 billion of the $24 billion in U.S. foreign military sales, and the sales figures are now accelerating. Even more important are the substantial purchases associated with the OPEC nations' rush to industrialize.

Iran is a case in point. That country had oil revenues of more than $20 billion in 1974 and will have much more later on, yet its current-account surpluses may be eliminated in the next several years because of its heavy spending for military and industrial products. It plans to spend at least $15 billion in the U.S. in the next five years—$5 billion for normal trade commodities, $5 billion for military equipment, and $5 billion for development projects. The latter include nuclear plants, desalinization plants, superhighways, port facilities, and joint ventures to produce fertilizer, pesticides, farm machinery and processed foods.

Still, it is the OPEC investment in U.S. industry, modest as it has been to date, that draws the headlines and generates Congressional hearings. Congressional interest in the subject has led to several bills for increased monitoring of foreign investment activities in the U.S., and it has also led to a necessary effort to improve the rather weak statistics in this area.

How much invested?

Foreign direct investment in the U.S.—investment where the ownership position is 10 percent or

more and where the value of the investment exceeds $2 million—was estimated at $18 billion at the end of 1973, compared with $107 billion in U.S. investment abroad. Yet some analysts argue that the actual figures may be at least twice as high. (In one recent statement, Rep. Culver noted that the Commerce Department lists only two foreign-owned plants in his home state of Iowa, although 28 Iowa firms have at least some degree of foreign ownership.) To improve the statistical situation, Congress passed legislation last year calling for the Treasury and Commerce Departments to conduct a comprehensive survey of all foreign (direct and other) investments as of year-end 1974; preliminary data are due this fall.

Some Congressmen would go further and impose stricter monitoring of foreign investment. One proposed bill would require detailed disclosure of beneficial interests in common stock, give the President authority to prohibit foreign investment that exceeds 5 percent of any company, and require foreign investors to give the Securities and Exchange Commission 30 days notice before seeking acquisition of more than 5 percent of any company. Keeping in mind the Arab boycott of Israel-linked firms, the bill would prohibit any investor engaging in the boycott from obtaining or holding more than 5-percent ownership of any U.S. firm.

The Administration contends that American industry is amply protected by legislation already on the books. Some laws prohibit or limit foreign investments in sensitive national-security areas, and in the last analysis, the President has ample emergency powers to control such activities. But as an extra precaution, the Administration has established an interagency group to provide more information on the size and probable impact of foreign investment, and has set up a mechanism for advance consultation with foreign governments regarding their investment plans in this country.

Above all, the Administration opposes new restrictions on foreign investment because it believes that foreign money would be as useful to the country today as it was when it built the American railroad system a century ago. With the nation requiring several trillion dollars of new capital over the next decade, and with Federal budget deficits placing heavy demands on the capital markets, Administration spokesmen argue the necessity of putting out the welcome mat to all willing investors. Moreover, they remind us that U.S. investment overseas is several times larger than foreign investment here, and that the commercial treaties governing overseas investment guarantee equal treatment to investors in this country as well as abroad.

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